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SBA REAUTHORIZATION: NON-CREDIT PROGRAMS

ROUNDTABLE

BEFORE THE

COMMITTEE ON SMALL BUSINESS AND ENTREPRENEURSHIP
UNITED STATES SENATE

ONE HUNDRED EIGHTH CONGRESS

FIRST SESSION

APRIL 9, 2003

Printed for the Committee on Small Business and Entrepreneurship

Available via the World Wide Web: http://www.access.gpo.gov/congress/senate

U.S. GOVERNMENT PRINTING OFFICE

91–189 PDF WASHINGTON : 2004

For sale by the Superintendent of Documents, U.S. Government Printing Office
Internet: bookstore.gpo.gov Phone: toll free (866) 512–1800; DC area (202) 512–1800
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SBA REAUTHORIZATION ROUNDTABLE: NON-CREDIT PROGRAMS

WEDNESDAY, APRIL 9, 2003

UNITED STATES SENATE,
COMMITTEE ON SMALL BUSINESS AND ENTREPRENEURSHIP,
Washington, D.C.

The Committee met, pursuant to notice, at 9:08 a.m., in room 428–A, Russell Senate Office Building, the Honorable Olympia J. Snowe (Chair of the Ccommittee) presiding.

Present: Senators Snowe, Enzi, and Kerry.

OPENING STATEMENT OF THE HONORABLE OLYMPIA J. SNOWE, CHAIRMAN, SENATE COMMITTEE ON SMALL BUSINESS, AND A UNITED STATES SENATOR FROM MAINE

Chair SNOWE. Good morning. Thank you all for being here this morning half an hour earlier. There are so many hearings going on I may not be able to stay for the entire duration of this roundtable, but I wanted to have the opportunity to hear many of your comments before I have to depart. I have several other hearings this morning. But I really do appreciate you taking the time to be here to share your thoughts and perspectives as we begin the process of reauthorization of the SBA and the programs that come within its jurisdiction.

I understand from the staff and my predecessor, Senator Bond, that these roundtables are invaluable in terms of shaping the direction of policy, so I really appreciate your input. It will help me to prepare for the reauthorization and to assemble, I think, the best approach in conjunction obviously with the Administration's proposal and the reauthorization, as well.

Of course, this reauthorization coincides with the 50-year anniversary of the SBA. Of course, none of us can remember 50 years ago, can we?

[Laughter.]

Chair SNOWE. I think that really does underscore the value of these programs. The original goal and mission are no different than the goal and the mission today, and that is to level the playing field for small business and to make sure that they have opportunities, in the Federal marketplace.

I certainly am going to consider how we can strengthen the resources within the SBA to help support small businesses throughout this country, and so your input is vital to this process.

Today, we are going to be considering the reauthorization of the non-credit programs, such as, the SBA's Office of Advocacy, which has indicated that through their efforts, have been able to save

more than $21 billion in regulatory costs for small businesses in fiscal year 2002, this is an astonishing number, but it also tells you about the role that the office plays in helping to represent small business and defending those interests within the agencies when it comes to a regulatory burden.

I happen to believe, as well, that we ought to strengthen the independence of that office, and to that end, I have introduced legislation to support that effort, because I think it is critical that we do all that we can to ensure that the office remains free of any kind of political interference, because its role is critical to the vitality of SBA.

As far as the SBA entrepreneurial development programs, I think, obviously, all of those programs are essential to delivering the resources to those who need them and want to start and operate small businesses in their communities, whether it is through the Small Business Development Centers or the Women's Business Centers or SCORE. Together, we can ensure that these investments and these programs, create a strong return to our economy through successful business ownership and job creation.

On our agenda this morning as well will be SBA government contracting and business development programs. Since its creation, the SBA has been persuading Federal buyers and others of the value of contracting with small businesses. Not only is that good for small businesses, but it is also good for purchasing agents as well as for the taxpayers who foot the bills. When small businesses compete for contracts, we know it lowers the prices and also elevates the quality of these purchases, whether it is for goods or services.

On March 18, as many of you know, I held a hearing on the issue of contract bundling and acquisition streamlining, both of which threaten, I think, the opportunities for small business to participate in the Federal contracting process. I plan to introduce legislation on that issue and I look forward to hearing your thoughts, because I do think that that is a critical issue and an important one to the small business community. Certainly, we need to do more to make sure that small business has the opportunities, and I am concerned when I see that small businesses are not being able to participate in the Federal contracting process and, in fact, we have seen a significant reduction in small business participation over the last few years and certainly over this last decade. That is not the trend we want, so we want to do everything we can to reverse that trend and move it in the right direction. So, again, it is removing those barriers and impediments, and so we are going to do all that we can on that issue.

There are more than 25 million small businesses in America. Three-quarters of the new jobs created in this country are produced by small businesses and we also know, according to the Bureau of Labor Statistics, that small businesses provide a refuge for displaced workers. I have certainly heard that in my State. When people lose their jobs, and many have in my State over the last few years, they do decide to start their own business, their own small business over a job in another industry, so they have more personal job security.

There are 3 to 4 million new business start-ups and 1 in 25 adult Americans are taking steps to start a small business. One-quarter of existing small business owners are thinking of opening up another business. So small business is vital to the future of America and there is no question the future of America is tied to the future of small business, certainly when you consider that 32 percent of the wealth in America is produced and generated by small businesses.

There is no doubt about the paramount role small business plays in America's economy. We understand that. We have to make sure that everybody else appreciates and acknowledges that fact, too.

This gives us an opportunity to do all that we can to reinforce the programs that work well and to address those that don't. You know, if we have to transfer resources from ineffective programs to effective programs, we must do that. If we can improve programs, then we must do that, as well. I think it is important that we use this process as an opportunity to build upon those programs that work well and to make sure they work well for small businesses, because if they work well for small business, these programs are going to work well for America.

So with that, I just appreciate the fact that you are here. We want you to take this opportunity to participate. I think obviously we want to make sure that everybody has a chance to give their perspectives, and so that when you want to speak, please put your nameplate up. I think that is a familiar process for all of you, but we will keep a list of speakers in the order that you put up your nameplate and we hope you will keep your comments brief so we can have a discussion. But I do want to make sure that you feel you have a chance to express yourselves on these issues because it is important that we hear your individual perspectives here today.

We will move from one issue to another. We thought we would start with the SBA Office of Advocacy, move to the entrepreneurial programs and government contracting so we have some order. But in any event, please feel free to state your positions.

I am going to begin by asking the Chief Counsel, Tom Sullivan, to describe the office's current staffing level and operations, so we will begin with that process. Then we will just participate and fill in, and please feel free to indicate your positions on these various issues as we proceed. Thank you.

OFFICE OF ADVOCACY AND ITS PROGRAMS

Mr. SULLIVAN. Thank you, Madam Chair. I have a formal statement that is lengthy and would prefer to summarize just what our staffing levels and operations are for the benefit of this roundtable and just submit the statement, if you would allow that.

Chair SNOWE. Absolutely. Without objection, it will be included in the record in its entirety, and the same would be true for all participants. If you have lengthier statements, we will include all of your comments in the record.

Mr. SULLIVAN. Thanks, and Madam Chair, I would beg your forgiveness for being late. Although we are blessed with New England weather, we are not blessed with New England drivers, and so it took a little bit longer.

Chair SNOWE. I would agree with that.

[Laughter.]

Mr. SULLIVAN. Basically, the Office of Advocacy independently pursues a small business agenda, really, the agenda of all the participants here this morning, in three ways. First, through our regional advocates: we have regional advocates, 8 on board in 10 of the regions right now. Our New England advocate is Barbara Manning, and she is joined by seven other colleagues around the country, and they are our Main Street reality check. They basically tell us what is going on in small business around the country to help us prioritize.

That same prioritization method is done by reaching out to the participants here that are gathered this morning and hearing from them what issues we should be working on in the Office of Advocacy. That is how we take our direction, Madam Chair.

We also have a research team of economists and researchers who research vital small business issues and then get that information to the Committee and to small businesses so that more and more folks know the value of small business to the U.S. economy, and quite frankly, to the global economy.

The third way we pursue a small business agenda is through our legal team. Our legal team is able to bring common sense solutions and perspectives from small business into the rulemaking process and it is working. Our regulatory intervention efforts under the authority of the Regulatory Flexibility Act and the Small Business Regulatory Enforcement Fairness Act resulted in a cost savings of $21 billion in fiscal year 2002 alone.

My predecessor, Jere Glover, who joins us today, used to try to compare the Office of Advocacy's budget with the amount of money small businesses save, and we have done the same thing. Twenty-one billion dollars in foregone regulatory costs when compared to Advocacy's budget for last year means that for every dollar spent, we saw a return of over $2,700.

Getting to one matter that is a legislative priority for our office, and I am very pleased to see the introduction of the Snowe-Kerry bill, S. 818, having to do with the independence and nonpartisan workings of our office, really does get at our budget process, and when you examine the statutory mandate of Advocacy and the authority that the office has to defend small entities, it becomes obvious why the Office of Advocacy is independent. The Office of Advocacy is supposed to be critical of government that treats small business unfairly.

The current budget process is a dangerous one because the Office of Advocacy's budget is too easily pillaged when administration priorities change. A budget line item for Advocacy is the best and most efficient way to ensure that government continues to be accountable to small business through compliance with the Regulatory Flexibility Act and the Small Business Regulatory Enforcement Fairness Act.

I am going to finish my statement there, Madam Chair, and really just listen. It is meetings like this and meetings like this all over the country where our office takes direction. Thank you.

Chair SNOWE. Thank you.

[The prepared statement of Mr. Sullivan follows:]

Office of Advocacy

Statement of

Thomas M. Sullivan
Chief Counsel for Advocacy
U.S. Small Business Administration

Before the

U.S. Senate Committee on Small Business and Entrepreneurship Roundtable

on

SBA Reauthorization for Advocacy Programs, Entrepreneurial Development Programs and Government Contracting/Business Development Programs

April 9, 2003
9:00 a.m.

Madame Chair, Members of the Committee, and roundtable participants, as you discuss the reauthorization process for SBA, I would like to highlight some Office of Advocacy accomplishments and advise you on one legislative proposal that can strengthen the office and ensure its effectiveness in the future. Advocacy's accomplishments are fundamentally tied to its independence. It is my belief that a budget line item is the best and most efficient way to ensure that our office's independence will last well beyond my tenure as Chief Counsel. A line item will help ensure that government continues to be accountable to small business through compliance with the Regulatory Flexibility Act (RFA), the Small Business Regulatory Enforcement Fairness Act (SBREFA), and Executive Order 13272.

The two bedrock principles that underlie the Office of Advocacy's ability to represent small businesses effectively are independence and flexibility. The office is able to present the views of small business to lawmakers and policymakers independent of the views of the U.S. Small Business Administration (SBA) and the Administration. The office has broad statutory authority, which gives it the flexibility to be both reactive and proactive on matters of concern to the small business community.

Holding Government Accountable to Small Business

Advocacy's accomplishments and challenges are documented in our latest annual RFA report to Congress. That report documents our access to rules in the earliest stages of the rulemaking process. The Office of Advocacy is able to bring common sense solutions and perspective from small business into the rulemaking process. And it is working. Our regulatory intervention efforts resulted in a cost savings of $21 billion in fiscal year 2002 alone. $21 billion in foregone regulatory costs, when compared to Advocacy's budget, means that for every dollar spent, we saw a return of over $2700.

The $21 billion in cost savings exceeded even my expectations and are attributable to both my office's involvement and the President's leadership in holding government accountable for how it affects small business. One year ago President Bush stood before hundreds of our country's most successful women entrepreneurs, down the street at the Ronald Reagan Building and International Trade Center, and rolled out his small business plan. He committed to removing regulatory barriers that stifle job growth. The President is counting on the Office of Advocacy to lead that effort, and the $21 billion cost savings is a good start.

On August 13, 2002, President Bush signed Executive Order 13272, titled "Proper Consideration of Small Entities in Agency Rulemaking." The Executive Order strengthens the Office of Advocacy and promotes greater federal agency compliance with the RFA. Under the Executive Order, Advocacy is required to, among other things, notify agencies of the requirements of the RFA, review the RFA policies and procedures of all

federal regulatory agencies for adequacy, and train all federal agencies on RFA compliance. Our office is well under way in the effort to meet the President's small business priorities. We have published our own draft guidance on RFA compliance, we have reviewed the federal agency RFA policies and procedures that have been submitted to us, and we are in the process of soliciting outside contractors to help us implement the training requirement.

Focusing our efforts here in Washington is not enough. As part of our mandate to make legislative and nonlegislative proposals for eliminating excessive or unnecessary regulations on small entities, Advocacy has started a nationwide initiative to pursue implementation of regulatory flexibility at the state level. To accomplish this, the Office of Advocacy is promoting model state RFA legislation through our Regional Advocates. We currently have eight Regional Advocates in the ten SBA regions. They are my office's "Main Street reality check." Our Regional Advocates take the pulse of Main Street small businesses every day and make sure that we stay on track here in Washington, DC. Their interaction with governors, state legislators, and small business leaders in the states provide a perfect liaison for our model bill initiative.

A December 2002 study by Advocacy highlighted the status of small business friendly laws and regulations in each state. Advocacy has used the report as a roadmap to help state leaders learn how they may benefit from RFA legislation. I am pleased to report that at least nine states have introduced RFA legislation to date as a result of our initiative.

Research to Create Greater Awareness of Small Business Contributions

Advocacy continues to publish vital small business research to help guide legislators and policymakers, and to increase recognition of the important role that small business plays in the U.S. economy. Advocacy is working toward establishing research-based focus groups to promote entrepreneurial academic research. We expect the long-term result of this initiative will be to increase the base of scholars researching issues concerning small business. In addition to our outreach efforts, a stream of innovative and timely research continues to be produced by our own economists and outside contractors. The true value of these reports, though, is in their usefulness to our constituents, including the Committee on Small Business & Entrepreneurship. Research from the Office of Advocacy is often cited by government officials as well as private sector representatives in a number of venues—the press, journal articles, and elsewhere. Moreover, the academic community has been eager for this research, as evidenced by conference presentations and publication requests. For example, a research paper, funded by the Office of Advocacy, on bank lending to small businesses, will be presented at an upcoming conference at the Federal Reserve Board of Chicago. Advocacy is proud of the fact that additional research from our own economists is being considered for publication in professional journals.

Advocacy's Budget Process

When you examine the statutory mandate of Advocacy and the authority the office has to defend small entities, it becomes obvious why Advocacy is independent. The Office of Advocacy is supposed to be critical of government that treats small business unfairly. SBA is a regulatory agency. And when it comes to proposed regulations, Advocacy treats SBA the same as we do the Environmental Protection Agency (EPA), the Occupational Safety and Health Administration (OSHA), the Department of Transportation (DOT), the Internal Revenue Service (IRS), and the other agencies. The Office of Advocacy makes sure that SBA adequately considers their impact on small entities before they finalize rules (the basic requirement of the RFA and

SBREFA). The system is flawed when the Office of Advocacy's budget is determined by a part of government it holds accountable for compliance with the RFA.

The current budget process is a dangerous one because the Office of Advocacy's budget is too easily pillaged when administration priorities change. A budget line-item for Advocacy would certainly help address the problems identified above. A line-item would provide assurance to small entities that they can continue to count on the Office of Advocacy as a strong and independent voice on their behalf.

Chair SNOWE. Mr. Swain.

Mr. SWAIN. Senator, it is a real pleasure to be here. Thank you for inviting me. I am sure with your robust record in Congress, you don't remember exactly, but in September of 1981, I was reflecting coming up here this morning, I appeared after being confirmed as the Chief Counsel for Advocacy for my very first congressional hearing. It was in front of the House Small Business Committee, of which you were a Member, and the subject was the authorization of the Small Business Innovation Research Program.

At the time, that was quite a radical idea and the Administration, the Reagan administration, was not in favor of that idea. Our office was in favor of it, but I must say that you and Mr. LaFalce and several other Members of the Committee took that opportunity to remind me in no uncertain terms that my role was to be an independent advocate for small business——

[Laughter.]

Mr. SWAIN [continuing]. So I am pleased to say that you have been absolutely consistent on that over the past 20 years.

Chair SNOWE. Amazing how things come around.

Mr. SWAIN. That is right. It got to the point in subsequent hearings with some Members of that Committee, I remember Congressman Bedell got on me at the time about whether I had cleared my statement with OMB. It is one of the little known facts from anyone that hasn't served in the Administration, the extraordinary power that OMB has over anybody that has got any job in the Administration at all.

[Laughter.]

Mr. SWAIN. So one of the first things that I discovered after I got into the job and thought that I would just willy-nilly come up and testify about whatever I, my staff and the small business groups thought would be sensible, that that wasn't exactly the case. At least from Mr. Stockman's perspective, I had to take my statement and get it cleared with OMB to say what I wanted to say, and, of course, SBIR was a classic example, the first one out of the box. They weren't going to clear that.

At that time, I said, "Well, you have got my statement and this is what I am going to say, so I will simply be clear on the fact that you didn't clear it", and so that happened more often than not. We always sent them the statement out of courtesy, and if they cleared it, it was wonderful because that meant that they had strong small business advocates at OMB. But in many cases, that wasn't the case.

Some 20 years later, 25 years or so after the creation of the office, I think it has been a resounding success. I wasn't economically as sophisticated as Mr. Glover and Mr. Sullivan to actually figure out how much money we might have saved the small business community, but at any rate, I think it has been a good thing, The Congress is in an interesting position now because it is a largely successful office. But what can and should be done to make it even more so? Of course, there are a continuum of things.

It has been suggested that the office be made entirely independent, and there are also other things, including a separate line item for the budget, and that is where I would certainly endorse a separate line item for the budget. I candidly do not endorse the

absolute independence of the office. I think that the position within the Administration is a unique position. You sort of have one foot outside the Administration, one foot in the Administration, but it is a unique opportunity to try to make policy arguments to senior Administration and White House officials and absolute independence would probably negate that. But I do think that a separate budget item is a modest and not a dramatic step to improve the current situation.

Chair SNOWE. Thank you. Thank you for reminiscing about the old days.

[Laughter.]

Chair SNOWE. The more things change, the more they stay the same.

Mr. Turpin.

Mr. TURPIN. I am James Turpin, American Subcontractors Association. First of all, I knew I was getting old when I knew Tom Sullivan as a law student.

[Laughter.]

Mr. TURPIN. But I just wanted to give our perspective. We are the trade association representing commercial subcontractors and our experience with the SBA Office of Advocacy has been extremely positive as a conduit of information and also as an arbiter between our organization and others to get the small business community on the same page when they need to be and the dollars that are spent, although they are relatively small, are leveraged more than just the savings. It is also a service to organizations like mine so we can then service our members.

So there is a multiplier effect in the information going out there, and we would very much favor a line item for the office and commend the office for the work it does in making the most out of the resources it has available.

Chair SNOWE. Thank you. Others?

Yes, Jere.

Mr. GLOVER. Again, thank you for introducing your new Independent Office of Advocacy bill and your consistent support of the office over the years.

We have been fortunate—the Congressional Committees and the small business community have been fortunate to have a number of Chief Counsel for Advocacies who have been very strong and done a wonderful job. There are a lot of advantages to that office. No. 1, it is the independence that we have received, the special hiring authority that the office has, tremendous support and cooperation from the Congressional Committees.

But I have to be candid. Every year, the budget comes up and you do have to change roles from doing your job, which is what is best for small business and working for small business exclusively, to going to the Administrator and, in effect, begging for research money and other funds. Every time there is a freeze in SBA, the Office of Advocacy loses slots. We are down from 70, when Frank was Chief Counsel, to, what, low 50s, low 40s, high 40s? High 40s.

It has dropped down over the years and it happens every time there is a freeze on personnel, because Advocacy has a turnover because we have to hire people in whatever area is hot, and we have that special authority to do that, but that means we have a turn-

over, and quite frankly, the office is unique and we have been able to hire the best and the brightest and they don't stay long. They move on to other jobs. So you continuously have this problem.

My greatest fear is that the small business community and the Congressional Committees will get what they pay for in the Office of Advocacy. They have always gotten a lot more than they pay for.

When we started quantifying the successes, and it was a real challenge—the first year, we didn't publish those—but on average, $3 billion of regulatory savings, that is not the data that you just quoted about how important small business is. That comes out of Advocacy's research budget. It is not all the other things that we do.

So it is a wise expenditure of money and the need for a line item to focus on small business, the Office of Advocacy, is critical and I think that is important and I think some other things you can do to strengthen the Office of Advocacy, also, Office of Advocacy's independence makes a lot of sense. But I agree with Frank. It should not be totally independent of SBA. It should not be totally independent of the Administration. The idea that it is in both accounts is an important role.

I think there are some things that might be needed to be put into that Office of Advocacy that are elsewhere within SBA, the Office of Technology, even the Ombudsman's Office. Clearly, these are more aligned with the advocacy function than other places. But I think the critical thing is to get a line item and make sure that the office gets the funding that it deserves.

Chair SNOWE. I gather from what Frank has said, and you feel that way, too, that the complete independence of the office might compromise its ability to be flexible in moving?

Mr. SWAIN. I think the most effective place would be SBA. I think it would get lost out there by itself without some connection, at least administratively.

Mr. GLOVER. When it works it works well, not having to worry about personnel, government contracting, a whole variety of things you would have to worry about if you were independent, totally independent. I think there is synergy at SBA. I think that SBA as a total does a lot for small business. A number of times, we actually did research and provided to SBA, for example, job creations through SBA lending programs. There were things we could do when SBA was challenged. Occasionally, SBA is challenged and I think we are able to provide the economic data and justification for some of SBA and its programs.

You also have advocacy functions within SBA like the women's program, like the veterans' program, like the minority programs. All of those are also charged with advocacy and we do the research that supports and justifies those programs and some of their existence.

So there is a synergy that does occur, and taking it completely out of SBA, and certainly taking it completely out of the Administration, I think creates an adversarial situation. I mean, I kept count of how many times I took independent positions from the Administration, and I think Frank did, as well, and I am sure Tom is keeping that list, as well. That is not the important issue. It is how many times do we get the Administration to later change its

mind, and if you are part of the Administration, you have got more clout in getting them to change their mind.

Let us face it. You can fight and lose, but if you can be as a partner and always working to improve the decision making process—what I view the Office of Advocacy, our success is when we change the decision making process. When we made whoever was the decisionmaker at the next level from whoever made the original decision aware of facts and information they didn't know, that changed the outcome and it changed the culture of that agency. The frustrating thing is there seems to be a never-ending source of problems popping up and you are continuously educating people. But once you do, it's easier the next time.

Chair SNOWE. I see. Yes, and your name is—I can't see.

Mr. CORATOLO. Giovanni Coratolo with the U.S. Chamber of Commerce.

Chair SNOWE. Thank you. I couldn't see your name tag.

Mr. CORATOLO. Senator, we really applaud you in introducing an Independent Office of Advocacy bill that establishes a line item, and certainly as well as my colleagues here, I agree with them. It is well needed. I can't add much to what they have said, but I wanted to point out one thing. Several years back, myself as well as a number of the organizations, small business organizations, NSBU, NFIB, SBLC, got together and recognized the value of advocacy and we set upon a quest to increase the funding. The only handle we had was a line item that exists now for economic research. This is just a subset of the whole budget for advocacy.

When the story is told to Congress, it is a good story and they respond. We were able to increase that budget about 35 percent based on the fact that we told the story and they recognized how good the story was. Without a line item, groups like myself cannot tell that story because the appropriators have no control over that budget. We are not afraid of different organizations incurring in that budget when we can have transparency with it.

We feel very confident that when the story is told, people will respond. Members of Congress do respond. That is something that we would very much encourage, is the line item. Thank you.

Chair SNOWE. So you think it will make a difference?

Mr. CORATOLO. It will make a very big difference. It allows us as small business groups to defend that particular organization and encourage proper funding for that organization.

Chair SNOWE. Well, my bill isn't creating—we were just talking about it—my bill isn't creating a separate office.

Mr. CORATOLO. No.

Chair SNOWE. It is obviously strengthening internally the independence of that office. But Tom, can you explain and respond on some of the issues, and I know Allen wants to speak on this, as well. Maybe we will have your comments and then we will go to Tom.

Mr. NEECE. I represent the Small Business Legislative Council as its elected Chairman. I have known Jere Glover for, I guess back in the period way back into the 1970s. I actually worked for this Committee as a staff person at the time of the passage of the enabling legislation for advocacy and staffed the hearing for the first confirmation of Milt Stuart, or his only confirmation, but for

the first advocate. So I have watched this program very carefully over the years.

Chair SNOWE. What year would that have been?

Mr. NEECE. Pardon?

Chair SNOWE. What year would that have been?

[Laughter.]

Chair SNOWE. No, I am——

Mr. NEECE. We don't want to talk about the years, because——

Chair SNOWE. Seventy-eight?

[Laughter.]

Mr. NEECE. I will be quick to——

Chair SNOWE. In the late 1970s, I came to Congress. So it was 1978?

Mr. NEECE. Actually, back in 1975.

Chair SNOWE. Nineteen-seventy-five. That was just before.

Mr. NEECE. I was going to say, I will be quick to add that I have known Frank almost as long, so that dates him, as well.

[Laughter.]

Mr. NEECE. They were both terrific advocates——

Chair SNOWE. We weren't here when President Eisenhower signed into law——

[Laughter.]

Mr. NEECE. No, but if you want to push the envelope, when I first went to work in this town, I worked for the first staff director of this Committee who staffed the passage of the 1953 Act, so——

Chair SNOWE. Okay.

Mr. NEECE. We keep pushing back——

Chair SNOWE. We are getting closer. We are getting warmer.

[Laughter.]

Mr. NEECE. I am a dinosaur, and the first advocate worked for Harry Truman down at—so we could really go back.

Chair SNOWE. Right.

Mr. NEECE. But to get to the point, first of all, we are very excited about the introduction of your bill and we would hope that you would act on that as quickly as possible. There was great debate in the last Congress about what to do with advocacy and it lingered and at the end of the day, nothing happened.

No. 2, I would like to reinforce what Jere just said and maybe be more blunt about it. He is always very tactful. That is, we would not support complete independence of advocacy. We think it should have a line item.

But at the end of the day, I have heard all of these advocates say over the years that some time during the course of an administration, and maybe more than once, you need to go to the well and you need to go to the White House and you need to go to the President when you have really got your back to the wall and you are trying to prevail on an issue. If you are an independent commission, you can never go to the White House. In fact, I think you would be shunned by lots of agencies. You are still technically part of that Administration, and you have got to be very careful about how often you go to the well and how often you take on OMB or they are still going to ask you to clean out your desk by the end of the day. But the advocates——

Chair SNOWE. Did that happen, Frank?

[Laughter.]

Mr. SWAIN. I got a few calls.

Mr. NEECE. He never returned the call.

[Laughter.]

Mr. NEECE. So we think you have struck the right balance with your bill, and I don't mean to prolong this any longer, but just to commend you for your leadership on this.

Chair SNOWE. I appreciate that. I think your comments are very helpful.

Yes, Tom.

Mr. SULLIVAN. Madam Chair, I do want to point out one dynamic that is important for this roundtable to understand, and that is that I believe that the utility of a line item really is for the future successes of chief counsels. I have the luxury of having an Administrator who is tremendously supportive and obviously a President who is tremendously supportive and that is reflected in the budget. What I think we are doing and the emphasis that exists around the table really gets at preserving that through a budget method into the future.

I do want to point out two examples, recent examples, of how it works with the Office of Advocacy being within the government, because it does work best this way and these recent examples, I think, point that out in real time.

The first is our formal working relationship with John Graham, who is the President's regulatory advisor, the head of the Office of Information and Regulatory Affairs at OMB. Very early on in my tenure, we sat down and worked through how our offices are going to communicate and we formalized that in an MOU which really piggybacks on the successes of folks whose counsel I seek frequently, Frank and Jere.

In March last year when we formalized this memorandum of understanding, basically what it said, Madam Chair, was that when there are issues of such critical importance to small business and we raise them with John Graham, then the small business component gets addressed first, and I say that because when a rule goes through John Graham's office, there is a checklist, I don't know if it is a formal checklist, but in all practical senses, it is a long checklist of things to look at—cost-benefit analysis, duplicative nature of the rule on existing law, and so on and so forth.

When we raise an issue to John Graham that has to do with small business, then his office literally drops everything and looks at the small business component of a rule package before it goes to the Federal Register, and we see results.

Just last year when EPA was considering putting on a whole new Federal permit system for new home construction, we exercised our working relationship with John Graham, convinced OMB to take another look and work with EPA, and as a result, EPA is looking at how to protect new home construction and how it affects water runoff by existing permits that will produce real environmental protection instead of just throwing a whole new Federal permit system, and by trying to fill out new paperwork and costing, we estimated a cost of $3,500 for every new home. Because small business concerns were brought into the picture early, we were

able to achieve real results, and that was very much at the center of our office being within the government.

Lastly, Executive Order 13272. Last August, the President signed an Executive Order that calls on our office from within the government to train regulatory agencies in how to do a better job considering their impact on small business. So those two examples really do bring to light why our office should be within the government, but then its independence bolstered through a line item budget.

Chair SNOWE. What impact has that had on your staffing levels and workload requirements, that Executive Order?

Mr. SULLIVAN. Well, the Executive Order really has recognized that it is not enough just to criticize government. The President wants us to do more, and that is to train government agencies on how to do a better job. So we have had to look at our staffing and shuffle them around so that we can go into a training mode, not necessarily a legal critique mode. We have promoted one of our top attorneys, Claudia Rayford Rogers, into the head coordinator of our agency training.

We right now have a request for quotation out on the street, so if anyone knows contractors who would be able to put together a training module, please have them respond to this RFQ immediately because it is a quick one. That training module will be put in place so that our legal team and our economics team—Madam Chair, we actually are borrowing from Department of Transportation a regulatory economist who will be the economist role in training agencies on how to do a better job measuring their impact on small business.

We expect to train over the following year and a half just over 33 Federal agencies on how to do a better job measuring their impact on small business. This is a huge load which will cause us to reprioritize where we are directing our resources, but we think that with the cooperation of the Federal agencies, because basically, it is their boss, the President, who is telling them to do this, that we will achieve success under current staffing levels.

Chair SNOWE. That is terrific. I am sure that is going to make a major difference for the small business community. Can you just tell me, if you are at high 40s in terms of staffing, I gather the high-water mark was 70-plus staffers, is that right?

Mr. SULLIVAN. That is right.

Chair SNOWE. I mean, can you do the job effectively with all that you have to do with the current staffing?

Mr. SULLIVAN. Right now, we have 47 slots. We could do with another attorney and another economist, and then we think that we can do the job.

Chair SNOWE. Okay. Andrew.

Mr. LANGER. Yes, Madam Chairwoman. I am Andrew Langer with the National Federation of Independent Business and I want to thank you for allowing us to participate in this roundtable today.

I manage regulatory policy for NFIB's 600,000 members and I want to underscore something that Chief Counsel Sullivan has said, that this really isn't about his office, necessarily, his office today under his counselship. It really is about the future.

I mean, for us, I am always talking about the fact that no matter who is in charge, either in the White House or up here on the Hill, new regulations are always being proposed and they are always having an impact on our members, and the fact is that there is but one office whose sole job is to stand inside government as a barrier between those regulations and their impact on our members and those small businesses who aren't our members, and that is the Office of Advocacy.

The fact is, we support this line item because we believe that it will allow for a great deal of transparency in the future in terms of how budgets are created for the office, but also protect it from predation from other entities within the SBA itself, and that is a key issue. When times get tight, it is no surprise that they are going to be looked at as one of the ways for a great agency like the SBA to save money, and we believe that, frankly, with the dollar return that the Office of Advocacy provides, there is no reason for that to happen.

So we support the budgetline item wholeheartedly. There are other issues we support, as well, but I will save those for a later time.

Chair SNOWE. Thank you.

Ron Newlan.

Mr. NEWLAN. Madam Chair, I am Ron Newlan with the HUB Zone Contractors National Council and I would like to go on the record as saying I don't know anybody that has testified today that remembers when these hearings were lit by candles.

[Laughter.]

Mr. NEWLAN. I am not part of that group. You and I don't remember those days, but I do know, as the only national trade association for an organization or program that has a line item in the SBA budget that continues to get zeroed out by the appropriators year in, year out, which we would think, and very few at the table, I hope, would disagree with me, that the HUB Zone program is as near to America as apple pie and motherhood. So is the Office of Advocacy, and the battle will still be ahead if they do get the line item, and we fully support that and we support your bill. But the battle will still be ahead to get the appropriators to put up the money. Thank you.

Chair SNOWE. Thank you for those comforting thoughts.

[Laughter.]

Chair SNOWE. Anybody else who cares to comment on the Office of Advocacy? The Ombudsman program, anything in that department?

[No response.]

Chair SNOWE. Okay. Then I guess we will move on to the entrepreneurial development programs. Obviously, they had a range of issues there and obviously there are various methods of delivering. You folks deliver in the field all these important resources and assistance to the small business community. So I would hope that you can share with me some of the lessons that have been learned from your experiences and what we can do better as we approach this reauthorization.

Who cares to begin, anybody? Small Business Development Centers, Women's Business Centers? Okay.

Ms. AU ALLEN. Thank you very much. I did not get the message until this morning that the hearing had changed——

Chair SNOWE. Oh——

Ms. AU ALLEN [continuing]. I have been on travel, so I am sorry I missed earlier, but I do want to add my 5 cents in.

I think that the Office of Advocacy has done a terrific job. I enjoy reading the e-mail that you send to me as to what is going on and what other news comes out of your office.

On the issue of entrepreneurship, one other thing that we have to pay attention to is how to bring the small businesses at a level where they could actually sustain. Oftentimes, corporations and government would say that, "Well, we have X-number of small and minority businesses in our fold and we are doing business with them". When you really cut through the chase and will go in and see, well, how many are you actually doing business with, there are very few.

I know that with government and corporations, one of the problems is if they were to be introduced to a new business, they say that, "Well, I have to replace the incumbent. My buyer has been doing business with Mr. X for 5 years and we are quite happy with Mr. X. Now you bring Ms. Y in. Well, to give Ms. Y the business, Mr. X will have to be replaced. You have got to come up with some creative way to deal with the replacement of incumbency".

One way, and I was at the U.S. Postal Service 2 days ago and talked to the chief procurement officer and he was looking for ideas, and I said, "You know what? What we would want to do is"—it is a difficult decision to ask a buyer or an agency to replace a competent incumbent, but at the same time, while you see others waiting in line outside of the door looking for the opportunity, it is to see that if there is an increase in expense in purchasing dollars, then it behooves the agency and the buyers to think, well, the increase in span should go to somebody else other than Mr. X. That is one.

The other is, sometimes corporations especially, they throw the dollars at a small business and say, "Well, I am giving you so much money, so much business. Now go." But they do not look at how they operate. They do not help mentor them about the management, about the financial processes, and also their strategic alliances with other companies, and as a result, they cannot sustain the operation. After a few years, they go out of business.

In the telecommunications industry in the last 10 years, we had a study that out of the seven companies that were the largest company in the TI industry, three had gone bankrupt and they were touted, lauded, put on a pedestal as the most successful ones.

So if there is something you can talk about in particular in these dialogues as to how do we, first, increase the number of small and minority-owned businesses who could benefit from the Small Business Administration program. Second, is to also continue to look at them and see whether the businesses can actually sustain the test of time.

Chair SNOWE. They are not getting the right guidance and assistance?

Ms. AU ALLEN. Sometimes, businesses are given a big contract but they do not—management-wise, they do not have the skills. So

they will go out and try to produce, but in the end, they are not operating in the company right and they go bankrupt. I will be happy to give you more information on this.

Chair SNOWE. Absolutely, yes. No, I would be interested in that because I think that would be useful.

Ann Sullivan.

Ms. SULLIVAN. I would like to start by just saying what we, as Women Impacting Public Policy, how we view the programs in SBA. In the Small Business Act, it says that with regard to women-owned businesses, the SBA programs should, (A) vigorously promote the legitimate interests of small business concerns owned and controlled by women; (B) remove insofar as possible the discriminatory barriers that are encountered by women in accessing capital; and (C) require that the government engage in a systematic and sustained effort to identify, define, and analyze those discriminatory barriers facing women and that such effort directly involve the participation of women business owners and the public-private sector partnership, and so that is how we evaluate the programs that you are talking about.

Our members tell us that the SBA does a terrific job of working with people that want to just start their business. They have many resources for them. The centers provide that. What our members are telling us is that there is not much beyond that at the second stage of your business, when you are growing it from 10 to 50 or 50 to 100. At that point, the resources really drop off and our members would like to see a refocus or a larger emphasis on the SBA's, their resources to help businesses in those stages of development. Most women businesses are in first generation, so they don't have a lot of experience with that next level. That is where they could really use the help.

Chair SNOWE. What is the response, I mean, in terms of if somebody does, you know, a woman business owner wants to go to the next level? There isn't that kind of assistance?

Ms. SULLIVAN. There just isn't much.

Chair SNOWE. They don't have enough staffing and funding to provide people——

Ms. SULLIVAN. Right, and there is not a lot of expertise——

Chair SNOWE [continuing]. Guidance on expansion?

Ms. SULLIVAN. Yes, and there is not a lot of expertise to help them beyond that level. There are—I see SCORE is here. Those are retired executives that can help. But the whole focus has really been toward——

Chair SNOWE. Start-ups.

Ms. SULLIVAN. Right. So we would like to see that shift, if possible.

Chair SNOWE. Do you have much demand on the expansion level?

Ms. SULLIVAN. Yes.

Chair SNOWE. You do?

Ms. SULLIVAN. Yes.

Chair SNOWE. It would be interesting to know the difference for those who don't receive that type of assistance in terms of expanding but move ahead and do so, whether or not they are successful or do they fail.

Ms. SULLIVAN. We would be happy to poll our members on that, because that is an interesting question that we would love to find the answer to.

Chair SNOWE. Yes.

Ms. SULLIVAN. I would also like to, if it is appropriate, just talk a little bit about Women's Business Centers, another issue that is real important to us. As I understand it, Women's Business Centers, for the first couple of years, are funded 50 cents to the dollar. They have to come up with in-kind and cash. The third year, it goes to dollar-for-dollar match. But after 5 years, you are on your own.

We would like to see resources at the Women's Business Centers directed toward the people that they serve rather than chasing corporate money and we feel that the centers are providing services that help the economy because they are helping businesses grow. We think it is a good investment on the part of the government to do so.

Chair SNOWE. So you support extending it beyond the 5 years?

Ms. SULLIVAN. Yes. We think it is critical.

Chair SNOWE. Sustainability grants.

Ms. SULLIVAN. Absolutely.

Chair SNOWE. That certainly will be under consideration, because I know a number of centers would be closing.

Ms. SULLIVAN. Right. That is what we feel.

Ms. STREET. Good morning and thank you, Madam Chair, for providing this roundtable this morning and giving us an opportunity to discuss the entrepreneurial development programs. I am Kaaren Street and I head up the Office of Entrepreneurial Development for SBA.

I would first like to talk about all of our programs. We believe that the entrepreneurial programs are the backbone for entrepreneurs to survive and grow in America. We also believe that we have made tremendous strides. I am proud to say that we served over 1.5 million clients in the year 2002. That is up by 250,000 clients over the previous year, with basically a flat-line budget. Our resource providers are some of the best in the country and we are really proud of them. We have SCORE, the SBDCs, the Women's Business Centers, our Business Information Centers, and our new program that is coming on board, our Native American Economic Impact program. So we are moving forward and progressing.

Our Women's Business Centers are one of our prizes in terms of providing services to women-owned businesses. That program has been in existence for quite a while. It started out primarily serving, as Ann mentioned, entry-level, pre-start-up, and pre-business clients. We have been requiring new centers that come on board to provide a balance to that and provide services for first-stage and second-stage women-owned businesses, as well.

Most of our programs, at first blush, appear as if there is some duplication, and we are accused of that quite a bit. But if you look closer at them, they all have their own particular niches. The Women's Business Centers, to a large extent, have been focusing a lot of their energy and resources on the start-ups, which there are many of, and the fastest-growing segment is women-owned businesses in terms of start-ups. It is a huge number of women.

They are growing at a faster rate than any other segment of the business. So there needs to be some mechanism in place, a process in place to provide that service and the Women's Business Centers clearly are doing a great job at that.

The second is our Small Business Development Centers, which to a large extent deal with businesses who are already existing from the first year on into their fast-growth period, so that they tend to focus, to a large extent, on those existing owned businesses.

SCORE, another one of our gems, to a large extent focuses on the counseling, and they do across-the-board counseling, but primarily on the pre-business or early-stage business development.

So each one of them have their own particular area. All of our programs are serving women in large numbers. Our SCORE program serves—almost 41 percent of their client base are women, and our SBDCs, almost at the same rate. So we are serving women in all of our programs throughout. The Women's Business Centers are exclusively serving women, and to a large extent, the small start-up, self-employed women.

So we are trying to address Ann's commentary about having more programs for women in the advanced stages, but there are other programs within SBA that these women can avail themselves to, and there clearly are the SBDCs, SCORE, and other parts of our system.

Chair SNOWE. Do you think there are sufficient resources to do that?

Ms. STREET. Yes, I do. I think so. I think that, more or less, we have a marketing program to let people know more about our programs and that is going to be extremely helpful to us, and in terms of letting people know that they don't have to be exclusively in the Women's Business Center to get technical assistance, business information, and entrepreneurial programs. They can get those services throughout a wide network. The SBDCs are there for them. They are on many college campuses in the United States. Also, SCORE is there for them, and it is proven that women are utilizing those programs.

Chair SNOWE. Can you just address or offer comments on the sustainability grants? I know that is something the Administration doesn't support, but if we want to have centers in every State and so many will close—I guess approximately 26, is my understanding, will close in 2004 without any type of sustainability grants, and so I wonder what the objection is.

I mean, doesn't it make sense to continue those that are already operating successfully as opposed to just continuing with the creation of new ones? Shouldn't there be sort of a mix here? These centers obviously serve a vital purpose, so doesn't it make sense to continue to fund with those that are working well and at the same time add into the mix the creation of new ones?

Ms. STREET. I would be happy to respond to that. First, I would like to talk about the intent of the legislation that created the Women's Business Centers. It was created with a 5-year program and it was only in 1999 that the pilot, and it is clearly a pilot for a 4-year period, would add the sustainability component to the program. It was a pilot to see how it would work out and it would

have to be reauthorized in order for that pilot to become part of a major program.

Part of the application for Women's Business Centers requires the applicant to have a plan in place for graduation out of the program. It was not a program that was designed to be for perpetuity. In fact, the centers that came into being from the beginning did not have any sustainability. Only since 1999 has the sustainability process been in place.

We have no record or no evidence to say that, provided if those sustainability funds are not available, for those who will be graduating out of the program after their fifth year, they will not survive. Many of those programs do have other sources and have been encouraged along the way to begin to start looking at funding elsewhere other than SBA.

Some of our Women's Business Centers have been receiving funds for 8 years, 7 years, 6 years, and well beyond—through the sustainability process. We are planning to look at the Women's Business Centers who may have difficulty in sustaining themselves beyond the 5 years and provide capacity building workshops, training, et cetera for them.

Also, another thought that we were working with is that some of our Women's Business Centers who have graduated have moved on to become Women's Small Business Development Centers and we would like to see a lot more of that happen, because there, we can have the sharing of the funding, working with the SBDCs, and that is an important feature, as well.

So really, our objective in not reauthorizing the sustainability is to try to get some diversity in geography, which we do not have, and that is a clearly important feature. Some of our centers are concentrated in certain parts of the country, and they are really an important feature with this.

I brought a map along with this just to kind of give you a sense of where we stand in terms of our—these red stars, if you can see them from there, represent sustainability, those Women's Business Centers who are in sustainability. They are receiving sustainability funding beyond their 5 years.

Chair SNOWE. The ones that are lit up?

Ms. STREET. Yes, the ones that are lit up.

Chair SNOWE. How many are there of those?

Ms. STREET. Twenty—that are in sustainability now, there are approximately 29.

Chair SNOWE. Twenty-nine?

Ms. STREET. Twenty-nine that are in sustainability. But there are some pockets of the country where there are fast-growing business areas for small businesses, especially women-owned businesses, where we have very little, minimal penetration. We have no Women's Business Centers in southern California, none in Los Angeles, none in San Diego. We have also needs in Texas. We have—if you can see, most of them are concentrated in the Northeast and in New England and——

Chair SNOWE. Why is that, out of curiosity?

[Laughter.]

Chair SNOWE. We are not complaining about that, but is it because the entrepreneurial spirit is thriving there or what?

[Laughter.]

Ms. STREET. We have no centers in Las Vegas or Reno. We have no centers in Portland, Oregon. We would like another center—we would love to have another center in Minnesota. We have none in Portland, Maine, Bangor, Maine. We have none in Miami, none in Orlando, none in Tampa. The one center that we do have in Florida is located way on the border of Alabama here, which kind of serves the Alabama side of it.

In an ideal world, we would love to have them all and we would love to have the sustainability and bring on new centers. But we are pretty much a victim of our funding. We have $12 million. Thirty percent of that $12 million is dedicated to sustainability through the pilot program. Without the pilot program, or without the pilot program continuing, we would have that opportunity to reallocate to the geographical areas that are in desperate need for centers and want them.

We haven't agreed that there should be a center in every State. There are some States that are large enough and have the fastest-growing businesses that should have two or three or maybe more Women's Business Centers. So we are not trying to make sure that every State has one. There has to be a demonstrated need for them there.

Clearly, we go on. In New York, I mean, we could go on with more, Buffalo. In Syracuse, New York, I mean, those are fast-growing areas. Cleveland, Ohio, has no centers. Pittsburgh has none. Richmond has none. Charleston, South Carolina, none of those—there are places that we really can use these centers and we just don't have the resources to do them.

By continuing to fund these sustainabilities, it limits the growth of these centers. Now, I am not certain and we don't know the answer as to whether or not by not having sustainability, whether or not these centers are going to go out of business. I mean, that is what we have been hearing, but we have been working with them and we would like to continue that process so that that doesn't occur. A good number of them have already been receiving funding for 8 years, 7 years, and 6 years into the program.

So that is our position. We would like to try to see—to make sure that we have the geographical diversity. In some cases, some of the most very closely concentrated, they are in this particular area. We have some within a 30-mile, 40-mile area. So we are looking at the geographical dispersion of these centers. It is critically important, and we know OMB is going to look at that, as well, in terms of also the economic impact of these Women's Business Centers.

Chair SNOWE. So what do you think would happen to those Women's Business Centers if they don't have sustainability grants? I mean, do you think it would be appropriate to have them compete for SBDC grants?

Ms. STREET. We certainly would work with them to transition them to the SBDC program, to have Women's SBDC centers. We have five of those already in the system that are working very, very well.

Chair SNOWE. What is the longest time period that a Women's Business Center has been reseiving a sustainability grant?

Ms. STREET. Eight years.

Chair SNOWE. Eight years?

Ms. STREET. Yes.

Chair SNOWE. What do you expect to happen to those centers if they don't receive continuing funding?

Ms. STREET. I think the ones who are strong will continue on and they will get—they have had 8 years to grapple with this situation. Some of them—the ones who have been in the program 8 years didn't have sustainability even earlier. Sustainability came in 1999, so it has only been in existence for 4 years. So they were sustaining themselves even up to that point.

Ms. FORBES. They were funded. The program started with a 3-year grant and it was extended to a 5-year grant and then there was sustainability. So there is no period of time that they haven't received the Federal portion to attract the match. So, I mean, it is just not——

Ms. STREET. Yes, it is five plus the——

Ms. FORBES. Right, but there is no—I mean, you were making it sound like——

Ms. STREET. I am not saying there was a gap there.

Ms. FORBES. Okay.

Ms. STREET. I didn't mean to imply there was a gap.

Chair SNOWE. Okay.

Ms. STREET. I don't know of any evidence that a good number of these centers will close. Maybe some will. I am not certain of that. I can't say that that is not going to happen to some of them.

Chair SNOWE. They are working so well——

Ms. STREET. That is true.

Chair SNOWE [continuing]. It is unfortunate not to be able to find some way to continue their operations, but at the same time, addressing some of the other issues, and I realize it is all a question of funding. We will have to, obviously, look at that. How do you know what the demand is for creating Women's Business Centers?

Ms. STREET. Well, we have had quite a few applicants. Every time we have—we have not been able to open more than two to three a year.

Chair SNOWE. What is your demand?

Ms. STREET. Our demand, we have an application out now for three centers and with that we have over 100 applications in for that, for those three centers.

Chair SNOWE. In some of the areas that you say——

Ms. STREET. Yes. In fact, we are giving extra points to those areas that are underserved.

Chair SNOWE. That aren't represented?

Ms. STREET. Yes, that aren't represented.

Chair SNOWE. You don't have any, in Los Angeles——

Ms. STREET. None.

Chair SNOWE [continuing]. Or in southern California?

Ms. STREET. No.

Chair SNOWE. Do you have applications from that area?

Ms. STREET. Yes, we do, from San Diego, yes, and from Florida, both places.

Chair SNOWE. Mr. Homer.

Mr. HOMER. Thank you very much. Madam Chair, thank you for the opportunity for the National Indian Business Association to be

here today to participate in this roundtable. I think that is very important, that we all share some of our issues.

I want to get into and I want to report on the Native American entrepreneurial development, specifically a bill that is coming down the line, in fact, the House bill, 1166, passed the House and will be submitted and transferred to the Senate Committee on Small Business and Entrepreneurship.

The House bill passed and is going to amend the Small Business Act to include specific funding for Native American businesses, and, of course, that is a legitimate one. This amendment has been a long time coming, and for the past 20 years, there have been critical needs for SBA business development assistance in Indian country.

NIBA has two amendment concerns that, if implemented, would hamper or may not expand or improve business assistance to Native American businesses. First would be the SBA delivery service provider, and the second is the SBA central administrative office for the program.

H.R. 1166 recommends the funding of State non-Indian-funded business development center programs to deliver business development services to Indian reservations and communities. We have nothing against the Small Business Development Centers. They do great in Phoenix and Tucson and Albuquerque and Las Cruces. But on Indian reservations over the past years, they haven't done such a very good job.

In the past 10 years of existence in NIBA, I have not seen an improvement, an expansion of services to Indian country by the Small Business Development Center program who have been receiving funding for many, many years for all minority programs. Statistical reports of the 13 Western States with substantial Native American populations have not received substantial SBA training and 8(a) certification, HUB Zone certification, 7(j) assistance, veterans', women's assistance, loan programs. Bonding is nonexistent.

If Congress wants to expand and improve business assistance to Indian country, NIBA recommends the following changes in the bill that the Senate will get. Instead of funding State non-Indian small business development programs, legitimately, funding should be established for the SBA Tribal Business Programs who have been established for the SBA programs, who have been providing services to Native Americans in the 13 Western States for the past 6 years.

Tribal colleges, 31 total exist out there to receive training and technical assistance money. Intertribal organizations and organizations such as the National Indian Business Association and some of the National Indian Chambers could receive and be training providers. NIBA recommends that the SBA's office in Washington, D.C., the Office of Native American Affairs, which was implemented in 1992, be the administrator of the program instead of the Small Business Development Center Program.

We feel very strongly that these changes are important for expanded and improved programs. So I am looking at that as one of the really enhanced recommendations from Indian country, to go ahead and provide the funding to those Indian colleges, Indian universities, 31 Indian colleges, 33 universities, instead of some of the other colleges in Phoenix or Las Cruces, Albuquerque, New Mexico.

Chair SNOWE. Ms. Street, can you respond to some of the issues that Mr. Homer raised? I would be interested in getting your perspective on this, and also about the Tribal Business Information Centers. Does that provide any support for what Mr. Homer is referring to?

Ms. STREET. Yes, it does——

Chair SNOWE. But obviously deficient in terms of the issues that he is raising.

Ms. STREET. The Tribal Business Information Centers were discontinued in the last fiscal year. We are replacing that with a new program. It is a Native American economic development program that has just been funded for this year to provide economic development services through tribal organizations as working closely with the tribal colleges as well as the tribal universities.

I agree with my colleague in terms of the SBDCs having the role already established in their charter to provide services to the Native American community. We have been working very closely with them to expand that proposition. At the same time, we are very pleased to say that we are implementing a very comprehensive Native American program that is in—we just hired a Director of our Office of Native American Affairs who is going to begin work next week, who is going to lead this effort, and we certainly have been working on it up to this point in time.

That kind of leads into my response that our response that we had in terms of the SBDC, opening it up for competition, because we don't believe that the SBDCs, as good as it is, can be all things for every business, and in this particular case, I think the services for Native Americans are better served with Native Americans provided that service at the tribal college and tribal university level as my colleague stated.

Chair SNOWE. Mr. Homer, do you——

Mr. HOMER. That is very good. Thank you. That is a very good response. We will work with you on that. Thank you, Kaaren.

Chair SNOWE. First, Ellen Golden, and then Marilyn.

Ms. GOLDEN. Thank you. Thank you, Senator Snowe, for inviting me here today for this roundtable. I am Ellen Golden and I am here wearing two hats. I am the President of the Association of Women's Business Centers and I am also Senior Program Officer for Coastal Enterprise and manage a Women's Business Center in Maine.

I would like to set the record straight. Ms. Street said that there is no Women's Business Center in Portland. In reality, Coastal Enterprises provides extensive services to women business owners across the State, and certainly Cumberland County, which is one of our most densely populated counties, gets their fair share of services. So we needn't worry about that.

I want to make a number of points here, and I will be submitting more extensive written testimony for the record.

First of all, going back to the history of the program, I appreciate Patty Forbes making clear that there has been an evolution over time, and that is, of course, the evolution in the Women's Business Centers program has been accomplished through extensive and remarkable bipartisan support of Congress, and we really appreciate your help in terms of growing and strengthening the program.

In response to the comment that there is no evidence that the programs will survive, I think that that is true. On the other hand, we have some extensive experience in terms of what goes on currently within the program and I can say that there is evidence that certainly some programs will not survive. Just this past year, we were saddened to lose a very old and well-established program in Long Beach, California. They were unable to come up with their match, so they decided to close their doors.

So even with sustainability, there are certainly challenges for the Women's Business Centers program, particularly in this funding environment. I am sure you are all aware of the fact that it is extremely difficult. Foundations don't necessarily have the capacity to fund what they did. Even banks are no longer providing the kinds of dollars that they did a few years ago, and I know in a rural State like Maine, where there has been a restructuring of the banking industry. In many cases, the larger banks are now owned by out-of-State corporations and we are no longer competing on a local basis but we are competing nationally for shrinking funds.

I would say that the importance of the availability of the SBA grant cannot be underestimated. I think it is so much easier to have that as a foundation and use that as a catalyst for leveraging the non-Federal match. I think without that, I think a lot of the centers would, in fact, disappear or really be compelled to significantly reduce their capacity at a time when we know that this is a growing and increasingly vital sector of the economy.

I think the other piece that can't be underestimated is the existence of the SBA funding that serves to give programs significant credibility. It helps the centers position themselves so that they are, in fact, better able to secure additional funds. I know it has been a huge factor for us and I know that is true for other organizations across the country.

In terms of the sustainability program, clearly, the association would strongly recommend that we make the sustainability pilot a permanent part of the Women's Business Centers program. We think it is incredibly important to invest in those organizations that have demonstrated that they have the capacity to successfully meet the program goals of the Women's Business Center program.

I am sure that everybody here knows that it was a competitive process and that each Women's Business Center goes through an annual programmatic and financial review. So we are certified as being able to deliver the program effectively.

I think it is also important to understand that it takes time to build a successful program. It takes time to attract and build staff capacity. It takes time to really understand the market, to understand what services need to be delivered, to build that kind of trust, visibility, and credibility in a marketplace. It takes time to build successful partnerships that increase the efficiency and effectiveness of program delivery. It takes time, again, to establish the funding relationships that allow us to generate the non-Federal match.

According to my calculations, if we eliminate the sustainability program, we not only eliminate the 26 centers that would be eligible to apply next year for sustainability, but we eliminate those that are currently benefitting from the sustainability pilot. In ef-

fect, we end up eliminating two-thirds of the current centers. In other words, we eviscerate the current infrastructure that is providing services.

I think it is just unconscionable to do that. I think that is an incredible waste of Federal dollars, when we have been investing in carefully building an infrastructure over the past X-number of years.

The other thing I think is important to understand is not only do we lose that existing capacity, but the existing centers, particularly through the Association of Women Business Centers, serve as mentors for those new centers that are coming on board. I know that I have personally, and I can think of many other existing centers who have nurtured centers right from the "thinking about applying" stage, through the earliest stages of starting up their center, to trying to understand what the best practices in the field are.

If you get rid of the sustainability centers and those who become eligible next year, you also lose that capacity to provide mentoring and ongoing support to new centers.

So what we would like to see, and I hope that we will have your support in this, we would like all the Women's Business Centers who have demonstrated their capacity to deliver the program effectively to be eligible for 5-year funding on an ongoing basis, obviously subject to the annual programmatic and financial review.

We would like to see that the sustainability and existing centers have priority over new centers, although we would certainly like to see adequate funding to have new centers in those areas that are currently underserved.

We would request that Congress would authorize funding levels for the next 3 years at $14.5 million, $16 million, and $17.5 million, which we think will be adequate to support the current infrastructure and still allow for new centers to come into existence.

One or two other points. I can appreciate what my colleague said earlier about services for existing businesses. I do think that that is something that is variable, depending on the specific market that Women's Business Centers serve. There are a number of centers that are providing services for existing businesses. I think each center tries to develop services that fit into the context of their market area.

Lastly, in response to what Ms. Street said about transitioning the Women's Business Centers to the SBDC funding, quite honestly, I just don't think that that is realistic. I know that my colleague from Maine, the Director of the SBDC in Maine, who is here with me, is happy to work with me. I am not sure that he is happy to share his funding with me.

[Laughter.]

Ms. GOLDEN. Thank you.

Chair SNOWE. Thank you, Ellen.

Okay, and then we will go back to some of the issues.

Marilyn Carlson.

Ms. NELSON. Thank you, Madam Chair. Thank you for inviting the National Women's Business Council to be a part of this roundtable discussion. We welcome this opportunity to share our views of our mission, of our current activities and future plans very briefly and we will submit our written testimony, as well.

Since my appointment in May of last year, we have been moving ahead on a number of fronts. The council is now fully staffed. Joining me here today is our Executive Director, Julie Weeks, who was formerly of the Center for Women's Business Research and the SBA's Office of Advocacy. So she comes, I think, with a great deal of skill to help us accomplish our mission.

My vision for the council is to be regarded as a trusted source of fact-based information for public policy change, to be a connective force for the women's business community with one another and with the public policymakers, and to be a leading and respected advocate for women's business community.

The National Women's Business Council is the government's, at this time, the government's only independent voice for women business owners. This responsibility is critically important to policymakers in both parties who are committed to understanding and supporting women business owners.

The only entity in the Federal Government which can be counted on to represent the most informed, diverse, and bipartisan views of women business owners and what we need to succeed is the National Women's Business Council. If I may borrow some wise words I read this morning in the Washington Post, it is possible that we could say that the council tries to bridge the differences on issues that are important to women business owners.

To that end, the council is committed to supporting women business owners at all stages of their growth, from start-up to success, and certainly with an eye to what Ann Sullivan has mentioned, to significance.

In our 2002 annual report, you are going to find greater detail about our activities, but let me briefly share one project to illustrate how we are encouraging more and more women business owners to participate in the public policy arena. We have just launched a monthly conference call that we are calling the "Women's Business Connection." These toll-free calls feature speakers discussing important business issues. They offer an opportunity for people to ask questions, to learn from each other, and to get more involved in public policy.

Joining us last month, as an example, was Administrator of the Office of Federal Procurement Policy Angela Stiles. She spoke about the new contract bundling regulations that were out for public comment and urged those on the call to be informed and to express an opinion.

This month, we will discuss the issue of military reservists who are being called to active duty and what assistance is available to small business owners who are temporarily without very valuable employees.

We would be delighted to invite any of the Committee Members to be a guest speaker on an upcoming call, or indeed if you have topics, and I imagine that you do, to suggest topics to us that we might discuss on those calls.

Now on the matter of the council's reauthorization. Let me first say that, in general, the NWBC statutory authority is sufficiently broad and addresses the key issues facing women business owners. So we don't have a need for a major change in the language. There

are some minor changes that we have submitted in our written testimony.

But there is a point of confusion as to how the council's organizational members are to be treated. Women Impacting Public Policy, right away, is a member of our council. Six of the fifteen council members are to represent women's business organizations. We believe that the intent of the structure is to have organizations, as well as women business owners, comprise the council. However, in the past, when an organizational member has left their position in the organization, the SBA has interpreted our organizational membership in such a way that it has been difficult to replace the individual in that seat with another member of that organization to serve out the term and we would be very appreciative of some clarification on this issue.

Then there is also reference in our statutory authority to the Interagency Committee on Women's Enterprise. As written, we are charged with advising, consulting, and meeting with this Committee on an ongoing basis. This Committee is currently not active. I don't know if it is not active or nonexistent, but in any case, we haven't been able to fulfill that piece of our responsibility.

[Laughter.]

Ms. NELSON. Our suggestion would be that rather than waiting for an interagency committee to be reconstituted, we might offer that the council could, on an annual basis, conduct a meeting with the relevant Federal agency representatives to inform them on the activities and to solicit views on issues related to women enterprise development.

Finally, I would like to address the issue of support for women business owner-focused programs. I don't believe I need to tell most of you here of the economic importance of women-owned businesses in this country, certainly at a time that we are all looking to reignite this economy. For the record, we represent over nine million businesses and growing. We need one of those, like McDonald's, one of those signs that keeps telling you how many we have at the moment——

[Laughter.]

Ms. NELSON [continuing]. Because we are growing so fast. We employ 27.5 million workers and contribute over $3.6 trillion in annual revenue, and we are growing at a number twice the rate of all firms.

Sustainability becomes an important issue for these start-up firms, and sustainability beyond the very nascent period. I think of it as seedlings and saplings and then the large mature trees.

Despite the growth, there are still inequities, such as the fact that we receive slightly more than two percent of Federal procurement dollars and a similarly low share of venture capital investment. The playing field is not yet level. Women need environments which acknowledge their unique style of learning and address specific circumstances.

One example of a program that addresses these needs is the Women's Business Centers program, and certainly over the last 5 years alone, the budget for these programs has increased from $4 million to $12.5 million. The number of supported centers has grown actually from 27 to 81, and the number of clients has in-

creased from 8,000 to 86,000. In my business, that would demonstrate a need and the ability to fulfill a need. Thus, we can notice that the budget has actually tripled in the past 5 years, but the number of clients has increased more than ten-fold.

We are also keenly aware of the debate on sustainability and we think that the debate is probably justified. Evidently, the performance and the effectiveness of these centers is uneven. Many of us who have businesses with operations across the country or across the world recognize that, inevitably, there is unevenness. There is no question about that.

The Women's Business Council needs some time to understand the real issues surrounding this, to look more closely at the research, to really understand best practices. We appreciate the value of the centers. We appreciate the importance of making sure that we are leveraging every Federal dollar, and we are going to definitely monitor this extremely important issue and work with our friends, both in the women's business community and at SBA, to try to come up subsequent to these deliberations with a better understanding and to actually weigh in on the issue after we understand better what the research is available and perhaps even what research needs to be done.

Finally, there is a growing body of knowledge about women's business ownership, but that knowledge is truly scattered. I think the lack of real clarity on the Women's Business Centers is an example, and it is not presented in a usable form for public policy arena.

The National Women's Business Council, I believe, could actually serve a role in gathering and synthesizing on an annual basis the best and most relevant research on women's entrepreneurship. This "state of women's entrepreneurship compendium," if you will, could actually, I think, make an important contribution to women's business and policy communities and it would be highly anticipated. Congress might wish to actually formalize this kind of added responsibility to our statutory authority to preserve it beyond my tenure.

The council is also uniquely positioned to serve as a central clearinghouse for all major research on women's business issues. However, this possibly could require maybe modest additional funding. We believe it could require one more staff to do the job appropriately. This has not been in what we have applied in our application, but it is really a consideration, because once again, we have—we are deeply committed to the kind of research that informs these decisions for all of us involved because we all, I believe, are looking towards the same ends.

In closing, I just want to say how delighted I have been to have been appointed the chair of the National Women's Business Council. There are extraordinary women in this country who are building businesses, who are looking to participate in the American economy and contribute to the vitality over time, and I say thank you to all those who have gone before and made this possible and to look forward to collaborating with those of you at this table to make an even more important difference.

Chair SNOWE. Thank you very much, Marilyn, and I think you made an excellent suggestion about a compendium to determine

the successes. I think that would be very helpful in shaping public policy. I think that is an excellent idea.

Ms. Street, I would also ask that in response to the issue Marilyn raised about the interagency committee, whether or not it will be active again, can you report back to the Committee on its status——

Ms. STREET. I sure will.

Chair SNOWE. and what are the future intentions with respect to that Committee?

Ms. STREET. I will, yes.

Chair SNOWE. Thank you.

Mr. Yancey.

Mr. YANCEY. Thank you, Madam Chairwoman. Thank you for allowing me to participate in this roundtable discussion of the Small Business Administration's entrepreneurial development programs. I am Ken Yancey and I am CEO of SCORE and I am representing SCORE's 10,500 volunteers, men and women who provide their time and talent in support of America's entrepreneurs. The 10,500 volunteers we have represent over 300,000 years of business experience and know-how. They volunteered 1.3 million hours of service last year.

[Laughter.]

Mr. YANCEY. It is an impressive number, is it not, and certainly sufficient to work with existing businesses. They volunteered over 1.3 million hours of service to America's entrepreneurs last year at a cost to the taxpayer of just over $5 million, on an hourly basis, less than the Federal minimum wage for very high-quality service.

Over the last 2 years, SCORE has been working diligently to do business more on the client's terms, and to do that, what we have been trying to do is improve the quality of our organization as well as expand our reach. Since October 1, 2001, we have opened 96 new branches across the country and 15 new chapters in an effort to be more accessible to America's entrepreneurs in the markets that we now serve.

We are also working diligently to become more diverse, not only as an organization of volunteers, but also from a client-based standpoint. We have new and emerging relationships with organizations that represent the minority community and underserved communities, including the NAACP, the U.S. Hispanic Chamber of Commerce. Mr. George Herrera has recently joined our organization on the Board of Directors to help us do a better job in that market, and we have targets with other organizations that we will be working with in the future.

In terms of our outreach, we have also been very successful with our e-mail counseling service. Most of you know that we do counsel online. We were one of the very early offerers of advice online, starting in 1997. Today, we have over 1,100 volunteers that are available to answer questions online 24 hours a day, 7 days a week. Our online services grew by 51 percent last year. We are in the process of actually, for lack of a better term, franchising that opportunity to other sites around the Internet so that, like we have done in our face-to-face business, we can expand that reach from an electronic standpoint.

In addition to these things, we have been working diligently to improve our quality, and that work has included recruiting more people with more current skills. Our turnover is roughly 20 percent per year. Mother Nature certainly takes its toll on our organization, as you can imagine, and so recruiting is clearly our life's blood.

We find that in our recruiting, we are attracting younger individuals. We are also attracting individuals much sooner after retirement than we have in the past. The good news is that we are not only an organization of retired men and women. Ten percent of our organization today is still employed, and of our new volunteers, over 25 percent remain active in the workforce. So we are getting a current cadre of individuals that are willing to volunteer their time on behalf of America's volunteers.

We are working diligently with our chapters to develop new core competencies against which we can measure performance and continue to improve our quality.

Our organization has been funded for the last 2 years at the $5 million level. That is level funded. We were increased roughly 35 percent a little more than 2 years ago. We have put that money to very good use in terms of our expansion both geographically, demographically, and online. Our request for 2004 was $7 million and we are in the Administration's budget at $5 million. We are hopeful that that will be supported and that we would be funded at that $5 million level.

In the wonderful event that this Committee and the appropriators would consider additional funding for SCORE, we would use that money for additional outreach. We have a great infrastructure of volunteers and skills. What we need to do is create broader awareness and drive more traffic to those volunteers in an effort to serve. So it is not necessarily about building more infrastructure. It is about creating broader awareness, and we are attempting to do that both online as well as face-to-face and through the types of relationships and partnerships that I just mentioned.

Again, thank you very much for your support, the support of the Committee. We will be 40 years old in 2004 and we appreciate all that you have done as well as our partner, the Small Business Administration. Thank you.

Chair SNOWE. I wish I could say the same.

[Laughter.]

Mr. YANCEY. Me, as well.

Chair SNOWE. Just one other comment on serving. You have more than 10,000 volunteers?

Mr. YANCEY. That is correct.

Chair SNOWE. That is obviously insufficient for the demand for the services that your volunteers provide?

Mr. YANCEY. I think today, Madam Chair, we have capacity. We recruit today to maintain a corps at this level. I don't anticipate significant growth in our volunteer corps. Again, the resources that we have, we are going to focus more on creating new resources and expanding our reach. We often find that we are cooped up in a downtown office building on the 15th floor and you have to go through security to access our services.

We don't necessarily, or haven't been in the past located where growth is really occurring in the communities where we operate. A perfect example, here, with not sufficient resources in Loudoun County, the fastest growing county east of the Mississippi. The downtown location is wonderful, but those that live there are unlikely to travel into downtown for the service. So that would be an example of how we are trying to reach out into markets that we don't presently serve and make ourselves more available within the communities where we operate. That, I think, is more important than adding—becoming 13,000 volunteers as opposed to 10,000.

Chair SNOWE. Thank you. John, welcome to the meeting.

Mr. MASSAUA. Madam Chair, thank you for inviting me to participate today. I would like to report that the weather in Maine is a lot nicer than it is in Washington, D.C.

[Laughter.]

Chair SNOWE. See.

Mr. MASSAUA. Senator, I would like to address some of the issues that have been discussed this morning, especially the area of duplication, and I think we would all be foolish to think that there isn't some sense of duplication between the Women's Business Centers and SCORE and the SBDCs. But the reality of it is that there is plenty of work for all of us to do, whether it be at existing businesses or it be start-up businesses.

I think we would be well-served if we worked together on, as we have been doing very much in Maine, on collaborative models to focus the various programs, whether it be SCORE, Women's Business Centers, or the SBDC, in a collaborative model, and I know that we are trying to do that nationally, as well. Therefore, we could focus the right resources to the existing businesses, as you started the conversation on entrepreneurship this morning.

In terms of the Women's Business Centers becoming part of the SBDC program, whereas that could be a reality, what would essentially happen, since there aren't any increasing resources, we would shrink the SBDC and increase the Women's Business Centers. It would be a net decrease in resources that we so vitally need across the nation.

Some of the other issues I would like to address that I understand are in some of the proposals from the SBA, and that has to do with the issue of sustainability and whether or not we should be rebid every 5 years, whether or not the other organizations other than universities should be able to participate in the program.

On the position of the universities, there is a tradition of 25 years. Maine was one of them. The University of southern Maine has been a participant in the program. We have built the program over the years to include not only the money that is received from the Federal Government, to a significant State match, to being able to leverage other resources around the State, so that the $500,000 that is given to us nearly gets to be almost $2 million that we are able to bring to bear on helping small businesses.

My suspicion would be that once you put that in place, that if you out rebid it or for some reason, whatever the motivation might be, those resources would have to all of a sudden be rebuilt again.

Ellen spoke nicely about the fact that programs need to get up and running, and we have a tradition of people who work in our SBDC, some of which have been with us for 10, 12, 13, 15 years, and to jeopardize that every 5 years would probably detract from the ability to keep good people, which is very important in what we do.

We do certify all of our counselors. It takes—to get to a master certified counselor—it takes 6 years to get there if you are really good at it. So I would be remiss—I think we would be remiss if we were able to allow that to happen.

One of the issues about start-ups versus existing businesses, we believe, certainly in Maine and have worked very closely with our District Director there, is the quality versus quantity. Unfortunately, in the funding that we continue to receive through the SBA, the numbers just go up every year and the dollars don't, and that, therefore, forces you to go out and maybe not spend as much quality time with an existing business that you would want because you are trying to serve two masters, the client and the SBA accounting.

We, of course, in Maine and most of my partner States, look at the impact in terms of loans that we are able to provide, the jobs that we are able to create, and the return on investment that is made through the efforts that we have. That is more important than necessarily the number of clients we see. You know, how many clients do we really have success with? That is indicative of our program and that is the measurements that we hope to be put in place in the future.

The final one is on match dollars. I think there is some discussion about whether the States should be—what requirement the State might have on match dollars. Having just come through our own budget battle in the State, I think match dollars are very important. I think that we need to encourage that, but perhaps encourage those States to actually overmatch in some shape or form to allow for rewarding those States that actually put more dollars in.

Chair SNOWE. Did you face a reduction, John?

Mr. MASSAUA. We faced it, but fortunately, with a lot of help, we were able to reverse it and we stayed the same.

Chair SNOWE. You maintained the status quo.

Mr. MASSAUA. We are status quo. Thank you, Senator.

Chair SNOWE. Because some of these States have reduced or eliminated their support, loss of matching funds has certainly hurt a lot of the centers.

Mr. MASSAUA. Fortunately, I think most of the States are battling back, and I think perhaps when Don Wilson talks, he can address specifically what is happening there. Thank you.

Chair SNOWE. Thank you.

Mr. GAST. Thank you, Madam Chair. I appreciate the opportunity to come here and participate in this discussion today. I represent the Association for Enterprise Opportunity. We have over 450 micro-enterprise development programs across the country that are working with the smallest businesses, four employees or less, and initial capital needs of $35,000 or less.

We are actually speaking up in support of two programs here today that are top priorities for our members. First is the Women's Business Centers. Fortunately, the women who have preceded me have certainly made the case far more eloquently than I could, so I will just let it go that AEO strongly supports Women's Business Centers and all the recommendations that have been made here today.

Then I would like to say a few words about the Program for Investment in Micro-Entrepreneurs. This is an entrepreneurial development program that hasn't been discussed yet. This is a program that was passed 4 years ago, in 1999, and it has been operational now for about 18 months. We are eagerly awaiting statistics on the first year of performance in the program, but anecdotally, we know that it has been incredibly strong. The demand is tremendous, particularly in these economic times, for low-income entrepreneurs who are seeking to create their own employment through self-employment.

PRIME was created 4 years ago to reach a target market that wasn't being met. Two major focuses. One is very low-income clients. The legislation stipulates that more than 50 percent of the entrepreneurs served have to be below 150 percent of the Federal poverty line. So we are reaching a market that wasn't being met.

The second is an investment focus. We heard a little bit from the Small Business Development Centers. These programs, microenterprise, define a client as someone they spend 10 or more hours with. So we really are making a human capital investment in these entrepreneurs to build businesses, and research, longitudinal research that we have seen has shown that it works. It is effective.

Our request today is that PRIME be included in reauthorization, preferably with increasing funding levels. Currently, PRIME was not passed as part of the Small Business Act, so it required being folded into that. It was originally stand-alone legislation. I guess I will stop there.

Chair SNOWE. Thank you, Zach. We will look at that in the reauthorization.

Ms. Brogan.

Ms. BROGAN. Thank you, Madam Chair. We appreciate you holding this roundtable. I am Molly Brogan. I represent National Small Business United and we represent 65,000 small businesses across the country.

First of all, I would like to reiterate what my colleagues here have said in support of the Small Business Office of Advocacy. We have been a longtime supporter and we appreciate you introducing legislation and look forward to working with you and your Committee in that capacity.

Secondly, I would like to do a little cheerleading. As a former SBDC employee, I would like to tell you some of the great things that they are doing. The Denver Small Business Development Center in 2002 alone helped small businesses secure over $3 million in loans. They counseled over 600 small businesses. They helped 132 small businesses gain government contracts, something we will be talking about later, which is a very significant number. We held—we, I don't work there anymore—they offered training programs for 1,200 people.

I think those are significant numbers and I think, like the Office of Advocacy, the SBDCs have a broad client base. They help bridge the gap, as Mr. Swain said the Office of Advocacy does. They work with the Women's Business Centers. They work Chambers. They work with small businesses, and I think it is a really important office and our members support SBDCs as well as the Office of Advocacy. Thank you.

Chair SNOWE. Charles Henry.

General HENRY. Thank you, Madam Chair. I am Major General Chuck Henry and I have the honor to be the President and CEO of the Veterans Corporation. I come in support of the SBA's reauthorization and your efforts on this behalf.

I have had the opportunity to meet with the Administrator. We have agreed to meet every 60 days to promote the veteran entrepreneurial issues. We feel that that is a major advantage going forward, and the Administrator and I have agreed in principle on a memorandum of agreement, in effect, to promote the entrepreneurship of veterans and what you and Senator Kerry have been putting forth in Public Law 106–50.

We have been working very closely with Bill Elmore in his efforts to assist in the definition of the Guard, in the Reserves, in the service members, and we certainly support that. As an old Army guy, I can tell you that 60 percent of America's citizen soldiers go to war in the very beginning and a lot of these people have businesses and these businesses are being impacted. They call it optempo in our line of work, but it is being impacted on a 120-day basis.

We tried to help with that by establishing America's Veterans Network. It is a listing of those individuals who have businesses in the veterans' business so that people—it is Internet-driven—will know those individuals who are serving our country right now and they can buy from those and that is the concept. It is totally a grassroots effort. It has started, but it is underway and we are very proud of that.

I also support the amendment to extend the advisory committee to October 1, 2009. There was a late start, as you well know, Madam Chair, on that committee and we feel that keeping it until 2009 and then transferring it to the Veterans Corporation, as the law prescribes, would be the thing to do.

In the next few moments, if I may, I would like to just brief a couple of the advantages and some of the accomplishments of the Veterans Corporation. The Kauffman Foundation was able to help us meet our matching grant with $2 million, and that was with a program called Fast Track. We have taken that Fast Track and we are working very closely with SCORE and SBDCs. They have the counselors. We have built a business plan around that and we will graduate 617 veterans throughout the country between now and 30 September of this year. Our program shows that we will graduate 1,500 next year and 3,000 the year following. This is a very robust program.

We pioneered a Fast Track program in Maine with the help of John Massaua. I was glad to be up there at the graduation and the reports on this is dynamite from the graduates coming out of this

very, very sophisticated Kauffman-driven program. We declared victory on that. It looks good.

Additionally, this week, I will sign a contract with a nationwide company that will create on the private sector a $100 million line of credit for the use of veterans in veteran entrepreneurship. This is a major, major victory for us because we are in 50-State coverage with this $100 million line of credit and we are just very happy to declare victory there.

I mentioned the American Business Network, thoroughly supportive of the Guard and Reserve, but all veteran businesses.

The other two points that I would make is the veteran marketplace. It is Internet-driven. We are in a partnership with a very large company that provides veterans the opportunity to buy and sell across the marketplace. It takes them from where they are today, it makes them global. If you can provide a quality product at a competitive price, we have an opportunity to give you the tools to be able to market their commodities wherever it may be, globally, if you will.

The last point is that working with Bill Elmore again on the community-based organizations, we have now established three community-based organizations that would drive bringing in the private sector, the San Francisco Giants, the Sword and Ploughshares out of San Francisco, large law firms there, along with Lenore Corporation, coming together and building an opportunity that would teach veterans the trades, carpentership, things of that nature, so that they could then go and expand those. That is in its very infant stage, but we have agreements and principles with all of the partners on that. We are using that on a test basis. I will go back to Mr. Elmore and ask him to start finding us some money to explore the concept of this.

These are not infrastructure points that I am asking the money for in the future, but it is that, for example, for every $2,100 we get, we can graduate a veteran that has got a 77 percent better chance of being in business 5 years later.

Madam Chair, you have been very kind with your time.

Chair SNOWE. No, thank you. It sounds like you have gotten off to a great start. Those are outstanding results.

Donald Wilson.

Mr. WILSON. Chair Snowe, Senator Kerry, we thank you very much for having the ASBDC to the roundtable and for holding the roundtable and inviting all points of view with regard to the agency's non-credit programs.

ASBDC, as you know, represents all of the 58 grantees of the SBDC program. The SBDC program is in every State, the District of Columbia, Virgin Islands, American Samoa, Guam, Puerto Rico. In 2002, we served probably 1.5 small business clients, 650,000 of those with face-to-face, one-hour training or 1-hour counseling or 2-hour training.

The latest data we have indicates that simply our long-term clients, those that received 5 hours or more of counseling in the year 2000, produced 66,000 new jobs as a result of their counseling by their own estimates, saved 34,000 new jobs, experienced sales increases at four times the rate of the average business and job creation at 10 times the rate of the average business.

That is why, Madam Chair, we somewhat were taken aback when we saw the proposals of the agency to radically restructure a program that has indeed been the most successful management and training program in the history of this country. We are concerned that the people who crafted those proposals had very little experience on the ground with SBDCs out beyond the beltway and how they interact with their partners and their host.

SBA and the SBDC program are closely linked in a partnership, but there are other partners—State governments, educational institutions, Chambers of Commerce, foundations, et cetera. The fact of the matter is that under the matching requirements—as you know, it is a one-to-one match—the SBA, the Federal Government, puts in less than the other partners. There is probably only 5 to 10 percent of our programs in which the SBA is at least a 50-50 partner. They are a minority partner in all other instances.

So that is why we are concerned that they would take these hosts who for 20 years—25 years, like the University of Southern Maine—who have invested millions in this infrastructure under that partnership arrangement, and that partnership arrangement was you will retain this grant as long as you perform adequately, and they have performed admirably, as the data I just told you. Now the Federal Government under this proposal would come back and say, "Thank you for all your investment. Thank you for your partnership. We will take our models and go elsewhere."

Now, where else are they going to go? Who are they leaving? They are leaving the great educational institutions of this country, the University of Wisconsin, the University of Pennsylvania, the University of Missouri, the University of Massachusetts, the list goes on and on, and in some instances, the key economic development agencies in the States. These people have come to the table in good faith, made these investments, and now the rug will be pulled out from under them.

But what will we have in return? Let us assume that it goes through. In the last year before they start recompeting, the host will realize they will no longer be the host. They will begin to drastically cut back their money. SBDC counselors will leave the program, realizing that their jobs will be up in a matter of months. So then you grant the dollars to a new host.

At a minimum, it will take a host 2 years to create even the most minimal productivity in a Statewide network. So now you have lost 3 years of productivity. So then you probably have 2 years of okay productivity. Then you are recompeting again. So out of a 6-year cycle, you have kissed off 4 years. That, to us, makes no sense, none whatsoever.

The other thing, we absolutely depend on the States and other partners like the universities to provide the match. As the Federal Government pulls the rug out from under them, breaks the partnership arrangement of 25 years standing, nobody will come and deal with the Federal Government in good faith because they won't feel that you have dealt in good faith. The match will not be there. Right now, we are overmatched, but who is going to invest in a program that is going to be taken away from them in just a matter of years?

The third thing is that they have proposed that State plans proposed by State governments, under the current law, no grants should be made unless they complied with the State plan. Those plans are generally written by the government, the State government. What they are saying in their third proposal is, we would like for you to be a partner, but a very silent partner. You really just give us the money, but don't have any role. Now, that would be rather insulting, I think, to most governments and most State legislatures who are putting in oftentimes a 2 to 1 match.

So we are extremely disturbed that, basically, what they have proposed is a radical restructuring of a program that has proven itself over and over and over again for a quarter of a century, modeled after the Agriculture Extension program that harnessed the knowledge, the resources of our land grant colleges, and we have done the same with our great universities, their great business schools, their great business faculty, their entrepreneurial faculty. Once it is taken away from those hosts, those resources will no longer be available to us. Thank you very much.

Chair SNOWE. I appreciate your thoughts, and I am sure we will get a response from Ms. Street.

I would like to welcome the Ranking Member who you all know, Senator Kerry, who has been a great champion and advocate for small business in his own leadership of this Committee, so I welcome you, Senator Kerry. Thank you, as well, for introducing the Independent Office of Advocacy and all the other efforts that you have made on behalf of the small business community in America.

OPENING STATEMENT OF THE HONORABLE JOHN KERRY, A UNITED STATES SENATOR FROM MASSACHUSETTS

Senator KERRY. Thank you, Madam Chairwoman. Thank you very much. Thank you for your bipartisan efforts over the last weeks which have helped us do a number of good things for small business, from confirming Harold Damelin to passing the drought assistance and the supplemental appropriations bill and so forth. I appreciate the opportunity to share a few comments. I apologize for coming in late, and I have an 11 o'clock meeting which I am now late for and have to go to in a minute.

But let me begin, if I can. I want to make a few comments, if I can, Madam Chairwoman, and so the record contains them, since we are building a record here and it is important. Also, thank you yesterday for introducing with us a bill on the independence of the Office of Advocacy.

This is an important component of the business of the Committee, and I am grateful to you for having this roundtable on the non-credit component of the reauthorization. I do want to associate myself—I listened with interest to Mr. Wilson's comments. I think he has made very, very important points, and I, in fact, had some questions I wanted to ask Ms. Street with respect to the rationale, and we might come back to that in a moment.

But let me just begin at the beginning, if I can. We have had a 3-year reauthorization process here, and we and our House counterparts regularly ensure that programs are properly structured and appropriately authorized. I think it has been a really healthy process, frankly. This Committee has an incredibly good record of

bipartisan effort. Almost nothing happens without a bipartisan effort because of the time on the floor and the scheduling issues, and just because of the nature of the beast, we tend to need to have that consensus when we do something. So I am really disturbed by the notion that we are going to consider moving to a 6-year period, and I will say a few more words about that.

Everybody understands the economy is deeply troubled. There is nobody who has any difficulty figuring that out. Anybody who analyzes the economy also knows there is an absence of confidence, that increasingly capital requirements for people are very dicey in this atmosphere. You can't call small business the engine of the economy and then, I think, disrespect it to a certain degree when you don't empower it to be able to create the jobs that we want and weather this downturn, to weather the storm.

I really regret, and I don't come here for the purpose of being critical except to the degree that I feel forced to say that some of what is being offered here in this legislative proposal just falls short of the needs of small business in the country, and I think it is problematic on a number of different levels, including the recommendation to reauthorize for 6 years at level funding. I mean, 6 years at level funding, folks. Are we nuts? You have got to be—I mean, that is a fundamental cut on an annual basis for the next 6 years in the volatility of an economy that we are sitting around saying, how can we help small business?

Now, capping funding with no adjustment for inflation would be a cut in virtually every one of SBA's programs and that will place the effectiveness of some programs and possibly the viability of others in complete jeopardy, and businesses and citizens are going to be the ones that lose.

I think a 6-year reauthorization compromises the oversight authority of the U.S. Congress, of our Committee, of our counterparts in the House, and I think it is irresponsible given the way in which we have very effectively, in a bipartisan way, tinkered, tuned, fine-tuned, sometimes changed, often revitalized various programs in the course of a 3-year period. I don't think this Committee should be denied the opportunity to do that. There is just no showing whatsoever that there has been any irresponsibility in our approach to these kinds of issues.

In the entrepreneurial development arena, I am really concerned about several proposals that will hamstring two very popular and extremely successful SBA programs, and they are the Small Business Development Center program and the Women's Business Center program. Now, I gather that the potential effects of that are already being discussed this morning, and I am glad and I hope we build a strong record in response to that.

But I hope this Committee will proceed very, very carefully with respect to mandating changes to these programs. You know, the old saying, "If it ain't broke, don't fix it," really ought to be taken to heart with respect to these.

I also, Madam Chair, have the additional concerns regarding the SBA's ability to effectively advocate on behalf of small businesses without all the tools necessary to do so. There are shortages in the staff of the Office of Advocacy and a shortage in the number of procurement center representatives compared with the growing de-

mand that is being placed on both offices. I regret to say that the Administration has failed to meet its statutory goal for Federal contracting to veterans, to women-owned businesses, and HUB Zone firms for fiscal year 2000, fiscal year 2001, and it is doubtful that they are going to reach the goal for 2002.

That means literally, in real terms, that $14.3 billion is being denied to small businesses—$14.3 billion denied because we don't work to meet those goals, and with Federal contracting growing but the portion going to small business firms continuing to shrink, it is evident that the SBA ought to have that additional staff or it ought to better use the staff it has got to make sure we are meeting those goals.

So I am very grateful to all of you for taking part in this effort today and I thank you, Madam Chairwoman, for holding this roundtable which allows this sort of input to take place from all sides.

But it just doesn't make sense to me. I mean, we have struggled here for years. I have been here 18 years now, most of them on this Committee. I have watched while we have gone through ups and downs. We all remember the cycles of 1985, the cycle of 1989–1990, 1992, and we know through the 1990s what we were able to do in terms of small business growth. It just doesn't make sense to cut these programs. It is sort of robbing Peter to pay Paul, and I am not sure what Paul is going to accomplish for us in the process.

So I really hope that we are going to keep our eye on the prize here, and that is how we enhance small business, and I just don't see a strong enough rationale for this shift in the SBDC program. I mean, how we are going to have funding—why we are going to ask people to recompete every 5 years when SBA already has the authority to revoke any non-performer today? You are going to make everybody recompete even though you could revoke a non-performer now? It seems to me SBA has all the tools it needs to guide this.

So again, I worry about the rationale for that. I can find several rationales and I don't like them. It just doesn't make sense.

The other thing is, I don't understand why a State government would want to provide matching funds to an SBDC when the governor is opposed. I mean, how that is going to happen is beyond me, particularly at a time when every State budget in the country is under fire for cutting, and any excuse in the world not to perform is going to be seized on.

So I hope we are going to be smart here and not undo things that we have worked very hard as a Committee to try to create. Madam Chair, I really appreciate your indulgence and thank you for letting me intervene, and I thank all of you for allowing me to do that. I would ask if staff can, in my absence, take part.

Chair SNOWE. Without question.

Senator KERRY. I thank you very much.

Chair SNOWE. I appreciate your comments and look forward to working with you, and you have offered some very thoughtful, provocative comments and those are some of the issues that we will be exploring in the months ahead. Thank you.

Senator KERRY. I appreciate it. Thank you, Madam Chair.

Chair SNOWE. Thank you. Thank you, Senator Kerry.

[The prepared statement of Senator Kerry follows:]

STATEMENT OF SENATOR JOHN KERRY, RANKING MEMBER

THE ROUNDTABLE ON SBA'S REAUTHORIZATION: NON-CREDIT PROGRAMS BEFORE THE SENATE COMMITTEE ON SMALL BUSINESS & ENTREPRENEURSHIP

April 9, 2003

I would like to thank Senator Snowe, Chair of this Committee and her Committee staff for working with me closely in a bipartisan way over the past several weeks to make some real gains in the Senate for small business. Together we were able to obtain Senate confirmation of Harold Damelin to be SBA's Inspector General, Senate passage of our small business drought assistance bill, S. 318, and Senate passage of an amendment to the Supplemental Appropriations bill which will make available more than $1 billion of loan guarantees to small businesses by permitting SBA to apply an appropriate accounting measure to remaining 9/11 STAR loan funds. And just yesterday, we reintroduced a bill to underscore and ensure the independence of the Office of Advocacy.

I would like to also thank Senator Snowe for calling this roundtable to address the reauthorization of the U.S. Small Business Administration's non-credit programs. These programs directly affect the ability of this nation's small businesses to survive and grow and successfully compete in the Federal procurement marketplace.

I thank the attendees for taking their time to participate in this roundtable. I am sure that with your recommendations, we can make some real improvements to the SBA. I also want to thank the representatives from U.S. Small Business Administration for their participation today: The Honorable Thomas Sullivan, Chief Counsel of the Office of Advocacy, Mr. Fred Armendariz, Associate Deputy Administrator of the Office of Government Contracting and Business Development, and Ms. Kaaren Johnson Street, Associate Deputy Administrator of the Office for Entrepreneurial Development.

As important as capital is to entrepreneurs, debt is not always the answer. SBA Administrator Hector Barreto and past SBA Administrators acknowledge this. In the SBA's FY 2004 budget request, there is reference to information from the Ewing Marion Kauffman Foundation and Dun & Bradstreet that indicates "80 percent of new businesses discontinue operation within five years because of lack of 'knowledge' of key business skills." Despite the recognized importance of such assistance, the SBA's funding request for FY 2004 and its legislative proposal to implement that request would freeze funding levels for virtually all Agency programs, without even accounting for inflation, for a six year period. That means SBA proposes to cut its programs to help small businesses start and grow despite our country's weak economy and small businesses' track record of pulling the nation out of recession.

Cuts to or inadequate funding of the SBA's entrepreneurial development programs are often attributed to vague and unfounded claims of duplication. Such claims mistake a common mission of training and counseling for duplication, ignoring the reality that small businesses vary greatly, are at different stages of development, and have different needs. Just as it would be ineffective to only have one type of loan or venture capital financing structure for the 25 million small businesses in this country, it would be ineffective to water down specialized management and training programs to impose a one-size-fits-all approach.

As the Federal entity responsible for fostering small business development, the Small Business Administration is charged with the great responsibility of enhancing opportunities for entrepreneurs and for those who want to offer products or services to the Federal government. In turn, it is the responsibility of the Congress and the Administration to ensure that the SBA has the tools and funding necessary to effectively and efficiently operate its programs that support and encourage the development of these small businesses. It is in furtherance of that responsibility that I raise a number of concerns regarding the reauthorization bill proposed by the Small Business Administration.

Reauthorization Schedule

The Administration's proposal to reauthorize the Small Business Administration for six years, in my opinion, undermines the oversight authority of the United States Congress. The business and economic cycles of this nation are too fluid and change too rapidly for Federal policy with respect to most small business assistance programs to continue, without review, for six years. Even more problematic is the fact that the proposal freezes funding for virtually all SBA programs for six years. The proposal includes no adjustment for inflation or demand, despite SBA's own numbers that show demand is up for its programs. Show me a meaningful business plan or family budget where the assumptions are the same for six years. Can anyone show me a loan application in which a small business can get approval with no change in projected business expenses for six years? The answer is no. Banks would consider that unrealistic.

The flat funding included in this reauthorization proposal amounts to a cut in virtually all of SBA's programs, placing the effectiveness of some programs, and possibly the viability of others, into serious question. When these programs are compromised, it's the nation's small businesses and local economies that lose.

Office of Advocacy
SBA's Office of Advocacy was created to be the independent voice of small business in the Federal arena. From studying the role of small business in the U.S. economy, to promoting small business exports, to advocating for the best interests of small business in a myriad of areas, to lightening the regulatory burden of small businesses through the Regulatory Flexibility Act (RFA) and the Small Business Regulatory Enforcement Fairness Act (SBREFA), the Office of Advocacy has a wide scope of authority and responsibility.

I have been working closely with my colleague and Chair of the Committee, Senator Snowe, to reintroduce the Independent Office of Advocacy Act, which former Committee Chairman Kit Bond and I introduced and this Committee unanimously endorsed last Congress. This legislation will reinforce the ability of the Office of Advocacy and the Chief Counsel for Advocacy to advocate freely on behalf of small business within the Executive Branch. The bill would give the Office its own line-item budget and strengthen the position of Chief Counsel with respect to budgetary issues, especially those related to his ability to hire additional staff as he deems necessary.

It is clear that the reduced independence and a shortage of staff at the Office of Advocacy have been of concern to various small business interests. There are currently 47 positions in the Office of Advocacy but not all are filled. Even with all 47 positions filled, the Office is likely to be inadequately staffed to effectively meet the growing demand. Past Chief Counsels have been fully staffed with 50 or more positions. These staffing needs must be addressed either by an SBA plan for prompt action or within the reauthorization legislation that this Committee will develop. The role of the Office of Advocacy is too important to be hindered by inadequate staff and funding.

Small Business Development Centers
There are significant changes proposed to the Small Business Development Centers (SBDC), which are located in every state. One SBA proposed change to the program would require competition for funding every 5 years, even for those SBDCs that are doing a superlative job. This proposal, in addition to the recommendation that SBDCs be required to create two online learning programs per year -- without increasing funding, are undue burdens to those organizations that are running effective, efficient programs. Another proposal would eliminate the requirement of the Governor's endorsement of the SBDC. Circumventing the approval of the Governor is unnecessary and could become a barrier to the future of the program. If enacted, these proposals would have a seriously deleterious effect on the ability of so-called "lead centers" within each state to obtain matching funds for the SBDC program. Many states provide more matching funds than the 50 percent required by law. If these changes were enacted, small businesses in those states would lose access to important business counseling and training.

The SBA, over the past year or more, has not fully staffed important advisory councils, such as the SBDC Advisory Board and the National Women's Business Council. Without their full complement of board members, these panels are unable to fulfill their statutory duties of assisting and advising the SBDC Network, and providing Congress with current data and insights into issues of concern to women-owned business issues.

Women Business Centers Sustainability Matching Grants
Started in 1988, the Women's Business Centers program is a vital resource for women entrepreneurs. These centers play an important role in our economy and in promoting economic independence for women. They help women take an honest look at their strengths and interests to find out whether they should strike out on their own in business. They teach women how to turn their talents into a business. They train women in the fundamentals of starting and running a successful business, and they help improve their financial literacy. The centers are located in rural, urban and suburban areas, and direct much of their training and counseling assistance toward socially and economically disadvantaged women.

Today, America's 9.1 million women-owned businesses employ 27.5 million people and contribute $3.6 trillion to the national economy. Between 1997 and 2002, women-owned businesses increased 14 percent -- twice the rate of all U.S. firms. At this time of unparalleled growth for women-owned businesses, when demand for assistance is increasing, the Administration is proposing to cut a major portion of the Women's Business Center program by eliminating the Women's Business Centers Sustainability grants. These matching grants are crucial to maintaining the existing nationwide network of effective Women's Business Centers, which has been established with Federal and local funds over the past 15 years.

Again, the Administration proposes that, after 5 years, even a very successful and well-funded Women's Business Center would no longer be eligible for Federal funds. At that point, the Federal investment and that infrastructure will be in jeopardy or lost. I agree with the members of the Association of Women's Business Centers that the SBA should focus on maintaining the existing centers and infrastructure, while at the same time addressing the need for additional centers in certain underserved parts of the country.

Agency Outreach and Co-sponsorship
I have significant concerns regarding the change proposed to the Agency's outreach and co-sponsorship authority. This proposal would allow corporate sponsorship for Agency supported programs, services and events. Current restrictions on that authority were put in place to prevent significant conflicts of interest, Agency participation in inappropriate political events, and impairment of SBA's visibility, independence and influence with respect to certain governmental activities. While existing law currently allows private sector cosponsorship of certain programs, we need to be very careful about the expansion of such gift-acceptance and co-sponsorship authority.

BusinessLINC
The Administration's reauthorization proposal eliminates the BusinessLINC program. The SBA argues that the work done by the BusinessLINC program overlaps with existing programs. This is not the case. The BusinessLINC program is unique in its approach to teaming small businesses with non-governmental organizations that can have a direct impact on their bottom-line through contracting or mentoring. While other programs focus on mentoring and training for small businesses seeking to gain contracts from Federal agencies, BusinessLINC focuses on private sector business-to-business links.

There is a great potential for BusinessLINC programs to match suppliers with distributors, which directly benefits the local economy while allowing access to vendors in the distributors' backyards.

Procurement Center Representatives
The Administration has failed to meet its goal for Federal contracting to Veterans, Women-Owned Businesses and HUBZone firms for FY 2000 and FY 2001. Through the third quarter of 2002, the Federal government was far from reaching its goals for last year. One of the greatest challenges to the Administration's ability to meet these goals is the practice of contract bundling, against which PCRs represent the best defense. They advocate on behalf of small businesses in cases directly affecting contracting. There are currently only 47 PCRs to review contracts from hundreds of agency buying divisions nationwide.

Despite the Administration's plan to use Procurement Center Representatives to limit bundling of Federal contracts, which will allow more small businesses to participate as prime contractors, the reauthorization proposal does not increase the

number of Procurement Center Representatives (PCRs) and does not provide any additional funding for them. PCRs are crucial to assisting small businesses with the Federal procurement process, but they currently cover only 11.6 percent of procurement centers and just 60 percent of government contracting dollars. This leaves nearly $90 billion in contracting that are not reviewed by PCRs. Given this lack of coverage and in order to effectively meet the growing needs of small businesses, it is essential that the number of and funding for the Procurement Center Representatives be increased to reflect the growing demand.

Procurement Reporting Requirement
The proposal consolidates and eliminates various reporting requirements on government contracting and changes the deadlines from a static date of April 30 of each year to a fluid goal of "no less than 90 days" after the release of Federal procurement data. This could be problematic because it will delay the availability of such data to Congress.

Without timely reporting by the SBA, it becomes more difficult for Congress to oversee agency procurement programs in order to increase their efficacy. Further, the Federal Procurement Data Center within the Office of Management and Budget is in the process of bringing the Federal Acquisition Management Information System (FAMIS) online. This electronic system of contract reporting is scheduled to be up and running by October of this year and will significantly reduce the delay of information from OMB to SBA. Once that system is fully implemented, there is no reason the SBA would not be able to meet the pre-existing deadline.

Again, I thank the Chair, Senator Snowe, for holding this roundtable, which allows us an opportunity to hear from those closest to these program how we can enhance Federal advocacy, contracting and entrepreneurship development through the SBA's programs. I thank all of you for taking the time to participate in this roundtable today. Your input is very valuable and will be carefully considered when the Committee drafts the SBA reauthorization bill. With your recommendations, we will be able to ensure the SBA has the necessary tools to aid, counsel, assist and protect this nation's small businesses.

Chair SNOWE. Ms. Street.

Ms. STREET. Yes. There is no question that the Small Business Development Centers are a key component of our entrepreneurial development programs and that they are performing. That is not a question that we will debate at all.

However, for the past—for 10 years, the SBDCs have operated somewhat as a quasi-monopoly that has prohibited new centers and new ideas from coming forward. We need an environment that is going to reward innovation and encourage competition and performance. Only three lead centers have changed over the past 10 years. This program has grown from $300,000 in 1980 to almost near $90 million in this current fiscal year.

As good as the SBDCs are, they are not everything to every small business out there, and each particular need that a business comes up in terms of the business marketplace requires doesn't necessarily mean that we throw more funding in there without competition and allowing other organizations to at least compete and also the SBDCs to recompete, and I don't think that is a bad idea or an upsetting of the apple cart in any form or fashion. It is American tradition to have competition to avoid monopolies.

I think that this is—if the SBDCs, and we know they are good, if they are good as they are, competition should not be anything that they fear. They should be able to compete with anyone and win. They have the leading edge on it. But to open it up—to keep it closed as it is, is not doing good for our innovation and our competitive way. I think competition adds to increasing and producing results.

So I think that that is our key and main rationale for this. There has been no change in lead centers. As Don mentions, 20 years, 25 years, I mean, these people have been entrenched and in place, and that could be a good thing. I am not saying that is a bad thing at all. All I am saying is that we at SBA feel that competition will lead to greater productivity and that is what we are trying to get at.

Chair SNOWE. Well, obviously, this is a dramatic departure—

Ms. STREET. Sure.

Chair SNOWE [continuing]. It is something we are going to have to look at very carefully——

Ms. STREET. Right.

Chair SNOWE [continuing]. Because we don't really want to undermine something that is working very well, if, in fact——

Ms. STREET. Exactly.

Chair SNOWE. I understand the thought behind it. I just wonder if it doesn't leave a lot of anxiety and uncertainty and produces unintended consequences as a result. So I think we will have to look at it very carefully——

Ms. STREET. Right.

Chair SNOWE [continuing]. Since it is a major departure from the traditional approach.

Ms. STREET. Sure. This is a dialogue, and I think that we don't want in any way, form, or fashion the process or the programs to be harmed in any form or fashion, and if we thought this was going to be the case, we probably would not have put forth this proposal.

But I agree with you that we could have more dialogue on the process.

Chair SNOWE. I appreciate it.

I regret to say that I have to depart. I have to meet with several of my colleagues right now on something that is coming up today. I just got a message. So I am sorry that I can't complete the last round on government contracting, but I really do welcome all of the thoughtful comments here today and presentations. This is just the beginning of this dialogue for the reauthorization process. But it certainly helps me. As the new Chair of this Committee, I want to have a full breadth of understanding of the issues and dimensions of these programs as well as your perspectives. You represent, obviously, a broad constituency across this country, and obviously represent the Administration and SBA. We certainly appreciate your input.

Mark Warren, who is my Staff Director, and Patty Forbes who is here on behalf of Senator Kerry, will continue with this discussion. I thank you very much for your participation here today and I am sorry that I have to leave.

GOVERNMENT CONTRACTING AND BUSINESS DEVELOPMENT PROGRAMS

Mr. WARREN. I know there were a number of people who still wanted to speak on this area, but we need to move on, if we can, to our third segment on government contracting and business development. If we have more time left over, obviously, we will come back. As Senator Snowe mentioned at the beginning, we will leave the record open for formal written statements for 2 weeks and we expect that there will be questions from Members, and the Chair and Ranking Member.

So let us turn to the government contracting and business development programs. Certainly, the Committee has heard over the last month, including at the hearing we had on contracting bundling, how critically important it is for small businesses to have an opportunity to compete for Federal contracts. The Committee has also heard how the government is not living up to its obligations and falling short on that task.

So this is one of the things that we would like to hear about from you all this morning, and in particular, because we have a number of participants with very strong views and good strong backgrounds in this area. We would like to get ideas from you on the various programs that SBA currently has, the lessons that we can learn from the past, and the improvements that can be made. Any comments that you have on the fiscal year 2004 budget submission would also be most welcome.

So who would like to open?

Steven.

Mr. DENLINGER. Thank you very much. I certainly appreciate the opportunity to be here today. For those of you who are not familiar with LAMA, LAMA is the oldest national Hispanic business organization. We are a strategic partner of the U.S. Hispanic Chamber of Commerce and my colleague, Mickey Ibarra, sits across the way.

You could think of us as a national association of Hispanic Federal contractors. That is probably the simplest way to think about

it. Needless to say, we focus on programs like the 8(a) program and so forth and I would like to make a couple of comments in relation to that very important program.

The 8(a) program is the single most important instrument in the Federal procurement arena for minority businesses to participate in the Federal marketplace. That is a program that we have monitored and supported and nursed for the past 30 years.

I would like to focus on the issue of the 8(a) net worth. The entry criteria for the 8(a) program is $250,000 net worth, and that is designed to be responsive to the need for showing of economic disadvantage. Our sense is not only has that net worth issue or criteria or floor not changed in the past 10 or 15 years, but it is artificially low to begin with in a number of respects. It does not take into consideration the differing capital needs in all of the different markets or industries that are represented across the spectrum of the 8(a) program, and I will come back to that in a second.

But what it is doing is unwittingly admitting the companies that are the weakest financially, and then we wonder why they are not bankable and why there are failures down the road. If the entry criteria is so unforgiving that we hamstring our companies coming into the program from a good capital base to begin with, then we are certainly going to pay the price later on through failures and lack of bankability and lack of access to capital for growth.

What we would like to suggest would be a system whereby for major industry sectors, the SBA or some appropriate entity do a study as to what the average net worth is in given industries and then through some formula peg what a logical and reasonable net worth criteria ought to be for each of those industries instead of having a flat $250,000 entry criteria for each and every and all folks participating in any program.

I would like to talk briefly about the 7(j) program. Basically, we see the program in support of minority enterprises, providing access to contract opportunities, providing access to capital, and providing access to technical assistance. The most troubled element with respect to that troika of support is the technical assistance. The 7(j) program is, oh boy, just lacking in definition, lacking in clear funding support historically, and it is—there are many special programs that are kind of reaching into that very limited till.

I remember a couple of years ago there were 15 or 20 different special programs that were authorized for particular institutions in particular congressional districts, for particular institutions, many of them institutions of higher learning, that basically glommed onto a very significant portion of the 7(j) funding, 7(j) funding that was designed for the SBA folks to be able to provide technical assistance across the board. So that third pillar of the support structure for minority business is really weak, needs clarity, needs definition, and needs funding.

I will weigh in on the SBDC issue very lightly in the following respect. Historically, the SBDC system was structured in a manner that wound up excluding minority and particularly Hispanic business organizations from providing services as far as that national network is concerned. That has been an ongoing concern for many years. We have had discussions on this issue. Hopefully, out of this debate can come a mechanism to ensure that Hispanic organiza-

tions that can provide services out across the country are eligible to participate in this important program, as well.

I would like to talk about advance payments. I would like to suggest that the advance payment program be resurrected. It was one of the most effective funding vehicles to support the growth and nourishment of minority enterprises just getting into the Federal contracting arena.

Basically, what it did was provided advance payments to minority businesses that had Federal contracts in the 8(a) program and they were self-liquidating in the sense that when the contractor performed under the contract, the 8(a) company submitted the bill, the Federal Government agency paid the SBA. The SBA took out a prorated portion of the advance payment and then the rest went into the minority company's bank account. So it was self-liquidating and it was managed by the SBA directly and so the potential for abuse on the part of the participating companies is absolutely minimum. That was a very, very effective vehicle and some years ago it simply went away and we would like to recommend that that be resurrected.

PCRs, let us get serious about the PCRs. We need more PCRs. They are the first line of defense with respect to combatting the issue of bundling and we just need more PCRs.

Size standards, I would like to focus a moment or two on an issue that I think is really long overdue and needs to be addressed. The size standards, particularly in certain industries, such as information technology, are totally inadequate with respect to the current marketplace. What do I mean by that?

In the information technology arena, you have large businesses that have annual sales in the area of multi-billions of dollars a year. You have middle-size businesses that have sales in the hundreds of millions of dollars a year. Yet you have an SBA criteria that says once you have achieved $23 million a year in sales over a 3-year average, you are now considered a large business. So these very, very tiny minuscule companies in the IT arena that have achieved $23 million in sales are now cast out into the open marketplace and it is just not even remotely close to a level playing field. That really needs to be addressed.

We think that there perhaps ought to be a tiered approach where companies of similar size are competing against one another in the small business arena, maybe $1 to $10 million, $10 to $25 million, $25 to $100 million. But the size standard is artificially low and is really impacting a growing cross-section of our companies, particularly in the fast-growing IT arena, and we really respectfully request that that be looked into and some adjustments be made.

Thank you very much. I appreciate the opportunity to be with you.

Mr. WARREN. Thank you. Mr. Denlinger has made a number of points, and I wanted to ask, Fred, if you want to take just a minute and respond to some of those points.

Mr. ARMENDARIZ. Absolutely. Thank you for allowing me to make mention of some of the points that Mr. Denlinger brought up today, and thank you all for being here. I see a lot of friends around this table, a lot of people I have worked with over the last almost 2 years now at SBA, and as a result of a lot of your counsel and

meetings with each and every one of you, we are moving on a lot of targets that I think are important to you.

I would like to talk about the net worth issue, and I agree with Mr. Denlinger over at LAMA that there are some issues related to the net worth. One of the problems that we face is not only the entry point, $250,000, but the fact that we don't include the value of your home and the value of your business as part of the equation, and being a former entrepreneur and a small business person for almost 20 years, I know where my net worth is. It is in those two areas. It is not in my cash reserve sitting in my personal bank account. It is in the value of my home and the value of my business.

So I think we could make some type of adjustment to this and we are studying this issue day in, day out, to find the proper balance to properly identify which companies are socially and economically disadvantaged. So I think there is definitely some work to be done there.

In regards to 7(j), I agree that for far too long, the 7(j) program has focused its revenue sources on very few organizations, and I look around this room and I know four in this room, maybe five, that received 7(j) grants this past year, and the reason that they did is because we tripled the amount of awards this past year over the previous year with the same amount of funding. The way we did that was we looked at who was going to deliver the most value and product, if you will, to the most small businesses dollar for dollar. So we are very excited and proud of the progress we have made in regards to addressing the 7(j) issue.

In regards to technical assistance, one of the things that we have done is we have looked for proposals that give guidance or assistance to the most small businesses per dollar, if you will. One of the programs we are about to launch was a result of a 7(j) grant and that is our procurement academy. This is going to be a virtual program, a multi-media program that people will be able to log onto nationwide for pennies on the dollar of what that program would cost if we were to do it face-to-face or in traditional educational forums.

PCRs, I agree. We have a need to address the PCR issue on a whole host of fronts. One of the things that I think is the most important issue regarding PCRs is that we can't do business the way we have in the past. In the Integrated Acquisition Environment Task Force, which is an intergovernmental, interagency working group, they are addressing that issue, how to utilize technology in order for the PCR to do the proper surveillance on the agencies to ensure that small business is getting their fair share.

Last but not least, size standards. I am very happy to say, and Steve probably doesn't know this, but last week, we assembled an interagency task force to work on size standards, and the reason that we are working on size standards is it is just too cumbersome for small business. It is too confusing for the procurement community. We have over 32 different size standards and we think we can whittle that down dramatically over the next couple of months once we start reviewing this process in depth.

I think I addressed most of your issues. Thank you.

Mr. WARREN. Thank you.

Mr. Turpin.

Mr. TURPIN. Thank you very much. I just wanted to bring up a number of procurement-related issues. Some come under SBA, some don't. Some are Office of Advocacy issues. But it is this common overview of the landscape of why an important part of the procurement system isn't necessarily working that well.

The government is the largest procurer of construction services in the country, and as a result, it sets the tone for the whole construction marketplace. We face an ongoing issue where if you are a part of the team that bids a project and you think you have won that project, that does not necessarily mean you get the work, because with a process called bid shopping, where the actual award of the contract is simply another step in the process of negotiating what you are actually going to do the work for, it means the cost is actually—what the contractor is actually paid is whittled down and the government does not benefit from that lower cost.

This has expanded to where the government is now looking at doing reverse auctions, and the country's infrastructure and its buildings should not be run the same way e-Bay is. We should not bid down to the lowest level on the Internet to determine how we are going to build something like a Federal courthouse.

Our second issue has to do with payment protection. If you don't get paid, the next job isn't going to mean anything because you are not going to be there. Going back to 1983 and 1988, the Congress passed the Prompt Payment Act and the amendments to that, which has functioned very well. But that does not help you if you are working on a Federal grant that you think is a Federal project because the big sign out front says, "Paid for by Federal dollars," but it is actually a Federal grant, and we would hope that the Federal payment protections would be expanded to work done under Federal grants, because what has happened is as the States' financial situations have deteriorated, how fast they pay has slowed noticeably and people think they have payment protections that they don't have.

I would like to commend the Committee for their work and the hearing they had on bundling, but just point out a couple of things. Bundling of construction alone has increased 150 percent in the last decade, and the dollar thresholds that are in the regulation, the proposed regulation that is out now, are troublesome because they are anywhere from $2 million to $7 million, depending on the agency. Well, our average member has—their revenue is $6 million. So it is not going to help them much if the contracts that are being unbundled are larger than their whole net revenue. So the bundling is becoming more of an issue in construction, and if you are unbundling such a large number that it never gets down to the people that can actually use it, it is not really helping the situation.

Then it is really unclear who enforces what is bundled and what is unbundled. That is a real problem for us. If you have got somebody who is not necessarily that involved in the Federal procurement process, they would like to get a piece of something but they can't find out how to get it unbundled so they can get part of that, who enforces the bundling and unbundling?

Related to the bid shopping, the GSA is working on placing construction on the schedule so you can buy construction services off

of the schedule like you were buying office supplies. Our contention is that construction has its own part of the Federal Acquisition Regulation for a reason and that this is a solution in search of a problem. There is not this great hue and cry by contracting officers that they want to buy construction services off the schedule. It is a system that is working and doesn't really need to be modified.

Then lastly, also a payment issue, we are at a time now that the government should be paying contractors and subcontractors directly rather than this delayed process of the government paying the contractor who then pays the subcontractor. The technology is there that the government could pay both the contractor and the subcontractor directly on the date it was due rather than delaying the process by passing paper checks along. We are beyond that, and it could expedite everybody's cash flow. Thank you.

Mr. WARREN. Just a procedural note. We are running close on time. We have been using the lights at about 3 minutes, so if everybody can try to keep your comments moving so we can get as many people out there as possible.

General Henry.

General HENRY. I come back to you from my old procurement position, and I noticed Senator Kerry's comments about competition. Let me, if I may, just put my oar in the water as the Army's Competition Advocate General a few years ago.

The one thing that I found about, competition for competition's sake doesn't do anything. My experience is on major weapons systems, and the issue is always how do we give everybody a fair chance to compete for something, what I came to find out is that if you started out with the competition in the beginning and you had clear metrics, call it a learning curve of where you want to be at a point down, it could be 10, 5, 15 years into the future, and as long as the contractor, once you initiated the contact, stayed on your learning curve, then there was no reason and there was no economies of scale to recompete. It was only when you failed to manage the process through that that you felt that you could get this perturbation into the point, whatever that may be to you.

My other point is on the 3-percent goals, the socio-economic goals that we have today, I think that it presumes that contacting officers have discretionary authority, and if you look at the Federal Acquisition Regulation, you realize that they don't have that discretionary authority. So a goal without some teeth into it, like a set-aside that would require something on the part of the contracting officer, is going to end up meaningless, and I think that is why we come around the table saying we have got the goal, but the Federal Government is not meeting it.

So if we are really serious about wanting to mandate, whatever it be, whether it is veterans' preference, whether it be the 8(a) program, whether it be small business, women business owned, whatever it is, I think we need to sort of optimize that, determine what progress that we want this Congress to mandate that into legislation, and that puts the Administration on the point to meet that goal.

Mr. WARREN. Thank you. Do you have any suggestions as to "teeth" that can be added to the law?

General HENRY. Well, if you don't meet your budget, you don't get money. That always works.

Ms. FORBES. Can I just ask a follow-on question of you and Mr. Elmore? We are interested in looking at these goals because it is a reauthorization process, and right now, there is a goal for service disabled veterans but there is nothing for regular veterans. We wondered if you could comment on that and if you have any recommendations.

General HENRY. Obviously, yes, Patty, thank you, and obviously, the legislation of Public Law 106–50 favored the service disabled veteran in the beginning, and within the veteran community, you will find that there are two areas on it. There is a feeling that those service disabled veterans have given more to this country and, therefore, they should be at the very beginning in order to receive something. I support that concept. I think that if you look at it as a bifurcated type of process, if you want to go 5 percent for service disabled veterans and 3 percent for other veterans, I think somewhere along those lines would be my thinking about how you should approach that.

Mr. ELMORE. From my perspective, I look at the entire veterans' community as a market, and I agree with General Henry, that service disabled veterans are at the forefront of that market. They are at the very point.

But I also think that if we don't engage the entirety of that veterans' small business community, it has ultimately a negative effect on our ability to help all veterans in the small business community, including service disabled veterans. So as we talk about goals and procurement, if we don't engage the other 90 percent of the veterans' business community into this arena in significant ways, we can't mobilize them to assist service disabled veterans to better success.

Ms. FORBES. Thank you very much.

Mr. WARREN. Mr. Newlan.

Mr. NEWLAN. Thank you. As the chair of the Hub Zone Contractors National Council, I will focus my comments today just on the reauthorization of the HUB Zone program and my written comments will include all other government contract programs.

The program was enacted to bring good employment opportunities and economic development to the 8,000 geographical areas of our nation designated as HUB Zones due to their high rates of unemployment or the low wages paid in these areas. As designed, the program is very sound and, at best, only requires some very, very fine tuning during reauthorization.

Just as the design of the program was and remains quite solid, the implementation of the program has been quite flawed. The program is authorized $10 million annually. During its highest year of funding, only $2 million was appropriated in the SBA budget for the HUB Zone program management and oversight. In fiscal year 2002 and fiscal year 2003, during conference, the two congressional appropriations subcommittees eliminated the program's $2 million line item. Only through the extraordinary efforts of Senator Bond was the funding for fiscal year 2002 restored.

As of today, there has been no funding restored for 2003. This eliminated funding would have paid for community outreach and

new firm certification, program management, including keeping the award-winning website current and functional, program examination audits of currently certified firms, and the adjudication of HUB Zone award protests.

Recently, the program has come under some fire for not performing an adequate number of oversight reviews to ensure the eligibility of all HUB Zone certified firms. With no appropriations to fund the program, it is impossible for the SBA to perform the necessary oversight and to protect the taxpayers from those willing to commit fraud.

With this being the case, I must urge this Committee to closely and aggressively work with the congressional appropriators and ensure that they do not eliminate our funding again for fiscal year 2004. The SBA cannot perform the task required by the statute with the resources they have.

The second area of the program's implementation that needs to improve is at the agency department level. The statute is clear. The regulations have been clear for some time. However, the executive agencies fail to follow them. The annual contracting goal started at 1 percent and has increased by .5 percent each year and is now at 3 percent. The executive agencies have failed to even come close to these statutory HUB Zone goals.

For fiscal year 2001, the government achieved 0.72 percent level of actual HUB Zone awards with a 2 percent goal. In fiscal year 2002, the goal was 2.5 percent, but the fiscal year 2002 data has not yet been released to the public, but I have no reason to believe that any actual contract award progress was made in 2002 over 2001.

We, in the HUB Zone community, are frustrated. We have a well-designed program, designed to reduce or eliminate poverty in the United States. We have a program that focuses on economically developing communities and their infrastructure by offering good jobs where they are needed most. This is no handout program. Virtually all contracts are awarded competitively.

The biggest problem facing the program today is the government's failure to overcome the inertia in implementing it. This inertia can and will be overcome when the program is adequately resourced and each agency focus on statute compliance.

Meanwhile, the HUB Zone business community is frustrated. Today, there are 7,800 HUB Zone certified firms. They range from a small helicopter transportation firm in Hawaii, to a bulletproof shelter manufacturer in Missouri, to a 150-person precision machine shop in Maine. Collectively, HUB Zone firms have annual revenues approaching $14 billion. With this size, if ranked on the Fortune 500 list, collectively, we are larger than Kodak or General Dynamics and we would be ranked 135th.

Unfortunately, only a very small percentage of our business today comes from HUB Zone contracts. We as a group are ready to begin to fulfill the promise of the American dream to 32 million Americans who today live in poverty. When the Federal agencies begin to award HUB Zone contracts per the statute, we will be able to deliver good jobs at fair wages with medical insurance and benefits. We will continue to move people off the welfare roles and give them a chance they have never had before.

To accomplish this, we simply need the current program reauthorized at $10 million. We need a like amount of appropriations. We need each agency to follow the law. It is within our grasp, and with the continued strong focus, interest, and oversight of this Committee, we know it will happen. Thank you very much.

Mr. WARREN. Thank you. You raise a good point in terms of the availability of data. Fred, I wonder if you could report back to the Committee on what steps are being taken and when we might be able to see that fiscal year 2002 procurement data.

Mr. ARMENDARIZ. Yes. The SBA gets our data from the FPDS system, Federal Procurement Data System, that generates a report over at GSA through the Office of Federal Procurement Policy, and we should probably be getting that information in the next 90 days, I would suspect, for fiscal year 2002. That system obviously has been something that is a little bit to be desired and the Integrated Acquisition Environment Task Force is addressing that issue as we speak.

Mr. WARREN. Harry.

Mr. ALFORD. Thank you. Last night, former Secretary of the Treasury Donald Regan and myself participated in a debate in Detroit. Benedictine High, which is an all-black school in inner-city Detroit represented corporate America, specifically the auto industry, and Brother Rice High, a suburban school that is virtually all white, represented minority business, and the debate was holding prime contractors, major firms who get contracts with the Federal Government, accountable for their subcontracting and their diversity. From this exercise last night, the two high schools are going to have a joint project in tracking the auto industry in Michigan and what they do with minority business. I think this is beautiful.

Another point I want to make—I am getting to something here—our Peoria chapter gets technical assistance funding from the State of Illinois for highway construction work, technical assistance. There is a minority contractor in central Illinois who is not at 100 percent capacity working on the freeways of Illinois. The project is so good that our East St. Louis chapter is going to get a similar contract from the State of Illinois for southern Illinois.

Our chapter in Wisconsin gets $500,000 a year from the State of Wisconsin to perform capacity building for small business in the State of Wisconsin.

Our Harrisburg, Pennsylvania, chapter gets $650,000 every 3 years from the Harrisburg Airport Authority to provide technical assistance and subcontracting competition for the contractors there at the airport.

The Chattanooga, Tennessee, chapter, Shari Gilchrest, Executive Director, gets $200,000 a year from the city council of Chattanooga, and she can document $90 million a year in new contracts based on their efforts. She has never, never met the District Director of the SBA in Nashville.

What I am saying is that too many of us, I think—woe to us who put all the marbles in the Federal pie. There are other ways of going about getting funding and improving the lot. The government is not going to grow. Hopefully, it is going to shrink, and I think the SBA is going about this right in trying to find the best bang for the buck.

We must have competition to improve products and service. You can't get a contract for life. You must have competition there. I think all of these things go together and I support whatever the SBA, whatever resources they have. We want to work with them and include them in the mix.

Other associations, like the National Black MBA Association, they are starting to get into technical assistance for small businesses and providing some good professional support that would rival SCORE. So I think the whole point is, there are other ways of going about doing this.

Finally, my biggest complaint that I get from our members is the size standards and net worth. It is ridiculous. It is unrealistic.

Mr. WARREN. Thank you. Where we are right now is pretty close to wrapping up our time, so what I would like to do is say who we have on the list and we will close it off with that. If everybody could help me work with the lights, we can wrap up pretty close to on time.

I have Ann Sullivan, Jere Glover, Allen Neece, Susan Au Allen, Giovanni Coratolo, Mickey Ibarra, and Ellen Golden—but I can't tell if you still want to speak?

Ms. GOLDEN. Yes.

Mr. WARREN. Okay. So if anyone else has comments beyond that, if we could work through the record and submit them in writing, that would be great.

Ann.

Ms. SULLIVAN. Well, as we have told the Committee, contracting with the Federal Government and the government contracting business is one of our members' hot buttons, and the hottest button of all is implementation of Public Law 106–554. We understand the SBA is going to devote $150,000 to study the study, 7 months. We would like to see a much shorter time table. We think it can be done much more expeditiously.

The other thing we would say to Mr. Armendariz is, thank you for what you do. Thank you for your help. We think you could use more and we would love for you to take on unbundling the paperwork. So we would love to see the 8(a) process streamlined. We would love to see your help with spearheading and trying to get the GSA scheduled paperwork under control. There is just a lot of—that is a huge barrier for our women-owned businesses.

Mr. WARREN. Thank you, Ann.

Jere.

Mr. GLOVER. Yes. As Director of the Small Business Technology Coalition, I wanted to point out a couple of areas of interest and concern, one of which is the Office of Technology staffing. That program has more than doubled to $1.4 billion. The staffing and resources in that program have been cut by well over 50 percent. That issue was raised with the Administrator during his confirmation hearing. It is not a new issue, but it hasn't gotten any better. In fact, it is getting worse.

The other issue is when we talk about bundling, there is one specific area, and I will talk with the staff more about it later, and that is the Army's new future combat systems, which is a huge program that is going to take care of the next generation of the soldier in the field, and all of that R&D has been directed to one company,

Boeing, who is making 30 awards. There is no small business subcontracting plan. There is no guarantee that small business will participate in any of these plans. We are told that once these awards are made, they will think about putting together a small business plan. But those solicitations have already closed and they are now being awarded and small business is going to be squeezed out of those. It is the next 10 years of R&D being crammed into a program that is not under the Federal Acquisition Regulations or the statute.

When we talk about bundling, it is a horrific problem and this is one of the worst examples, exactly opposite of what the President said he wanted in the way of bundling.

Mr. WARREN. Allen.

Mr. NEECE. Three things on procurement We concur. SBA has been underfunded in its PCR program and in its procurement office, we believe, for a number of years, so we would urge increased funding for the procurement office. It continues to be underfunded and graduated down over a period of time and we think that ought to be reversed.

Secondly, many of Jim Turpin's comments, they are one of SBLC's members.

Lastly, we also feel very strongly about SBA's recommendations addressing the SBDC program. I know you addressed that earlier. We just want to be on record that we strongly oppose those recommendations from the Administration. This Committee and the Congress has been a great champion of the SBDC program over the years and protected that program. We think those recommendations are unwise and could have catastrophic consequences if they are enacted and we presume that, based on what Senator Kerry said, and I understand the Chairwoman has also been a longtime champion in this program, that hopefully, this Committee will not accept any of those recommendations. Thank you.

Mr. WARREN. Thank you.

Susan.

Ms. AU ALLEN. Susan Au Allen, U.S. Pan Asian American Chamber of Commerce. I am going to say that this is just some music to my ears to hear the issue of bundling being talked about, debated so vigorously.

What I suggested 2 years ago at the Missouri Women's Business Summit, that in order to make sure that there are contracts left over for the small business community, that there should be a policy that the agencies set aside a particular portion in dollar terms of contracts that will be free of bundling, first.

Secondly, we need to direct the Office of Procurement to make sure that these unbundled opportunities are in areas where small business could perform. There is no point in unbundling contracts in areas they could not perform, and I would give you more details, but in the interest of time, I will move forward.

Thirdly, in order to enforce unbundling, there has got to be a penalty clause. Fine. But you have got to put into the penalty clause there is no transfer of the penalty from the prime contractor all the way down. Otherwise, that cost is going to share by the subcontractors who had nothing to do with the failure to unbundle. Three points. Thank you.

Mr. WARREN. Good points.

Giovanni.

Mr. CORATOLO. Three quick points. No. 1, we certainly fully support SBIR and we hope the Committee will exercise oversight to make sure that homeland security gets a viable SBIR program as quick as possible.

The U.S. Chamber of Commerce has as its member base 3,000 State and local Chambers who utilize a lot of programs throughout the United States that are offered by all the SBA. As the Ranking Member had pointed out, the State resources are shrinking. State budgets are pressed. We hear from a lot of our members that State resources for small business are also taking an unproportional hit.

As you go through the reauthorization process and the funding process for SBA programs, please recognize it is not a level playing field. A lot of people are really depending on these services out in the State and local governments because the State budgets are really incurring very much so into resources they offer for small business.

This gets me to a final point. SBDCs are used by our State and local Chambers and a lot of our memberships and a lot of our underlying members and we certainly support the current system of SBDCs and certainly the funding there. We would certainly like to see at least level funding, if not more funding, because they are truly underfunded. Thank you.

Mr. WARREN. Mickey.

Mr. IBARRA. Thank you, Mr. Warren, and also to Ms. Forbes. The U.S. Hispanic Chamber of Commerce, I am proud to say, represents over 1.2 million Hispanic-owned businesses that earn nearly $200 billion annually. It is comprised of 130 local Chambers from across the country. We are just here in Washington, D.C., to conduct the 13th Annual Legislative Conference, where our Hispanic-owned businesses really attempted to make four major points. Two of them, I would like to share with you today.

Before doing so, though, I would like to also mention and compliment the Small Business Administration. I think today, more than ever before, the SBA is viewed by the U.S. Hispanic Chamber of Commerce, as vital to the success of small business. We will work very hard, very hard, hopefully most of the time with the SBA's support, for additional resources for the important programs that they are responsible for delivering to Hispanic small business and all small business throughout the country.

Two points I would like to make. First, access to capital. The U.S. Hispanic Chamber of Commerce continues to support Federal programs that provide access to credit and venture capital. We believe, again, this is vital sustenance in order to ensure the success of small business. Also, we would ask that the 108th Congress, and we will continue to work hard to ensure that the 108th Congress meets the needs of small business, that, in fact, we provide the adequate resources through the funding process, appropriations process, to reverse what we believe are threats to the flagship programs of SBA, to include the 7(a), 504, the SBIC, as well as the micro-loan programs.

Second point, procurement. The U.S. Hispanic Chamber of Commerce certainly supports the preservation and expansion of existing

minority programs within SBA, as well as the enforcement of legislative mandates to ensure Federal departments meet their goals in awarding contracts to minority and women-owned firms. Moreover, the USHCC believes it is critical to support the elimination of contract bundling within the Federal Government.

I will just close. I mentioned our legislative conference. Clearly, the issue that is of most concern currently is the issue of contract bundling and we urge the Small Business Committee, the SBA to vigorously address this issue which is of grave concern, I think, to many small business owners around the country. Thank you.

Mr. WARREN. Absolutely. Thank you.

Ellen.

Ms. GOLDEN. Thank you. I will keep it very, very brief. I want to go back just for a second to two issues around technical assistance. One is the issue of the competition for the SBDC, and I want to say that while I can understand the desire for innovation and increased performance, like others have said, I think that there are more cost-effective and efficient ways to achieve that.

Similarly, in terms of the concerns expressed about the gaps in services in the Women's Business Center program, I think that there are other ways to achieve those ends without taking funding away from current centers. On behalf of the association, I would like to extend an offer to work with the Small Business Administration so that we can look more closely at their concerns and see if we can't find alternative solutions. While I can't really speak on behalf of my colleague from the Association of SBDCs, I assume that he, too, would extend a similar offer to the Administration.

Mr. WILSON. Absolutely.

Mr. WARREN. Thank you.

Fred.

Mr. ARMENDARIZ. Yes. I would just like to make one comment in closing today. We can use all of your help in regards to getting these small business goals accomplished. One of the things that we have embarked on at the SBA is we have been going out agency to agency, the Deputy Administrator and the Administrator and I, and working with senior-level officials at each agency, educating them as to the importance of small business.

When I was a young businessman, my dad gave me a little bit of advice and he said, "You know, if you can get two of three things in any business transaction, you have a solid deal, something that is in your favor," and that was price, quality, and speed. If you can get two of those three, you have got a fair deal.

Well, I venture to say that small business offers all three to the Federal Government. They offer the highest quality, the best prices and we can deliver overnight. When we go out and educate the secretaries and deputy secretaries of each one of these agencies, they understand, they listen, they see the leadership of the President, and when they look at their bottom line, they are trying to leverage every day to get the most out of every dollar. They seem to act. We have gone to three agencies this year, and I can tell you that all three agencies have made huge moves in regards to getting their culture, if you will, within their agency to understand the value of small business.

We started out at HUD and they self-imposed a 50 percent goal on small business. In other words, 50 cents out of every procurement dollar is earmarked for small business, and that is self-imposed, once again, because of the leadership of Deputy Secretary Alphonso Jackson.

We then went to Labor and talked to Labor, and Ken Finley put in place an MOU with the SBA that puts us at the front end of the design of procurement opportunities so we can make sure that small business is within the design of the procurement, not on the back end as an afterthought.

Most recently, we went to Energy, which, as we all know, has been a struggle for all of us, and Energy's deputy secretary put into their performance measurement plan a small business provision.

Now, all of these three landmark moves came as a result of the education of the senior-level management at each one of these agencies, and I want to enroll each and every one of you to help us with this cause because I do believe that leadership is the silver bullet, if you will, for all of us to achieve the goals that we have in mind for our constituents. Thank you.

Mr. WARREN. Thank you, Fred. We are pleased to be joined by Senator Enzi.

OPENING STATEMENT OF THE HONORABLE MICHAEL B. ENZI, A UNITED STATES SENATOR FROM WYOMING

Senator ENZI. Thank you. It is good to be here today and I appreciate all the efforts and comments of everybody that has contributed today. I have had a staff person here recording those things so that I can get a briefing later this afternoon. I have been in Foreign Relations, where we are doing the reauthorization that involves some of the things dealing with the war right now, so I apologize for not having been here.

The Small Business Committee is my favorite Committee. It has a bigger effect on Wyoming than any other Committee that I serve on, and I suspect that it has that kind of an effect in almost every State. Small business is the backbone of this country. We have had the mega-mergers where the big corporations have come together, and shortly after they do, then they have what they call a right-sizing or a down-sizing. I call it laying off people.

[Laughter.]

Senator ENZI. But following that, until we had the downturn, all of those people were being absorbed and they were being absorbed by small business. Thank goodness small business has continued to grow and improve throughout all the times of this country. That is where the real innovation comes from, and, of course, the reason we had big business is because some of those little businesses grew up, and that is what we want to have with all of the businesses in the United States.

My office has been in the process of moving this week and it gives us a chance to clean out some of the nooks and crannies and that is what this reauthorization of small business does. It gives us a chance to clean out some of the nooks and crannies and places that are less used and refocus those resources into areas that are more used and to streamline some of the ones that are used on a daily basis. So I do appreciate your efforts on that.

I am pleased that the reauthorization includes an extension of the Technical Rural Outreach Program. I helped get that program rolling in 1997 and it has provided valuable technical assistance to Wyoming's small businesses. Unfortunately, we have had some difficulty getting appropriators to fund the program at the level that we authorized, but that is a topic for another day.

I am interested in the comments that you have made on suggested amendments to the Small Business Development Centers. They have the potential to alter how SBDCs function. I want to assure that any alteration that we make is a good one. We do have the University of Wyoming, it is our only 4-year institution, public or private in Wyoming, and they had taken the lead on SBDCs. They developed strong working ties with the local communities, and so any changes that the Committee considers, I hope will strengthen rather than weaken those ties.

The Small Business Development Centers and several other organizations, both with the Federal Government and in Wyoming, have worked with me for each of the last 2 years to hold a procurement conference in Wyoming. It has been an opportunity for the small businesses in our State to get together with representatives from Federal agencies, particularly the SBA liaison with the agencies, to help come up with ways that they can get contracts with the Federal Government. It has been an extremely valuable conference. We have had actual contracts come out of it. Each year, we have always had at least twice as many people as we expected show up for it, so it is something that is needed and something that I hope will expand into other States.

Of course, we are interested in government contracting. We are interested in business development. I want to place some special emphasis on the Small Business Innovation Research and, again, with the hope that that will be funded more fully. We have some great success stories that have come out of Wyoming, of inventions that have worked their way through that process and are now being marketed independently worldwide. Small businesses give people a lot more flexibility in where they can live and in what they can earn. I think that is the future for our young people in this country, to be able to start a small business and grow it into one of the mega-businesses that I complained about earlier.

So I thank you for all of your efforts and look forward to working on the reauthorization, and I thank you all.

Mr. WARREN. Thank you, Senator Enzi.

[Laughter.]

Mr. WARREN. On behalf of Senator Snowe, let me thank you all for coming today. Your input has been absolutely invaluable. We look forward, and she asked me to tell you how much she looks forward to working with you, with the SBA, with the Members of this Committee, including Senator Kerry and the other side of the aisle, in order to craft a good, balanced, 3-year reauthorization as we move forward into the next cycle for SBA.

As Senator Snowe said at the beginning, the record will be open for the next 2 weeks, so if you have additional comments or written statements, if you have brought them and would give them to our hearings clerk, Lindsey, we will insert them into the record.

The Senators may also have additional questions, which we will send out, and we would ask you to try to have responses back as quickly as you can. Given the mail around here, if you can e-mail them in, we might actually get them faster and they won't be crispy.

[Laughter.]

Mr. WARREN. So with that, thank you, and we are adjourned.

[Whereupon, at 12:12 p.m., the Committee was adjourned.]

PREPARED TESTIMONY

STATEMENT OF SENATOR LANDRIEU FOR THE SMALL BUSINESS COMMITTEE ROUNDTABLE ON THE REAUTHORIZATION OF THE SMALL BUSINESS ADMINISTRATION'S NON-CREDIT PROGRAMS
April 9, 2003

Madam Chairman, small businesses are the backbone of Louisiana's economy. We have over 95,000 small businesses in my state, employing some 850,000 people – more than half the state's workforce. This total does not even include the self-employed people in the state. The Small Business Administration's non-credit programs that we are discussing today have been indispensable to getting new businesses started in my state and for supporting those small businesses as they mature and grow.

I want to thank you, Madam Chairman, for holding this Roundtable on the reauthorization of the Small Business Administration's non-credit programs. I think the Roundtable format is a great way for getting all of the small business leaders together to talk about the SBA and the issues the Committee should address in the agency's reauthorization. The Committee will benefit from the give and take between of all of the participants and I look forward to studying the discussion and the issues that our guests will bring to the attention of the Committee.

While I like the Roundtable format as a substitute for traditional hearings at this stage of the process, I believe the Committee needs to hear directly from SBA Administrator Hector Barreto about the Administration's reauthorization proposal before we mark-up the legislation. The Administration has proposed some important changes to the SBA's non-credit programs that could have an adverse effect on small businesses.

For example, I am concerned that the six-year authorization period in the proposal will drastically limit congressional oversight of the SBA. The Administration also seeks to hold the SBA to level funding for the six years with no adjustment for inflation. To me that's unrealistic; as our economy grows and more small businesses get started, the SBA will face increased demand for its programs without the capacity to help those businesses. I am also concerned with why the Administration wants to eliminate the Women's Business Sustainability Grants Program.

One of my biggest concerns has to do with the proposed changes to the Small Business Development Centers Program (SBDC). The Administration would eliminate the requirement that these Centers be located at colleges, universities, or other institutions of higher learning, and would also require these Centers to re-compete for their funding every five years. I can certainly understand the benefits of open competition in the government funding process for activities and services that can be readily performed by a new entity with relative ease. But the SBDC Program, particularly in Louisiana, does not fit that model.

There are 14 SBDCs in Louisiana at institutions of higher learning across the state. These are educational programs that should are suitably housed at universities or colleges. The Centers have a proven record of success. In just the past 2 ½ years, Louisiana's SBDCs have helped

create more than 3,500 new jobs and have helped the state's small businesses retain 500 jobs. They have also have made it possible for small businesses to secure $30 million in equity financing and $21 million in debt financing.

The SBDCs have this record of success because the Federal government, the State government, and the universities housing the Centers have made a sustained investment in this economic infrastructure going back 20 years. Right now the Louisiana state legislature is considering increasing State funding for the SBDCs by $300,000 in next year's budget. They may hesitate to make this investment if there is a possibility that some Centers would be closed down in five years as a result of re-competition.

Furthermore, starting up a new Center and getting it performing at a comparable level to an existing Center will take time, possibly two or three years. A new Center would spend half the grant cycle getting up to speed only to have to turn around and re-compete again. That is a step backward from the sustained success we currently have.

So Madam Chairman, I do have serious concerns about the Administration's proposal. This and future Roundtables will be an invaluable tool for us as we consider the reauthorization of the Small Business Administration, but we should have a formal hearing with Administrator Barreto before we go to a mark-up.

I thank the Chair.

Statement of Fred C. Armendariz
Associate Deputy Administrator
Office of Government Contracting and Business Development
SBA Reauthorization Roundtable, April 9, 2003
Non-Credit Programs

Thank you for the opportunity to discuss the Office of Government Contracting and Business Development's (GC/BD) Programs. SBA is committed to maximizing opportunities for all of the Nation's small businesses and the millions of people they employ. The re-authorization of GC/BD Programs set forth in the Small Business Act would help to ensure that small businesses receive their fair share of Federal prime and subcontracting opportunities.

GC/BD is responsible for several non-credit programs that should be considered during the re-authorization process. These programs include the Small Business Innovation and Research (SBIR) Rural Outreach Program, the SBIR Federal and State Technology (FAST) Partnership Program, the 7(j) Technical Assistance Program, the HUBZone Program, and the Procurement Marketing and Access Network (PRO-Net).

GC/BD's main objectives are (1) to increase prime and subcontracting by securing top level commitment from the agencies to achieve their goals, promote procurement opportunities through Nationwide Matchmaking Events, and improve customer service; (2) modernize the 8(a) Business Development Program through a program restructuring, the development of an automated on-line 8(a) application, and the implementation of a Procurement Academy; (3) facilitate community economic development and job creation through the HUBZone Program, and (4) facilitate commercialization of Federal research and development performed by small businesses.

Government Contracting Programs

The prime and subcontracting programs benefits small businesses by assisting them to obtain procurement opportunities. Federal agencies spend about $50 billion in prime contract awards to small businesses. Each $133,500 dollars spent supports one small business job. Thus, small business procurement supports approximately 375,000 U.S. jobs.

Through the Government Contracting (GC) prime and subcontracting programs, SBA provides policy direction and guidance to Federal agencies and works with them to develop acquisition strategies that will help to increase opportunities for small businesses in Federal procurement. The GC Headquarters staff provides policy direction, establishes size standards, provides policy oversight for the SBIR/ STTR Programs and the FAST and Rural Outreach Grant Programs, and manages the six GC Area Offices. The GC Headquarters staff also negotiates prime contracting and subcontracting goals with Federal agencies, monitors progress and submits reports to the President and Congress. Additional GC functions include implementing the women-owned small business procurement program; managing the Natural Resources Sales Assistance Program; performing formal size determinations on firms in connection with Federal government prime contracts; and administering the Certificate of Competency (COC) Program that allows an

apparent successful small business to demonstrate that it has the capability to perform on a specific Federal prime government contract.

The Area Offices deliver the prime and subcontracting programs through Procurement Center Representatives (PCRs) which are located at major Federal buying activities with the responsibility for reviewing all unrestricted and bundled procurements and assisting small businesses to participate in Federal procurements as both prime contractors and subcontractors. The Commercial Market Representatives (CMRs), also located in the Area Offices, implement the Subcontracting Assistance Program by conducting compliance reviews of large business prime contractors and various other activities, such as counseling small businesses and matchmaking. CMRs monitor the large prime contractors to ensure that they are meeting the goals in their subcontracting plans, and they make recommendations to the prime contractors on how to strengthen their small business programs.

Through our prime and subcontracting program, we will leverage our PCR and CMR resources by working with the OSDBU Directors to identify unnecessary contract bundling and develop acquisition strategies that will provide maximum opportunities for small businesses. We will use technology to help provide broader coverage of our resources.

SBIR Rural Outreach

The SBIR Rural Outreach Program is a matching cooperative agreement program that provides funding to eligible rural states to establish or expand outreach programs to technology-based businesses that may participate in the SBIR and STTR programs. Eligible states have an opportunity to use these funds to provide small businesses with SBIR/STTR technology assistance, business development and commercialization assistance that will enhance their technological competitiveness in the marketplace.

Participating agencies in the SBIR/STTR programs have reported a significant number of proposals received from small firms for their recent solicitations which, in our view, is attributable to the outreach and training activities provided by the states that receive these grants. The program also provides the Federal SBIR/STTR Program Managers with valuable state contacts to facilitate program outreach to low and moderate income, rural and HUBZone areas. There were 10 cooperative agreements awarded in FY 2002 totaling $450,000.

SBIR Federal State and Technology Partnership (FAST) Program

The FAST Program is a matching grant program that provides funding to eligible states and territories to encourage and develop high technology small businesses that may have an interest or are currently involved in the SBIR program. The program was authorized by Congress because of growing concerns regarding the geographic distribution of SBIR awards, in particular, the relatively low level participation of states in the South, Midwest and Rocky Mountain regions. There were 27 FAST cooperative agreements awarded in FY 2002 totaling $2.7 million.

The Program provides 55 states and territories an opportunity to receive Federal grant/cooperative agreement funding to expand their state's technology infrastructure to assist small high tech firms with proposal development, business development and commercialization.

Without funding in FY 2003 for the FAST and Rural Outreach Programs, SBA will have to leverage its existing resources to continue to support the states in their efforts to provide outreach and technical assistance to small businesses. We are working the existing recipients to use their existing funds to maximize their assistance efforts.

8(a) Business Development Program

The 8(a) Business Development Program assists firms owned and controlled by socially and economically disadvantaged individuals. SBA helps eligible small businesses in a structured developmental process over a 9-year program participation term. SBA provides access to business development opportunities authorized under section 8(a) of the Small Business Act including access to sole source and limited competition Federal contract opportunities. SBA works with Federal agencies to develop contract opportunities for program participants and assist firms with partnering, teaming, and joint venture arrangements in support of their business development plans.

Since the inception of the Program in 1968, there have been more than 542,000 contracting actions worth about $88 billion. The 7,585 current 8(a) firms provided employment for an estimated 171,524 people during FY 2002, an average of 23 employees per company compared to the 23.7 million small businesses which employed an average of 2 people per firm. While 71 percent of new businesses fail within 8 years, 42 percent of 8(a) firms are still independently operational 10 years after they enter the program.

7(j) Technical Assistance Program

Section 7(j) (l) of the Small Business Act authorizes SBA to enter into grants, cooperative agreements or contracts with public and private organizations to pay all or part of the cost of technical or management assistance for individuals or concerns eligible for assistance under Sections 7(a)(11), 7(j)(10) or 8(a) of the Small Business Act. Qualified service providers deliver management and technical (business development) assistance to eligible clients.

The 7(j) Program is an important component of the "Business Development" portion of the 8(a) Business Development Program. Program recipients network amongst themselves to form strategic alliances and partnerships that would otherwise not have occurred.

SBA has had to leverage our resources to provide assistance to as many of the approximately 7,585 firms in the 8(a) Program. Through our Nation-wide matchmaking events, we encourage agencies and prime contractors to use 8(a) firms. We are also developing a Procurement Academy that will provide on-line training to 7(j) eligible participants.

HUBZone Program

The HUBZone Program promotes job growth and economic development in Historically Underutilized Business Zones (HUBZones) through contract assistance to firms that locate in and hire residents from these areas. HUBZones are distressed urban and rural areas characterized by chronic high unemployment and/or low household income, or are designated as Indian Lands. SBA certifies firms as qualified HUBZone small business concerns if they are small, 100% owned and controlled by United States citizens, have their principal offices in HUBZones, and hire at least 35% of their employees from HUBZones. Through award of such contracts, funds flow to distressed communities to promote job growth, capital formation, and economic development. In addition to determining initial and continuing eligibility of firms, SBA issues program regulations, publishes a list of certified firms, adjudicates status protests, conducts program examinations to verify program eligibility, and engages in program marketing and outreach to small businesses and Federal agencies.

The Headquarters HUBZone Program Office has nine permanent staff and is responsible for management and oversight of the Program. There are approximately 70 District Office HUBZone Liaisons who conduct local program marketing and outreach to Federal agencies and small business communities and perform program examinations.

The Program has been 'virtual' since its inception by using an Internet-based application process that has a highly automated decision support feature for determining eligibility. The Program Office uses a customer friendly website for small business concerns and contracting officers which includes state of the art geo-coding technology which allows the public to identify HUBZones, a simple web-based electronic application, and links to CCR/PRO-Net and FedBizOpps.

The Program Office has outsourced professional services to the maximum extent practicable, allowing it to certify more than 2,000 firms annually, with no more than four full time equivalent staff assigned to determination of eligibility.

Although agencies have not achieved the HUBZone goals, each dollar spent on the Program yields a return of $288 dollars in contract awards. Based on FY 2001 data from the Federal Procurement Data System, the Program helped to support 12,782 U.S. jobs, of which approximately 8,974 were located in distressed areas.

Procurement Marketing and Access Network (PRO-Net)

The Procurement Marketing and Access Network (PRO-Net) is an internet database of small firms seeking to do business with Federal, state, and local governments, and government prime contractors. It is a marketing vehicle for small businesses and a market research tool for the acquisition community.

PRO-Net has profiles on approximately 160,000 small businesses. The system serves as the authoritative source of information on firms certified by SBA as 8(a) Program participants, qualified HUBZone small business concerns, and small disadvantaged businesses.

On December 17, 2003, PRO-Net was integrated with the Department of Defense's Central Contractor Registry (CCR), as part of the President's Electronic Government Initiative for an Integrated Acquisition Environment (IAE). In brief, for each registrant in CCR/PRO-Net, common data elements are collected in the CCR database, and are transmitted to the PRO-Net database. Data elements unique to SBA are captured at a PRO-Net 'supplemental page' residing at SBA. Therefore, the integration eliminated redundant data entry for small businesses.

The use of PRO-Net is mandated in Federal Acquisition Regulation (FAR) for identification of eligible firms under procurement preference programs. Each week, Internet users visit PRO-Net approximately 21,321 times. The PRO-Net database is managed collaboratively by GC/BD and SBA's Chief Information Officer.

GCBD Initiatives

In closing, GCBD continues to use the best practices of the marketplace to improve and modernize our programs. Some of our current initiatives include:

- Launching a Nationwide Matchmaking event that will match the capabilities of small businesses with the needs of Federal agencies, state and local agencies, and Federal prime contractors
- Implementing the President's Strategy to avoid unnecessary contract bundling
- Automating the 8(a) application to streamline and simplify the process
- Simplifying the size standards to make them more useful to small businesses and agencies
- Automate and centralize the 8(a) annual review process to achieve consistency and efficiency.
- Developing a Procurement Academy to provide training on Marketing and Federal Procurement to 7(j) eligible companies

When fully implemented, these initiatives should help to create an environment where small businesses will have better access to Federal procurement opportunities.

BusinessLINC
The Administration's reauthorization proposal eliminates the BusinessLINC program. The SBA argues that the work done by the BusinessLINC program overlaps with existing programs. This is not the case. The BusinessLINC program is unique in its approach to teaming small businesses with non-governmental organizations that can have a direct impact on their bottom-line through contracting or mentoring. While other programs focus on mentoring and training for small businesses seeking to gain contracts from Federal agencies, BusinessLINC focuses on private sector business-to-business links.

There is a great potential for BusinessLINC programs to match suppliers with distributors, which directly benefits the local economy while allowing access to vendors in the distributors' backyards.

Procurement Center Representatives
The Administration has failed to meet its goal for Federal contracting to Veterans, Women-Owned Businesses and HUBZone firms for FY 2000 and FY 2001. Through the third quarter of 2002, the Federal government was far from reaching its goals for last year. One of the greatest challenges to the Administration's ability to meet these goals is the practice of contract bundling, against which PCRs represent the best defense. They advocate on behalf of small businesses in cases directly affecting contracting. There are currently only 47 PCRs to review contracts from hundreds of agency buying divisions nationwide.

Despite the Administration's plan to use Procurement Center Representatives to limit bundling of Federal contracts, which will allow more small businesses to participate as prime contractors, the reauthorization proposal does not increase the number of Procurement Center Representatives (PCRs) and does not provide any additional funding for them. PCRs are crucial to assisting small businesses with the Federal procurement process, but they currently cover only 11.6 percent of procurement centers and just 60 percent of government contracting dollars. This leaves nearly $90 billion in contracting that are not reviewed by PCRs. Given this lack of coverage and in order to effectively meet the growing needs of small businesses, it is essential that the number of and funding for the Procurement Center Representatives be increased to reflect the growing demand.

Procurement Reporting Requirement
The proposal consolidates and eliminates various reporting requirements on government contracting and changes the deadlines from a static date of April 30 of each year to a fluid goal of "no less than 90 days" after the release of Federal procurement data. This could be problematic because it will delay the availability of such data to Congress.

Without timely reporting by the SBA, it becomes more difficult for Congress to oversee agency procurement programs in order to increase their efficacy. Further, the Federal Procurement Data Center within the Office of Management and Budget is in the process of bringing the Federal Acquisition Management Information System (FAMIS) online. This electronic system of contract reporting is scheduled to be up and running by October of this year and will significantly reduce the delay of information from OMB to SBA.

Once that system is fully implemented, there is no reason the SBA would not be able to meet the pre-existing deadline.

Again, I thank the Chair, Senator Snowe, for holding this roundtable, which allows us an opportunity to hear from those closest to these program how we can enhance Federal advocacy, contracting and entrepreneurship development through the SBA's programs. I thank all of you for taking the time to participate in this roundtable today. Your input is very valuable and will be carefully considered when the Committee drafts the SBA reauthorization bill. With your recommendations, we will be able to ensure the SBA has the necessary tools to aid, counsel, assist and protect this nation's small businesses.

Statement of National Small Business United

Senate Committee on Small Business and Entrepreneurship

Roundtable on SBA Re-Authorization: Non-Credit Programs

April 9, 2003

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Senate Committee on Small Business and Entrepreneurship: SBA Re-Authorization

Ask any small business owner what his/her biggest concern is, and they'll tell you capital. Whether it is due to more stringent loan requirements, a slow economy or any other of the plethora of burdens on small businesses, their primary concern is the bottom line. As the nation's oldest nonpartisan small business association, National Small Business United represents 65,000 small businesses across the 50 states. We have long been a proponent of the Small Business Administration and the programs they administer, and appreciate this opportunity to participate in the SBA Re-Authorization process at such a beginning level. We thank Chairwoman Snowe for hosting this roundtable dedicated to SBA's Non-Credit programs and look forward to working with the committee on future roundtables.

Advocacy

The SBA provides many valuable services. One of the most influential, across the board, is the SBA Office of Advocacy. As we've discussed time and again, the Office of Advocacy is the only office in the Federal government solely dedicated to all small businesses. Small businesses make up 99 percent of all employers, employ 51 percent of all private-sector workers, represent 96 percent of all exporters of goods, and create approximately ¾ of all net new jobs. Small business wealth has grown from $3.4 billion in 1990 to $8.3 trillion in 2000. There should be no question in anyone's mind the impact small businesses have on our world economy, our nation's GDP, our communities and our families.

As the federal government's primary "watch-dog" for small businesses, it is imperative that the Office be given the latitude to operate as needed. Charged with analyzing the role of small businesses in the economy, pursuing policies that support small business growth, and ensuring that small firms are heard by the federal government, the Office of Advocacy's responsibilities are far reaching. A primary responsibility of the Office is to monitor agency compliance with the Regulatory Flexibility Act (RFA), which requires federal agencies to consider the impacts of regulation on small businesses. The Small Business Administration reports that the average per-employee cost of all federal regulation for companies with fewer than 20 employees is approximately $6,975. That per-employee cost is $ 2,512 more than what firms with 500+

employees pay. In 2002, the efforts of the Office of Advocacy resulted in regulatory cost savings of $21 billion, an additional $900 out of pocket expense for small businesses, had the Office not intervened.

Currently within the SBA Budget, there is no mention of the Office of Advocacy. That translates to an Office of Advocacy that is at the mercy of the SBA Administrator. Though the recent past has seen a remarkable cooperative relationship between the SBA Administrator and the Chief Counsel for Advocacy, it has not always been that way, nor can we assume will continue to always be that way. Relationships aside, the Chief Counsel must go to the Administrator on a yearly basis, hat-in-hand to ask for money. He who holds the purse strings, as the saying goes, holds the power; this budget haze has the potential to limit the Office of Advocacy's true and honest push for small business, and fiscally punish the Office should an Administrator disagree with the Chief Counsel. In order to be truly independent, the Office of Advocacy must have a level of budgetary autonomy.

Though there have been many solutions offered up to increase the Office's independence, National Small Business United believes the management of the office as currently structured lends itself to quick action, efficient and effective monitoring of regulatory proposals, and flexibility to adjust to changing needs of the small business community. We believe the best, most educated people in the field to talk on the abilities of the Office are those who are in the thick of it. Past Chief Counsel, Jere Glover and current Chief Counsel, Tom Sullivan both support an independent line-item budget for the Office. As Mr. Sullivan states, "..the two bedrock principles that underlie the Office's... ability to represent small businesses effectively are independence and flexibility."

At the start of the Office of Advocacy (enacted in 1976 officially), there were an estimated 85 employees on staff. That number was stable until the early 1990's when the number of "authorized" employee slots began decreasing to almost 50 percent today of what the Office started with. Currently, the Chief Counsel is only authorized to fill 47 slots – that authorization is based on budget constraints. Further, when the US economy is tightening it's belt, the SBA's budget is subsequently trimmed, and we watched as Administrators drastically cut the

Office's budget. In addition to reducing budgets, the SBA Administrator has the ability to enact hiring and spending freezes, thus impacting the Office without any consideration of their progress. The continual degradation of this office could have substantial negative effects on business owners across the country.

In a small business roundtable hosted by this very committee under the leadership of Chairwoman Snowe in early February, many of the same faces as are here today called for a more independent Office of Advocacy. After the hard work of both the Senate and House committee in previous sessions, NSBU is hopeful that we will accomplish what has been set out for us time and again. The Office of Advocacy needs a line-item budget.

Entrepreneurial Development Programs

Without stating the painfully obvious, we all know our economy is hurting. Recent figures released from the Department of Labor's Bureau of Labor Statistics reported that 108,000 jobs were eliminated in the month of March alone. NSBU contends, as the rest of the country does, that small business growth is the light at the end of the tunnel. In a speech given to the U.S. Chamber of Commerce earlier this year, Vice President Dick Cheney stated that "... the government does not create wealth and it does not create jobs; but government policies can and should create the environment in which firms and entrepreneurs will take risk, innovate, invest and hire more people." We couldn't have said it any better.

We believe the SBDC program is the most cost effective local and state economic development program funded by the federal government. Through partnerships between the SBA, state and local governments, and community colleges, SBDCs have incredible outreach to their communities. That outreach is crucial in getting the economy back on track – though we applaud various Agencies' efforts to outreach to small businesses, the SBDCs outreach to their neighbors. That one-on-one, personal touch does create the environment in which small businesses risk, innovate and hire more people. SBDCs are unique in their client-driven staff and strict confidentiality which fosters a close working relationship between the business community and the SBDC.

The SBA has proposed that host institutions re-compete for SBDC grants every five years. Though the idea of competition to increase performance and accountability is a sound one, this could possibly serve as a disincentive to partnering institutions. We doubt that few people would be willing to invest a substantial amount of money in a program with the full knowledge that the program might only be available to them for five years. NSBU urges caution and a sound understanding of the ramifications in making any kind of broad re-compete mandate.

With lofty goals of the Administration, and the likely passage of National Small Business Regulatory Assistance Act of 2003 (H.R. 205), SBDC's will have a greater responsibility. SBDCs assist small companies in complying with diverse and burdensome federal regulations, aid small firms in taking advantage of trade and procurement opportunities, and teach independent businesses how to become e-commerce proficient. NSBU supports a fairly funded SBDC program, and fully staffed advisory board to ensure not only a strong program, but strong businesses as a result of the program.

Federal Contracting

Under the Small Business Act, government agencies have a goal of contracting 23 percent of their business with small entities. National Small Business United has long been a champion of increasing government contracts with small businesses. Each year approximately $200 billion in government contracts are awarded to prime contractors and subcontractors; in 2002 only 19.3 percent actually went to small businesses, a 3.5 percent decrease from the previous year.

Not only has the share of federal procurement contract dollars failed to reach the goals set by the White House Conference on Small Business, the total amount of Federal procurement dollars going to small firms has remained stagnant, even decreasing at some agencies. Though the Department of Defense (DOD) clearly hands out the largest percentage of small business contract awards, there has been a marked decline in both contracts awarded to small firms, and contract dollar awards. By far the worst record of small business contract awards is with the Department of Energy (DOE), which happens to be the 2nd largest contractor in dollars. The DOE only awarded 5 percent of contracts to small business owners in 2002 as of third quarter

figures.

The SBA has also proposed one change that NSBU is somewhat cautious of. Section 301 proposes extending the deadline for Federal agencies to report their contracting levels. Currently, that law mandates agencies to report to the SBA no later than April 30th. The proposed change would make the reporting deadline 90 days after the final fiscal year data has been collected. NSBU supports allowing some leeway in helping agencies accurately report, yet we are hesitant with this unclear language.

Further exacerbating the capital issue for small businesses, is the increase in contract bundling. Small businesses had the support of the White House in October 2002 when the Office of Management and Budget (OMB) released an outline on how to eliminate unnecessary contract bundling. The initial introduction of HR 1324 to end contract bundling was a step in the right direction, yet the measure has been bogged down in committee. In a recent GAO report, it was estimated that for every 100 bundled contracts, there are 106 individual contracts that are unavailable to small businesses. Furthermore, for every $100 awarded on a bundled contract, there is a $33 decrease to small businesses. The Federal Procurement Data Center estimates that the number of small businesses winning contracts over the last 10 years has decreased by 50 percent. It is clear that this kind of contracting abuse is counter-productive to the goals of this administration and this committee.

In March 2002, the President announced his Small Business Plan, which included an initiative to avoiding unnecessary contract bundling and ensure that contracts are open to all businesses. The president again stated the urgency to curb unnecessary contract bundling in October 2002 through a nine-point strategy which would focus on increased accountability and more focus on the Offices of Small and Disadvantaged Business Utilization (OSDBUs). In a hearing held by this committee earlier in the year on contract bundling, the General Accounting Office (GAO) focussed heavily on SBA's need to strategically plan for staff to ensure proper overview of contracting practices. The GAO also placed importance on the procurement staff's ability to prioritize this role and prevent the frequent addition of responsibilities to those staff. NSBU encourages more proactive OSDBUs and more accurate reporting to ensure the

success of small business procurement and prevent discrimination through contract bundling.

Conclusion

Though it is easy for one to think only of the SBA in terms of 7(a) or 504 loans, we must think even beyond that. For example, in the year 2002, the Office of Advocacy saved every small business owner in America an additional $900 each through their regulatory policing. The Denver SBDC last year alone helped small businesses gain over $3 million in loans and assisted 132 small businesses in winning government contracts. This very committee has been on the forefront of demanding equal treatment of small businesses in all aspects.

NSBU would like to reiterate our strong belief in the overall benefits of an independent Office of Advocacy. We also applaud this committee, and Chairwoman Snowe on her dedication to putting an end to contract bundling and holding Federal agencies more accountable for their small business procurement practices. We look forward to working with this committee as the SBA Reauthorization process continues and are hopeful in getting legislation passed to create a line-item budget for the Office of Advocacy.

STATEMENT
OF
ELLEN GOLDEN

SENIOR PROGRAM OFFICER,
COASTAL ENTERPRISES, INC.
AND
PRESIDENT,
THE ASSOCIATION OF WOMEN'S BUSINESS CENTERS

APRIL 9, 2003

SENATE COMMITTEE ON SMALL BUSINESS AND ENTREPRENEURSHIP
ROUNDTABLE ON THE SBA REAUTHORIZATION:
NON-CREDIT PROGRAMS

Introduction

Thank you for inviting me to participate in this Roundtable on the SBA Reauthorization: Non-Credit Programs. I am Ellen Golden, Senior Program Officer, Microenterprise and Women's Business Development at Coastal Enterprises, Inc. (CEI) in Wiscasset, Maine and President of the Association of Women's Business Centers.

Background: Association of Women's Business Centers

The Association of Women's Business Centers (AWBC) is a national not-for-profit organization representing women business owners and women's business centers. The AWBC was founded in 1998 to support entrepreneurial development among women as a way to achieve self-sufficiency, to create wealth and to expand participation in community economic development through educational, training, technical assistance, mentoring, development and financing opportunities. The vision of AWBC is a world where economic justice, wealth and well-being are realized through the collective leadership and power of successful entrepreneurial women. As an organizing force of women's business centers and women business owners, the mission of the AWBC is to develop and strengthen a global network of women's business centers to advance the growth and success of women business owners. The AWBC builds the capacity of women's business centers, develops public and private resources to support member centers and the women business owners that they serve, advocates on behalf of women's business centers and women business owners and otherwise promotes women's business development nationally and internationally. Recommendations from the AWBC regarding the Women's Business Center Program are attached to this statement.

Background: Coastal Enterprises, Inc.

Coastal Enterprises, Inc. (CEI) is a private non-profit, 501(c) 3, community development corporation which provides financing and technical assistance in the development of small businesses, social services and affordable housing. CEI development finance activities are targeted to promising sectors, such as manufacturing, value-added natural resource industries, women business owners, microenterprises, select social services (e.g., child care), environmental technologies and others. In addition, CEI engages in the development of affordable and special needs housing, policy research and advocacy. In addition to being a Women's Business Center under the SBA Office of Women's Business Ownership, CEI is an intermediary under the SBA Microloan Demonstration Program, a licensed SBA 504 local development corporation, a sub-center under the SBA Small Business Development Center program, a New Markets Venture Capital program and an intermediary under the SBA Women's Pre-Qualified Loan Guaranty Program.

Incorporated in 1977, CEI manages a pool of $107 million in loan funds raised from a variety of public and private sources. CEI funds have leveraged over $480 million in financing for 1310 small businesses that have created and retained 15,000 jobs. CEI also provides business assistance and training to 1,500 aspiring and existing entrepreneurs each year. In each of its projects, CEI targets social and economic opportunities to low-income people, including welfare recipients and individuals with disabilities. CEI provides a continuum of business finance and support to customers ranging from self employed individuals with limited resources to manufacturing enterprises that employ 100 or more people.

CEI has worked with women business owners since 1980, initially in the context of farm-based enterprises and ultimately encompassing the full-range of women-owned enterprises. In 1985 CEI initiated a Women's Small Business Project to focus finance and technical assistance services to women; that was followed by a Child Care Development Project and self-employment projects targeted to AFDC recipients, refugees, unemployed and economically disadvantaged. CEI has provided $26 million in financing to over 600 businesses partly or wholly owned by women and provided training and technical assistance to approximately 11,000 aspiring or existing women business owners.

History of the Women's Business Center Program

The Women's Business Center Program began as a demonstration program created by Congress in 1988 as a response to women's organizations that presented evidence to Congress that women continued to face discrimination in starting and running small businesses. A leveraged federal investment in women's economic development, the Women's Business Center Program quickly demonstrated its value and has enjoyed consistent, wide-spread, bi-partisan support from Congress. The Program has grown from four to 86 Centers that provided training to 33,603, counseling to 23,712 and mentoring to 5,147 women across the country in FY2001. The women served by the Centers are diverse and include minorities (51%), low-income, women with disabilities, and veterans.

In addition, they represent women at all stages of business development, in all sectors and in different sizes from microenterprises to businesses employing more than 50.

The investment in the Women's Business Center Program has generated a significant return. In 1995, Congress appropriated $4 million for the program and in 2002, there was an appropriation of $12 million, an increase of 300 percent. During that same period, however, the number of clients served increased more than 1000 percent, from 8000 in 1995 to 85,000 in 2002.

The Women's Business Center Program has changed as it has grown. The Program was initially conceived as a demonstration with three-year funding and an expectation that Centers would graduate to other funding. In 1997, the Program was made permanent and funding was extended to cover a five year period. In 1999, with the overwhelming support of Congress, the Program was changed again to incorporate a sustainability pilot program that allowed Centers to apply on a competitive basis for an additional five years of funding.

The creation of the Sustainability Pilot Program is the result of the recognition of several important points. The first is the importance of the Women's Business Centers in providing essential services to a significant and growing market of women who want to be business owners and who also want to be part of a program targeted to women. Secondly, it acknowledged the importance of the SBA's role as a funder. Not only does the SBA contribution provide an important foundation from which Centers can build, but the SBA brings credibility to the work of the Centers and its funding serves as a catalyst for raising the necessary matching funds. Finally, it acknowledges the value of the investment made in the existing Centers and the need to sustain the infrastructure so painstakingly constructed over the life of the program. The Sustainability Centers have demonstrated their capacity to deliver the program in conformance with the program's goals and purposes. That means more than just delivering technical assistance and training; it also means that they have developed the skills and expertise of their staff, that they have established solid reputations in their communities and that they have developed the relationships and partnerships needed to sustain their organizations over a long period of time. It is an investment that is worth preserving.

CEI Experience with the Women's Business Center Program

CEI was funded by the SBA's Office of Women's Business Ownership under the Women's Business Center Program in 1995 as a new center and in 2000 as a Sustainability Center. Since that time over 3800 women have benefited from one-one business counseling, training, workshops, seminars, peer groups, information and referral and other program activities. Eighty-four business owners have received assistance in developing loan applications resulting in more than $3.9 million in capital.

The customers for CEI's Center range from women who are contemplating starting a business to women who have been in business for over twenty years; from low-income women struggling to become economically self-sufficient to women who are interested in

enhancing their profitability and creating good jobs for other women; from home-based service businesses to manufacturing operations; from traditional crafts to technology-based enterprises. One thing that brings them together is their desire to build their management skills and the importance that they place on being part of a program that is targeted to women.

CEI's approach is characterized by innovation, flexibility and interaction. Innovation has emerged by working closely with customers to develop services for existing women business owners, such as peer groups and Advisory Boards and developing services, such as training and technical assistance in uses of the Internet and E-commerce, to help women business owners remain competitive in the 21st Century. Flexibility is evidenced by a willingness to design programs specifically to meet the needs of marginal business owners clustered in rural communities or to design a three-part, nine-hour start-up training for low-income women to fill a gap in the range of business assistance services available in Maine or to provide technical assistance on-site at a business. Interaction comes from limiting the size of workshops and training sessions to maximize interaction and facilitate peer support and networking.

In sum, CEI has developed its Women's Business Center in the context of the Maine economy, building on its experience-based understanding of the needs of women business owners and the explicit need for targeted services for women business owners in Maine. In short, CEI's Center is customer-driven and provides innovative services that fill unmet needs and complement Maine's other technical assistance services.

The following profiles illustrate just a few of the ways that the Women's Business Center benefits women business owners in Maine:

> *Mary and her husband Henry own a dairy farm in rural Maine. The fifth generation of farmers in the family, they realized that they could not support themselves and their three children with dairy farming alone. They decided that diversifying their operation was their only option. Mary approached the Women's Business Center at CEI for help. Now two years later, after working one-on-one with a business counselor on planning, marketing and financial management and participating in a peer support group, Mary and her family have transformed their farm. There are new products: hormone and antibiotic free chickens, beef and veal animals, pigs and laying hens; and there are new markets: up-scale restaurants and individual consumers. The new plan has had the added benefit of involving Mary's sons and a nephew in the operation, hopefully, laying the groundwork for a transition when Mary and her husband are ready to retire. Not only is this family now fully supporting itself with the farm, but they have built a new barn and improved the dairy barn and the manure and drainage systems. In addition, the local high school vocational class built a small shed to house the retail meat operation. They are poised for continued success.*

Jennifer owns a small store and gas station in rural Maine. After 17 years in operation, family illness nearly drove her out of business. Cash flow problems left her with virtually no inventory and most of her vendors had stopped supplying her. Rather than take the advice of those urging her to file for bankruptcy, she approached the Women's Business Center for support. With the help of her business counselor, she prepared an excellent business plan and used it to attract investors. Two members of her community responded to her plan and invested a total of $75,000, one is just an investor; the other wants to be a working partner and eventually purchase the store. Thanks to her investors, Jennifer has paid off old debt, renegotiated with her vendors, restocked the store and drawn her customers back. Sales have increased dramatically, and are approaching the level they were at before the financial problems began. She narrowly avoided total financial disaster, and now has a plan for on-going recovery. She continues to work with her business counselor on her accounting system and developing the skills to assess the profitability of each department of her store. In addition, they are working on ways to structure the new infusions of capital to best meet the needs of the business and the investors.

Role of the Women's Business Center in Maine

CEI is a statewide organization and provides services to women business owners throughout the state. Maine's population is predominantly rural; less than a dozen communities have populations greater than 20,000 and the largest urban area has only 65,000 people. Maine is a poor state, with sharp regional disparities: there are pockets of poverty where rates approach 20 percent and unemployment is as high as 12 percent. Overall, the growth in the economy trails that of the nation and the region, and per capita income consistently lags behind those for the rest of the region and the country. Approximately thirty-four percent of Maine's businesses are women-owned.

Although the number of women business owners has risen steadily and dramatically for the past two decades, many women are still not taken seriously as business owners and their businesses are not valued. While business is technically no longer a non-traditional occupation for women, women business owners are still a minority and relatively inexperienced. They face significant challenges: isolation and a lack of confidence, assets, formal business training, credibility, and effective networks. Even established women business owners are not immune from these issues. The barriers that women have experienced in the labor market haunt them as business owners: lower earnings, fewer opportunities for advancement and occupational segregation.

A survey of Maine women business owners conducted by CEI in 2001 supports this assessment and points to the need for focused assistance. The median size of women-owned business in Maine was 2 employees and sales of $100,000, yet 56 percent depended on their businesses for 50 percent or more of their family income, with 24 percent depending wholly on their businesses for household income. Seventy-nine percent reported seeking business advice, and 54 percent identified areas where they would like additional assistance. The majority started their businesses with modest amounts of capital (the median was $20,000). While nearly half reported obtaining bank

financing as part of their start-up capital, the percentage of those receiving bank financing declined over time. In other words, the more recently a business started, the less likely it was to receive bank financing.

For nearly two decades, CEI has provided targeted assistance to women business owners shaped by a deep understanding of the issues they face. The continuing demand for these services confirms their importance; the positive evaluations gathered from customers confirms the quality of these services. The funding from the Women's Business Center program has supported and enhanced CEI's capacity to develop its program further and to define its niche more clearly. CEI's Women's Business Center offers a unique combination of skills and experience to Maine's women business owners: a focus on women; a demonstrated understanding of the relationship between women's personal and business lives and the impact of personal issues on business decisions; innovation in program design; business expertise; and a supportive environment that fosters sound learning.

Recommendations for Program Development

In their brief history, the Women's Business Centers have become a key SBA Resource Partner, meeting the needs of aspiring and existing women business owners across the county. The Centers are valued by their customers for the cost and convenience of services, for the focus on women, the quality of staff and materials and the attitude of staff. The following recommendations are designed to support and sustain the Women's Business Development Centers, affirming their demonstrated importance as the critical source of assistance for women business owners.

1. Make the Sustainability Pilot Permanent

In 1999, Congress passed the Women's Business Centers Sustainability Act which included the Sustainability Pilot Program. The AWBC strongly recommends that the Sustainability Program become a permanent part of the Women's Business Center Program. The Women's Business Center Program is currently available in 49 states and several territories. Individually, each Center responds to the needs of the women business owners in its community; collectively, they are the infrastructure that supports this dynamic and growing segment of the small business sector. In FY2004, twenty-six centers will be eligible for a sustainability grant. This means that when these centers are combined with the twenty-five centers currently funded under the Sustainability Pilot, nearly two-thirds of the existing Women's Business Centers will be sustainability centers. They are the infrastructure of the Women's Business Center Program. It is important that we reinvest in what has been built and continue to strengthen what has already been tested and proven to be effective.

2. Make Women's Business Centers Eligible for Funding on an On-going Basis

In keeping with the first recommendation, the AWBC recommends that all Women's Business Centers be eligible for five-year funding on an ongoing basis subject to satisfactory programmatic and financial review.

3. Authorized Funding Levels

The AWBC requests that the Women's Business Center Program be authorized at $14.5 million for FY2004, $16 million for FY2005, and $17.5 million for FY2006. Funding at the recommended levels would support the investment in the Sustainability Centers, allow the SBA to meet its commitments to Centers in their first five years of funding and also support the funding of new Centers in those areas not currently served by a Women's Business Center.

Recommendations of the Association of Women's Business Centers for the Women's Business Center Program

Introduction

In 1988, the SBA's Office of Women's Business Ownership (OWBO) created the seed for a national network of women's business centers, with pilot funding to a handful of pioneering women's business centers—nonprofit organizations that were offering technical assistance and loans to women seeking to start small businesses. Over the past 13 years, this program has expanded to include 83 women's business centers in 48 states, and has fueled phenomenal growth in the women's business sector. This public-private partnership has clearly been an enormous success, and the trends continue to show exponential growth in the women's business sector, fueling demand for yet more services. The goal of the Association of Women's Business Centers (AWBC) is to strengthen the national network of women's business assistance centers so that we can rise to meet that demand and serve a key role in creating a strong, fair economy for the 21st century.

From rural states to inner cities, small business growth is often the best hope for economic success and employment, providing jobs, tax revenue, and hope for economic self-sufficiency where large businesses cannot or do not. Small business is also the source of tomorrow's large employers, providing a proving ground for companies that will eventually grow to scale and become larger players in the regional or national economy.

The small business sector of the United States is strong in ways that are the envy of many other nations—including the strength of women's participation in entrepreneurship. The Women's Business Program of the SBA Office of Women's Business Ownership is an exemplary program that helps women to meet some of the challenges that are still common to women in the nontraditional occupation of small business ownership. We look to Congress to strengthen and support the Women's Business Program and the growing ranks of businesswomen from every socioeconomic background to whom it provides services. It is a good choice that provides opportunities for women's economic advancement and it is the right choice for our national economy.

1. Make the Women's Business Center Sustainability Program permanent. Allow all compliant WBCs to be recertified for federal funding every five years.

Creating a strong national network of women's business centers that reaches women in every state of the US should be the priority of the Women's Business Center Program. The best way to achieve this goal is to establish a core group of WBCs and sustain them at a base level so that they can grow and expand, rather

than to mandate withdrawal of funding at a predetermined time so that they must retrench and struggle to survive.

Seed funding from the federal government leverages state and private funding for women's business programs and serves as a powerful incentive for these funding sources to continue to invest in women's business training at the state level. In addition, the withdrawal of federal funding leaves WBCs in those states or regions with few private sector resources particularly vulnerable to closure; unfortunately, these are often the areas that are also in most need of the economic stimulus that the WBC program brings.

Every five years each Women's Business Center will undergo a programmatic and financial review to certify that it meets the program criteria, that it is achieving the program criteria and that is worthy of the resources that it receives. Each refunded women's business center will have the proven ability to serve as a regional hub providing resources for women starting and growing businesses.

2. Make sustainability a priority for the Women's Business Center Program and plan for the Program's future.

Sustainability grants, which support WBCs with a demonstrated capacity to meet the goals of the WBC Program, should be the first priority for funding under the WBC program. There are currently WBCs in 49 states. The AWBC urges Congress to invest in what it has already created, moving the program from "startup" phase to a more mature phase of development. The Women's Business Centers Sustainability Act of 1999 created a funding formula to ensure that funds were allocated to sustainability centers, centers in their first five years of funding and new centers. Under this formula, 30.2% of appropriated funds are awarded to sustainability centers. This formula no longer addresses the needs of the program. In FY2004, when the 25 WBCs funded in 1999 are eligible for sustainability grants, the funds allocated under this formula will not be adequate. Experienced programs with capacity will not be funded, while the formula would require that new centers are opened, perhaps in the very same states.

This does not make good business sense. With the time and the money that it takes to start and establish a women's business center, to establish trust and a connection to markets, to build effective partnerships and to attract non-federal funds, existing WBCs should be understood as a resource and an investment to be nurtured and supported. Areas of the country that lack women's business center coverage should be identified and a plan should be put in place to open WBCs in those areas as soon as the resources are available, rather than simply opening as many new centers as a formula allows. The AWBC would welcome the opportunity to work with the SBA to develop such a plan.

3. Increase the Authorized Funding Levels for the WBC program to $14.5 million , $16 million, and $17.5 million in FY2004, 2005, and 2006.

Over the past 15 years, the federal government has invested in the development of an infrastructure of Women's Business Centers, which now provides essential training and technical assistance to new and existing women business owners in 49 states. The AWBC requests that funding be authorized at levels adequate to sustain the current infrastructure, to ensure the establishment of one strong center in every state, and to increase access to services to underserved regions.

4. The statutory requirement for a full time Executive Director for the Women's Business Center Program should be clarified.

The Women's Business Center Sustainability Act of 1999 states that: "To be eligible to receive a sustainability grant, an organization shall submit an application that shall include a certification that the applicant..... employs a full-time executive director or program manager to manage the center."

The AWBC recommends that the statutory language regarding the full-time executive director or program manager be clarified to ensure that it is interpreted to mean that the executive director or program manager will be a full-time employee of the organization, but not necessarily paid 100 percent from the sustainability grant or the attendant matching funds.

5. Support the Development of the Association of Women's Business Centers.

The Association of Women's Business Centers (AWBC) was organized in the fall of 1996. For the past seven years, the AWBC has worked effectively on behalf of its members to strengthen the national infrastructure, deliver annual peer-to-peer training at the OWBO Post Award Briefings, and work with the OWBO administration to strengthen the Women's Business Center Program. We request that the AWBC be recognized in statute as a partner of OWBO in creating and maintaining the women's business center program. If the AWBC represents the majority of women's business centers, then OWBO should be required to consult with the AWBC in any significant program decisions and changes.

UNITED STATES HISPANIC CHAMBER OF COMMERCE

USHCC Legislative Priorities for Members of the 108th Congress

ACCESS TO CAPITAL: Support federal programs that provide access to credit and venture capital funds for Hispanic-owned business creation and support legislation to ease barriers to homeownership and other methods for accumulating wealth.

The SBA's loan programs, which provide 40 percent of small business financing, continue to be under funded, creating an available capital shortage in a weakened economy. ***The following programs need to be supported in the SBA reauthorization bill to be taken up this year.***

- The funding shortage for SBA's flagship loan program—the 7(a)—means there is $3 billion less in available capital. ***Support an increase in the 7(a) program level to match the projected program level of demand.***

- Small businesses that utilize the 504 economic development loan program continue to be overcharged at an average of $15,000 per loan. ***Support a reduction in the high subsidy rate for the 504 program.***

- Within the FY 2004 SBA budget, there is a fee increase for the Small Business Investment Company (SBIC) program. ***Support a reduction in the SBIC fees.***

- The Microloan Program was cut in half in the FY 2004 SBA budget, thus depriving burgeoning entrepreneurs of the funding necessary for their success. ***Support an increase in the Microloan program level.***

Homeownership represents the path to prosperity and is a tangible asset that builds equity, credit health, borrowing power, and overall wealth. In the FY 2004 budget, HUD is proposing several new or expanded initiatives to continue the increase in overall homeownership while targeting assistance to improve minority homeowner rates. ***The following programs need to be supported in the Housing reauthorization bill that will likely be considered this year.***

- The FY 2004 HUD budget proposes to provide $200 million for the American Dream Downpayment Initiative to assist low-income families with down payment and closing costs on their homes. Legislation to authorize the program, the American Dream Downpayment Act, H.R. 4446 and S. 2584, was introduced last Congress by Rep. Mike Rogers (R-MI) and Sen. Wayne Allard (R-CO) respectively, and may be introduced again this Congress. ***Support the authorization of the American Dream Downpayment Initiative.***

- To promote the production of affordable single-family homes in areas where such housing is scarce, the Administration is proposing a tax credit of up to 50 percent of the cost of constructing a new

home or rehabilitating an existing home, targeting low-income individuals and families. ***Support H.R. 839, the Renewing the Dream Tax Credit Act, introduced by Rep. Rob Portman (R-OH).***

- The FY 2004 HUD budget is proposing legislation for a new mortgage product, the Mutual Mortgage Insurance Fund (MMI), to offer FHA insurance to families that, due to poor credit, would be either served by the private market at a higher cost or not at all. ***Support authorizing the MMI Fund.***

- The FY 2004 HUD budget proposes $45 million for home purchase and homeownership counseling services. This is an increase of $5 million from FY 2003. ***Support a larger increase for counseling.***

PROCUREMENT: Support the preservation and expansion of existing minority programs within SBA, enforce legislative mandates to ensure federal departments meet their goals in awarding contracts to minority and women-owned firms, and support the elimination of contract bundling practices within the federal government.

Minority businesses are concerned that minority preference contract procurement programs are becoming non-competitive, weakened, and that they are losing their share of the federal procurement pie due to lack of minority business contract enforcement and bundling of federal contracts. ***The following programs need to be supported in the SBA reauthorization bill to be taken up this year.***

- Last year the Administration proposed a regulation to create "parity" between the 8(a) government contracting program and the Historically Underutilized Business Zone (HUBZone) program. The proposed rule would erase the distinction between the two programs, putting them into direct competition. The USHCC believes the 8(a) and HUBZone Programs are not equal programs and should not be treated as such. ***Support overturning the proposed HUBZone 8(a) parity regulation.***

- Since only the HUBZone program has a 3 percent statutory goal and the 8(a) program has no statutory goal, the minority entrepreneur will be the loser whenever contracting officers are forced to make a choice between the two programs. USHCC believes that this competitive disadvantage that 8(a) faces should be repaired. ***Support the creation of an 8(a) statutory goal.***

- Since there is no personal net worth limitation on HUBZone companies and there is one for 8(a) companies, HUBZone companies will likely be better financed and more likely to have more resources to perform Federal contracts than 8(a) companies. ***Support removing or raising the current net worth limitation on the 8(a) program.***

- SBA's 7(j) Management and Technical Assistance Program is designed to assist 8(a) businesses achieve competitive viability in the marketplace. Grants or contracts are awarded to qualified service providers that can deliver management or technical assistance to these enterprises. ***Support a funding increase for 7(j) funds and allow trade associations like local Hispanic Chambers to apply.***

- There is concern that the University of Michigan Affirmative Action Supreme court case and the Administration's strong opposition to it could lead to the dismantling of anti-discrimination affirmative access programs for minority entrepreneurs. If this happens, it will threaten contract policies that steer more than $5 billion per year to minority-owned firms through the Small Business Administration's 8(a) and Small Disadvantaged Business Certification programs. ***Support the protection of Minority preference business programs.***

- To address minority business federal contracting concern, Rep Nydia Velasquez (D-NY), will reintroduce the Small Business Contract Equity Act, H.R. 1324, from last Congress. This bill will attempt to increase the number of contracts awarded to small businesses by holding federal agencies

accountable for their failure to achieve mandated contracting goals and prohibiting agencies that fail to attain these goals from awarding or soliciting offers for bundled contracts. ***Support the Small Business Contract Equity Act when it is introduced this Congress.***

- Last year the Administration released their small business agenda and a nine-step strategy for increasing federal contracting opportunities for small business including eliminating unnecessary contract bundling, requiring reviews, and holding agencies accountable. Despite this agenda, the FY 2004 budget leaves several critical procurement centers across the country unstaffed, providing funds for only 47 Procurement Center Representatives, insufficient for the frontline in enforcing federal contracting rules. ***Support an increase in funds for more Procurement Center Representatives.***

E-COMMERCE AND TECHNOLOGY: Support programs to increase access to the Internet within Hispanic and underserved communities and support the creation of programs to increase access to E-Commerce and technology training opportunities for Hispanic businesses.

As the digital age matures, all individuals and businesses must harness technology to stay competitive. Some policymakers, believing that disparities in broadband access across American society could have adverse economic and social consequences on those left behind, assert that the Federal government should play a more active role in closing the "digital divide" in broadband access. Another concern of many that small and medium-sized businesses are not included in e-Commerce growth. Many of these firms contend that because of cost, lack of technical expertise, and ability to maintain web sites, they cannot compete with larger companies that have an Internet presence.

Only 2 million small businesses out of 25 million, or less than 10 percent, have Web sites and only 27 percent of small businesses with Web sites are currently selling their products and services via the Internet, averaging less than three web-based orders per month. The FY 2004 budget does not do enough to address the technology shortfall of small businesses.

- Despite being slated for elimination in the president's FY 2003 budget, Congress voted to preserve the Community Technology Centers Program (CTC) and the Technology Opportunity Program (TOP). These grant programs have helped underserved, low-income, and rural communities build their technology infrastructure to provide their residents with access to educational opportunities, telemedicine, health care information, and other community services. Funding for the programs is comparable to last year's levels, approximately $15.5 million for TOP and $32.5 million for CTC. The USHCC is interested in having Latino organizations as program operators and that the funding provides more benefits to the Latino community. ***Support the CTC and TOP programs in the FY 2004 budget considerations.***

- Sen. Tom Daschle (D-SD) introduced H.R. 8, *America's Better Classrooms Act of 2003,* which amends the National Telecommunications and Information Administration (NTIA) Organization Act to direct the Secretary of Commerce to establish within NTIA's Technology Opportunities Program (TOP) a digital network technologies program to award educational instruction grants, contracts, or cooperative agreements to Hispanic serving institutions and other institutions with a substantial number of minority, low-income students who received assistance under HEA. ***Support H.R. 8.***

- In the Senate, Sen. George Allen (R-VA) introduced S.196 "Digital and Wireless Network Technology Program Act of 2003." This bill establishes a digital and wireless network technology program. Among other things, eligible institutions will use grants, contracts, or cooperative agreements awarded under this Act-to acquire the equipment, instrumentation, networking capability, hardware and software, digital network technology, wireless technology, and infrastructure; to develop and provide educational services, including faculty development, to prepare students or faculty seeking a degree or certificate that is approved by the State, or a regional accrediting body

recognized by the Secretary of Education. Hispanic-serving institutions are eligible for this technology program. ***Support S. 196.***

- Rep. John McHugh (R-NY) introduced HR 138, "Rural America Digital Accessibility Act", which authorizes the Secretary of Commerce to make grants or guarantee loans to facilitate the deployment by the private sector of broadband telecommunications networks and capabilities to underserved rural areas. It also directs the Secretary to provide financial assistance for the establishment and support of regional centers for the commercial use of advanced technologies by small and medium-sized businesses. ***Support H.R. 138.***

WORKFORCE ISSUES: Support federal programs to provide business entrepreneurship training and education programs, support legislation to increase the supply of eligible and educated workers, and support the reform and reduction in the costs associated with hiring and providing benefits to employees.

Entrepreneurship education should be implemented into public school curriculums around the country. By making entrepreneurship programs available to students we are giving them tools to be successful, adding to the country's workforce and ensuring the future economic prosperity of the nation. ***The following programs need to be supported in the SBA reauthorization bill to be taken up this year.***

- The Small Business Administrations FY 2004 Budget request includes level funding for the Agency's critically important entrepreneurial development programs – SCORE and the SBDC, WBC and BIC networks. ***Support the SCORE, SBDC, WBC and BIC networks***

- The FY 2004 budget eliminates PRIME, program for investment and Microentrepreneurs, which provides technical training, BusinessLINC, a mentoring program for businesses in low-income areas, and One Stop Capital Shops (OSCS), which offers counseling to businesses in low income zones. ***Support the restoration of funding for the PRIME, BusinessLINC, and OSCS programs.***

The USHCC would like to see more government support for minority education and changes to the immigration system to increase the pool of educated and eligible workers. We are facing a real workforce crisis and we need to emphasize the education crises facing the Hispanic community in general.

- The House and Senate will begin hearings to reauthorize the Higher Education Act, with increased support for minority-serving institutions. Congress will also reauthorize the Workforce Investment Act (WIA), focusing on creating a seamless workforce development system and improving programs for helping our nation's workers gain the skills they need to succeed in today's workforce. ***Support increased funding for Hispanic Serving Institutions and workforce training programs in WIA.***

- S.8, America's Better Classrooms Act, by Sen. Tom Daschle (D-SD), reauthorizes Gear Up, TRIO, migrant and seasonal farmwork education, the minority science and engineering program, and Minority-serving institutions. The bill moves that a Pell Grant's maximum amount be increased to $4,500, while increasing the amount eligible students receive. The bill also eliminates the prohibition against providing State residency benefits for postsecondary education to certain undocumented college-bound students (similar to the DREAM Act). ***Support the education and immigrant programs authorized in S.8.***

- Rep. Luis Gutierrez (D-IL) introduced H.R.440, the U.S.A. Family Act, which adjusts the status of certain aliens who have longstanding ties to the USA to permanent residence. ***Support H.R. 440.***

Sen. Snowe (R-ME) and Rep. Manzullo (R-IL) have announced that they would make addressing the crisis in health insurance for small businesses a top priority for their Committees. More than 25 million

of the 41 million uninsured Americans live in small business households. While many small business owners desire to provide healthcare, the rising costs of insurance makes it financially unviable.

- A proposal to bridge the health care gap for small businesses is the Association Health Plan (AHP) legislation, H.R. 660 (Rep. Fletcher, R-KY) and S. 545 (Sen. Snowe, R-ME). AHPs allow small businesses to band together to purchase their healthcare through an association, allowing these companies the same purchasing advantage that large corporations have, and lowering the overhead costs. AHPs also include safeguards to protect working Americans. ***Support H.R. 660 and S. 545.***

- Sen. Daschle (D-SD) introduced S.10, which would provide a tax credit to small employers that offer health insurance to their workers. ***Support S. 10.***

Statement by

John R. Massaua
State Director, Maine Small Business Development Centers

Submitted for the Record of the Roundtable on S.B.A. Non-Credit Programs
Committee on Small Business and Entrepreneurship
United States Senate

April 9, 2003

Chairman Snowe, Ranking Member Kerry and members of the Committee, my name is John Massaua, and I am the State Director of the Maine Small Business Development Centers administered by the University of Southern Maine's School of Business in Portland, Maine. I am pleased to be here today as both the State Director of the Maine Small Business Development Centers and a member of the Association of Small Business Development Centers, which represents the 58 state and regional Small Business Development Center (SBDC) networks across our nation.

I would like to share with the Committee my views on the reauthorization of the SBDC program, and particularly on proposals made by the SBA to fundamentally alter -- and in my view severely weaken -- the provisions of the Small Business Act governing the SBDC program. In my view, the SBA's proposals would damage our nation's SBDC network and could result in the loss of SBDC grant funding to the University of Southern Maine and other hosts throughout the national SBDC network.

Among the proposals that have been made by the SBA are requests to: (1) repeal the Small Business Act's requirement that new applicants for SBDC grants must be institutions of higher learning; (2) require SBDC grants to be re-competed every five years, beginning two years after enactment of the reauthorization legislation; and (3) repeal the Act's requirement that SBDC grants must be consistent with State Government plans.

As the members of this Committee know, the SBDC program is a program that works exceptionally well in Maine and in states throughout the country. It is a program with a proven track record of creating new businesses, jobs, sales and economic development by leveraging federal, state, university, regional and private resources. It makes no sense for the SBA to propose changes to the SBDC program that will weaken its ability to fulfill its mission.

First, the SBA has proposed to repeal the law's requirement that new applicants to host SBDC networks must be institutions of higher learning. This proposal would make any non-profit organization eligible to apply for an SBDC grant, regardless of whether it had any expertise in entrepreneurship or the delivery of management and technical assistance to small businesses. I believe this proposal would severely damage the SBDC program.

Institutions of higher learning bring academic pedigree and stability to state SBDC networks, because such institutions are built on solid financial and community foundations. In addition, institutions of higher learning help to ensure the quality and educational mission of a state's SBDC services to small business owners and aspiring entrepreneurs. The University of Southern Maine was an original pilot project participant in the creation of the forerunner to today's SBDC program and since has an over twenty-five year history of successfully assisting Maine's small businesses. Throughout those years, the University in collaboration with Maine's SBA District Office and Maine Department of Economic and Community Development has nurtured and leveraged the Maine SBDC program to be a statewide motivating force in developing the entrepreneurial spirit of Maine people.

An SBDC program that is supported by an institution of higher learning like the University of Southern Maine benefits from both the resources and the high standards of that institution typical to standards set by accreditation bodies, actively engaged trustees and in the case of public institutions, the rigors of legislative scrutiny. Most institutions of higher learning have business schools that contribute the expertise of faculty, business student interns, academic crossover, MBA students, Centers for Family Business and/or Entrepreneurship and other resources. SBDC programs are, as a matter of course and design, educational programs; as such, it is only logical that institutions of higher learning should host them. It makes no sense, as the SBA has proposed, to solicit SBDC grant applications from non-profit organizations that have no background or expertise in providing entrepreneurship, management and technical assistance to small businesses. And even if some non-profits do have some limited experience in these areas, their focus is usually limited; they cannot possibly bring the broad prospective that institutions like the University of Southern Maine bring to the responsibilities associated with facilitating economic progress through small business creation, growth and development.

In Maine, SBDC business management assistance counselors are qualified small business professionals who have diverse educational and business experience. Many hold MBA's and have owned and operated their own businesses. Often they bring diverse corporate experience to bear on seeking solutions for small business, especially in the areas of marketing, management and operations. Each counselor is required to participate in the New England Professional Development program, which administers core competency standards, personal professional development plans and counselor certification for Maine SBDC personnel under a grant from Staples, Inc.

Last year, the Maine Small Business Development Centers received the Margaret Chase Smith Maine State Quality Award. This award recognizes organizations for performance excellence, based on criteria corresponding to the Malcolm Baldrige National Quality Award. The award was presented by the Maine Quality Awards Committee, which administers the Margaret Chase Smith State Quality Award in Maine for the American Society for Quality. The criteria for the award examine a wide range of qualities, from leadership to business results, and evaluate how well an organization's systems support its goals and objectives.

This track record of quality within staff and the organization as outlined in the preceding two paragraphs has been honed with time and in the context of a University with a 125-year-old

tradition of public service. Not to seek ways to build on such consistency and context in my opinion is risible on the part of the SBA.

Secondly, the SBA's proposal to require SBDC grants to be re-competed every five years would discourage institutions such as the University of Southern Maine from participating in the SBDC program, because such institutions would not want to invest significant matching resources in a program that might be available to them for only a short period of time. For example, in the past months, the University of Southern Maine has invested nearly 80,000 dollars in upgrading the Maine SBDC State Administrative Offices and the University-based Maine SBDC Service Center. In all likelihood, such an investment would not have been made if the potential to lose the program even marginally existed.

Moreover, requiring host institutions to re-compete for SBDC grants every five years would not add to the accountability or quality of SBDC programs. Under current law, the SBA can already revoke an SBDC grant if the grant recipient is under-performing, and under current law the SBDC program is already required to have an accreditation program that ensures quality among grant recipients. Maine will receive its review in the fall; I view such a review as a productive mechanism for continuous improvement of the Maine SBDC program because it is done in the context of constructive criticism and is absent any political influence, but rather reflects the goals of the ASBDC to assure the Congress it is getting what it is paying for.

In addition, SBDC hosts in every state undergo reviews by SBA auditors every two years; and as well, they receive regular program audits from SBA project directors, and also must supply titanic amounts of information, often duplicative, to the SBA. It is inherently unfair, absent a showing of mismanagement or wrongdoing, to pull a grant from a host institution that has made a significant contribution of resources to a program in the form of matching funds, in-kind contributions, training and development and other resources. There simply is no way the momentum it takes in organizational development, resource development, and relationship management, etc. should be broken for the sake of supposed competition. If there is improvement to be made, let a progressive system take care to define objectives and have the SBA and SBDC hosting organizations and other important stakeholders work together to get it done. When and where and if there is a failure in the system, let the accreditation process handily solve the problem through methods already available for assuring consistency and success of individual SBDC programs.

Notwithstanding all of the above, the SBA by way of its yearly program announcement insists the SBDCs through a negotiated process develop annually the extent to which SBDC statutory and program duties are to be delivered to address the needs of states' small business communities. In doing so, SBDCs and their partnering organizations must ensure that statutory and regulatory duties are met. SBDCs then annually operate under an annual plan, approved by the SBA, to provide ongoing small business assistance, and thereby must employ their best efforts to ensure that economic development and technical assistance services are available, as defined by statue, to all small business populations where critical success factors apply, including but not limited to SBA's special emphasis groups: Minority – Veteran – Women-owned (ex: Native Americans, Hispanic Americans, Black American, Reservists, Women, etc.).

It seems to me the SBA has ample opportunity to reasonably define their wants and needs for any SBDC program within such a vehicle and that within one which already exists.

Members of the Committee, the Maine SBDC is a partnership program that combines the resources of the Federal Government, the Maine Department of Economic and Community Development, the University of Southern Maine, and leading economic and community development organizations. For 26 years the Maine SBDC has provided comprehensive business management assistance, training and information services to Maine's micro and small business community. The effectiveness of this partnership, and the delivery of services to Maine's small businesses, depends on good faith, stability and cooperation among the partners. This partnership, and the resources that each of these partners brings to the SBDC program, could be destroyed by the SBA's proposal to re-compete SBDC grants every five years. It simply makes no sense. It takes from six to eight years for a counselor in New England to progress from rookie to Master even with the rigorous hiring requirements we place on the position. The SBDC network values longevity as do the people who are part of it, many with over ten years experience who simply wouldn't stay around if they knew their benefits and or retirement could be jeopardized every five years; they simply are too good and generally too entrepreneurial to deal with the kind of bureaucracy re-competing could bring. Ernesto Sirolli, the renowned author and principal of enterprise facilitation, suggests good business counselors to be somewhat gray haired and having been there and done it. If you subscribe to his theory (and I see myself as a living example, having over thirty years of business experience including that of a Founding Officer of Staples), these folks want to concentrate on the person of the client and not the pottage. Please let them.

Thirdly, the SBA's proposal to repeal the law's requirement that the awarding of SBDC grants be consistent with State Government plans would create situations in which Federal policies and programs were working at cross-purposes with state policies and programs. Allowing a state SBDC network to implement programs that are opposed by the State Government would discourage states from providing matching resources for the SBDC program. This would have a disastrous effect on our nation's SBDC network because states currently provide considerably more resources for the SBDCs on a nationwide basis than the Federal Government provides.

In Maine, the State puts in nearly 500,000 dollars additional cash over and above the 250,000 dollars cash required by the SBA; the in-kind is well provided for as well; and additional cash and leverage come from a myriad of partners. These partners including the SBA and the State all are working together in a coordinated fashion with an understanding that both State and Federal needs have to be met in coordination with one another. One-sided control is yesterday's theory. A recent statewide newspaper article excerpted below demonstrates collaborative realities in Maine:

> "Maine Small Business Development Centers serve thousands of small business owners each year through one-on-one business counseling and comprehensive training programs. Most Maine SBDC services are offered at no cost to clients and delivered by a team of highly qualified professionals who bring entrepreneurial experience, advanced business education, and corporate know-how to their role in advising small businesses.

> Maine SBDC is frequently asked how it is able to provide the level of service it does at little or no cost to its clients, who have often invested every financial resource they have into their businesses. The answer is collaboration.
>
> By working in partnership with business assistance service providers throughout the State, the Maine SBDC can give clients access to the best talent and resources available. In addition to funding from SBA, the State of Maine, and the University of Southern Maine School of Business, the Maine SBDC is fortunate to have long-standing partnerships with major community and economic development organizations. These organizations play a critical role in maintaining the Maine SBDC staff of professionals throughout the State. These organizations provide in-kind offices, administrative support, technical support, and other resources necessary for bringing great counseling and training programs to Maine's small businesses.
>
> Maine SBDC services to small businesses also get a boost from collaborative relationships such as those with Maine Technology Institute, Market Development Center, Maine Women Work & Community, and others who support customized services for specific industries and/or communities.
>
> Through effective collaboration with many organizations that serve small business, and coordinated missions including those of other SBA funded partners, (PRIME at Penquis CAP, SCORE, and the Women's Business Center at CEI), the Maine SBDC fosters the entrepreneurial spirit upon which the future of the State's economy depends."

The reauthorization of the Small Business Act's provisions governing the SBDC program comes at a critical time for our nation's economy. As the members of the Committee know, all is not well with the small business sector. The majority of small business owners have never managed a business during an economic slowdown and most have never received any formal entrepreneurial training. The small business sector's need for management and technical assistance is greater than ever. And it is more important than ever that the Committee reject proposed changes to the SBDC program -- such as the proposals made by the SBA -- that would weaken the SBDC network's ability to serve America's small business owners and aspiring entrepreneurs.

As the Chairman knows, Maine's economy is based on small business. More than 98% of Maine businesses employ fewer than 100 employees and more than 92% employ fewer than 20 employees. The services that the Maine SBDC provides to aspiring and current business owners are clearly critical to the success of Maine's economy. These services should not be put in jeopardy to serve the interests of the bureaucracy that administers the SBDC grants in Washington, DC.

The Maine SBDC has a proven record of economic development and job creation. Each year the Maine SBDC works one-on-one with more than 2,000 existing and prospective small business owners, many of whom develop and grow into sustainable businesses that contribute

significantly to Maine's economy, way of life and communities. The Maine SBDC helped create and/or retain 676 jobs last year, assisted in over 14 million dollars of capital formation for business development, instructed some 1400 additional training attendees and facilitated the creation of or the maintenance of numerous small businesses across the State. Independent studies attribute $2.58 in annual tax revenue for every dollar invested in the Maine SBDC.

The national SBDC network, like the Maine SBDC, has a proven record of creating jobs and generating growth for America's small businesses. During the 1990-1991 recession, for example, the U.S. economy lost approximately 1.4 million jobs; however firms that received long-term counseling from their local SBDCs between 1990 and 1991 actually created 64,933 jobs. At the beginning of the most recent recession (2001), as large corporation after large corporation announced layoffs, long-term counseling clients of the SBDCs added 46,688 new jobs, saved 34,215 existing jobs, started 12,872 new businesses, increased sales by $3.9 billion, and saved an additional $4.3 billion in sales. In addition, nationally SBDC long-term counseling helped small businesses obtain an estimated $2.7 billion in financing in 2001. That means every dollar spent on the operation of the SBDC network leveraged approximately $15.89 in new capital raised by long-term SBDC clients in 2001. The national SBDC network has served nearly 10 million clients since its inception.

With a record of accomplishments like these, both in Maine and across the nation, there is little justification for the SBA's proposals to radically restructure and put at risk the effectiveness of America's SBDC network.

Additionally, I would ask the committee to consider two changes that the Association of Small Business Development Centers in concurrence with the Maine SBDC recommends when it takes up legislation this year to reauthorize the Small Business Act's provisions governing the SBDC program.

The first request is that the Committee addresses the serious issue of SBDC client confidentiality. The House of Representatives has twice passed language protecting the confidentiality of SBDC clients, and this Committee approved similar language when it adopted S. 2483 last year. Client confidentiality is critical to the relationship between SBDC counselors and clients. The "request for counseling" form approved by the U.S. Office of Management and Budget leaves clients with the clear impression that their confidentiality is protected and assured. Regrettably, various marketing group and others have sought to breach or have successfully breached the promise of confidentiality. Statutory protection is clearly needed. As an SBDC state director, I strongly support the confidentiality language approved by this Committee in S. 2483 last year and encourage the Committee to incorporate that language in the SBA reauthorization bill.

The second change that the Association of Small Business Development Centers in concurrence with the Maine SBDC recommends is an increase in the authorized funding levels of the SBDC program. As a result of the growing need among small business owners for management and technical assistance in the current economic slowdown, it is respectfully asked that the Committee increase the currently authorized SBDC program funding level of $125 million to $135 million in FY 2004, $155 million in FY 2005 and $175 million in FY 2006. I recognize the

difficult funding choices that Congress must make, but SBDCs can help re-energize our nation's economy and reduce the growing Federal budget deficit and in doing so help the feeble economy in Maine.

A funding increase for the SBDC program is most appropriate during these times of economic stagnation, especially when one considers that the SBDC program, unlike most Federal programs, actually generates more revenues than it costs the taxpayer. SBDC long-term counseling clients alone generated approximately $2.09 in tax revenues for every $1 spent on the SBDC program in the year 2001. The national SBDC program cost the Federal Government $88 million in the year 2002, but it generated $182.9 million in Federal revenues as a result of increased business activity by SBDC counseling clients.

There is room in the Federal budget for increased resources for our nation's SBDC network. The SBA Budget proposal for FY 2004, for example, calls for increasing the SBA Salaries and Expenses account to $219 million (an increase of $57 million compared to FY 2002), and much of this increase is intended for SBA staff training. It makes more sense to devote these resources to training small business owners to grow their businesses and our economy.

There are 23 million small business owners in the U.S. and the Kauffman Foundation estimates that one in ten adult Americans is seeking to start his or her own business. Forty percent of SBDC clients are women, 22% are minorities, and nearly 8% are veterans. Demand for entrepreneurial services among these constituencies is increasing rapidly. If we are to have any chance of growing this economy at the level needed to provide jobs and enhance Federal revenues, there must be a clear determination by Congress to provide the resource to increase the service capacity of SBA non-credit assistance programs.

In Maine, the SBDC program has been level funded since 1996 and yet the expectations of the SBA have risen exponentially on an annual basis – this cannot continue to be! For our program to answer the need for rural entrepreneurial development, there simply must be realistic funding put in place. There is much work to be done.

Of independent note (i.e. without discussion with my SBDC colleagues), I ask the Committee to look at the following as it studies the SBA reauthorization bill:

- Ways to reward/incentive states who overmatch Federal monies for SBDCs with real cash.

- Consideration in looking at funding allocation for states that takes into account more than population or the big flat state effect, such as rural character, geographic distance, poverty and unemployment levels, number of small businesses relative to total employment and the like. (I will be happy to work with Committee Staffers to draft a proposal if this item is of interest to the Committee.)

- Direction to the SBA to develop meaningful state collaborative relationships, purpose and focus for all of the non-credit programs which often operate in SBA silos; with purposeful leadership and coordination similar to that currently existing in Maine through

Maine's SBA District Director, Mary McAleney, I believe entrepreneurial development on a national basis would benefit immensely from the synergies that are possible with good planning and direction.

- Consider the implications on the SBDC program should the sustainability issue not be addressed with the Women's Business Center Program that is SBA' s apparent wish to have Women's Business Centers perhaps absorbed by SBDC programs without providing the realistic funding to do so.

Chairman Snowe, I sincerely appreciate your strong support for the Maine SBDC and America's Small Business Development Network; I urge the members of this Committee to reject the SBA's proposals to radically re-write the provisions of the Small Business Act that govern the SBDC program. Rather, I ask that the committee focus on ways to enhance entrepreneurial development in our great country by building on the success of the SBDC program and by developing improvement activities through funding, collaboration and quality related legislative activities to help get and keep America's economy moving forward with small business at the core as it has been and continues to be!

Statement of
Marilyn Carlson Nelson
Chair, National Women's Business Council

Senate Committee on Small Business and Entrepreneurship
April 9, 2003
Roundtable Discussion on Non-Financial Program Reauthorization

The National Women's Business Council welcomes this opportunity to meet and discuss our mission, programs, current activities and future plans as Congress begins the process of reauthorizing the Council. The Council is the government's only ***independent*** voice for women business owners. This responsibility is critically important to policy makers in **both parties** who are committed to understanding and supporting women business owners. Thus, the **only** entity in the Federal government which can be counted on to represent the most informed, diverse and bi-partisan views of women business owners and what they need to succeed is the National Women's Business Council. To that end, our charge is to promote bold initiatives, policies and programs designed to support women's business enterprises at all stages of their growth – from start-up to success to significance.

Since my appointment in May of last year, we are moving ahead on a number of fronts. The Council is now fully staffed, new members are being appointed, and we are moving ahead with a number of projects and activities in support of the country's more than 9 million women-owned businesses.

Our mission, as we often describe it, is to:

- **Conduct** research on issues of importance to women business owners and their organizations;
- **Communicate** these findings widely;
- **Connect** the women's business community to one another and to public policy makers; and
- By so doing, to provide a platform for **change** in order to expand and improve opportunities for women business owners and their enterprises.

My vision is for the National Women's Business Council to come to be regarded as:

- a trusted source of fact-based information for public policy change;
- a connective force for the women's business community – with one another and with public policy makers; and
- a leading and respected advocate for the women's business community.

The NWBC's 2002 annual report, recently submitted to Congress and President Bush, summarizes the results of Council-sponsored research projects. One of these examined national training programs designed to assist women business owners with access to capital; another explored women-owned firms' capability to fulfill Federal subcontracts; and another project in progress tracks clients of women's business centers to ascertain which factors are most associated with successful start-up and early-stage growth of these firms. (More details on the latter project can be found under point #5 on page 7 of this document.)

We also summarized in the annual report some of our current year projects, which I have appended to this statement for your convenience. These include the following:

- The NWBC recently conducted a well-attended Roundtable on the issue of affordable health insurance. Women business owners shared their experiences with the range of issues that negatively impact small business when affordable health insurance is not available. Representatives of women's business associations, business and industry leaders, and public policy makers discussed a broad range of possible solutions The Council will soon be issuing a full report and transcript of that meeting, along with background research summarizing solutions that are being considered. We hope that the Committee members will find this report to be a valuable contribution to this serious debate.

- The NWBC co-hosted with the SBA's Offices of Advocacy and Women's Business Ownership a Roundtable on the state of women's business research. Government agency representatives, women business owners, and non-profit and trade association representatives shared some of the latest research on women-owned firms, future research priorities and what more should be done to collect, synthesize and more broadly distribute key findings related to the state of women's entrepreneurship.

- We have entered into a significant, and what we hope will be a long-term agreement with the Census Bureau to publish updated statistics on the number and growth of women-owned *employer* firms. These new data will be available

by industry and state, as well as by ethnic group. In concert with the sole proprietorship data that the Office of Advocacy receives from the IRS, this information will provide a more complete picture of trends in women's entrepreneurship between the five-year censuses.

- We are also very proud of a new service we are providing to the women's business community – a monthly conference call entitled the "Women's Business Connection." These toll-free calls focus on a topic of importance to women business owners and feature an expert guest speaker. The "Women's Business Connection" offers women business owners and association leaders the opportunity to ask questions, learn from the experts and each other, and encourages them to get more involved in public policy. Last month, Administrator of the Office of Federal Procurement Policy, Angela Styles, joined us for a discussion about the new contract bundling regulations submitted for public comment. This month, we will feature speakers discussing the issue of reservists and National Guard members being called to active duty, and what services and assistance are available to business owners who find themselves temporarily without valuable employees.

With respect to the reauthorization of the National Women's Business Council, it is our view that the NWBC statutory authority is sufficiently broad and allows the Council to address the key issues facing women business owners. Therefore, we do not see a need for major changes in language. However, as we move forward through the reauthorization process, we'd like to comment on five points: 1) a minor wording change for budget clarification; 2) a request for clarification on the treatment of our organizational members; 3) a comment on one area outlined in our statutory authority that we cannot currently fulfill; 4) a suggestion for additional responsibility the Council could undertake; and, finally, 5) some comments on two items in the SBA reauthorization package which directly affect our mission.

Our comments in each of these five areas follow.

1) A wording change for budget clarification.

This is in accordance with a change we recommended in the package that was recently submitted by the SBA, which changes the **dollar amount** earmarked for research-related activities to a **percentage** of the total budget. Specifically, in Sec. 410(a) of our statutory authority, it currently states that we are authorized $1 million, of which $550,000 shall be available for research. Since our appropriated budget has never

reached the $1 million mark, we have changed the $550,000 to 55% to better reflect the intent to earmark a majority of funds for research.

2) Clarification of how the Council is to select and handle the transition of organizational Council members.

A more significant issue, and one that has caused some confusion, is how organizational members are treated. As outlined in our statutory authority, there are nine individual women business owners of the Council including the Chair (four members from the same party as the President, four members not of the same party) and six organizational seats. The language states, "Six shall be representatives of women's business organizations, including representatives of women's business center sites."

We believe that the intent of this structure is to have these *organizations* represented, and represented for the full three-year term. The statutory language, however, does not make that clear. Should an organizational member leave their position within the organization during their term on the Council, the SBA's Office of General Counsel has not historically recognized this change in status and allowed the Council to replace the member with another individual from the same organization to serve out the term. In other cases, when there is a change in status of an organizational member, they may voluntarily choose to leave the Council. In that case, it would seem that the vacant seat should be filled with another individual from the organization to complete the term. In both of these cases, the General Counsel has advised the Council that it is the "person" not the organization that is appointed to the Council. In our judgment, this appears to be inconsistent with the intent of the statutory authority for the Council's composition.

We'd like the language in our statutory authority to be clarified in a manner that asserts the importance of the *organization* as the operative member of the Council rather than the person representing the organization.

3) A comment on one mandated duty that the Council cannot currently perform – interaction with the Interagency Committee on Women's Enterprise.

An issue that bears some discussion is the reference in our statutory authority to the Interagency Committee on Women's Enterprise. As currently written, the Council is charged with advising, consulting and meeting with this Committee on an ongoing basis – including holding joint meetings with the Committee and the Council twice a year, and forwarding recommendations to them on an annual basis. Currently, the

Interagency Committee is not active; thus, we have not been able to fulfill these Congressional directives. We would be pleased to do so at such time that this Committee is reconstituted.

Until such time as this Committee is reconstituted, the Council would be pleased to take the initiative to conduct an annual meeting with relevant Federal agency representatives to inform them of our activities and solicit their views on issues related to women's enterprise development.

4) The NWBC suggests an additional research responsibility that the Council could undertake to be of even greater service to the women's business community and public policy makers.

There is a growing body of knowledge about women's business ownership, but it is scattered and not well synthesized for use in the public policy arena. The National Women's Business Council could serve a role in gathering and synthesizing – on an annual basis – the best and most relevant research on women's entrepreneurship. This could produce a "State of Women's Enterprise" document – a compendium of information, including our annual report and policy recommendations, which would make an important contribution to the women's business and policy communities.

We are confident that within our **current means** we could leverage concurrent research activities and increase their impact on behalf of women business owners by producing such an annual publication. We invite comments and reaction to this new idea, and suggest that Congress may wish to formalize this added responsibility in our statutory authority.

5) Comments on two items in SBA's reauthorization package that affect the NWBC mission and activities – the reauthorization period and sustainability grants for the women's business center program.

We'd like to comment on two items in the U.S. Small Business Administration's reauthorization package that directly affect our mission and activities: first, extending the reauthorization period from three to six years; and second, the proposed cessation of funding for sustainability grants for the women's business center program.

We feel that the Council's needs and interests would be better served by maintaining the current three-year reauthorization time frame. The Council is newly re-energized and active. Undoubtedly, novel ideas and proposals will come from the new members and organizations appointed to the Council. Extending the reauthorization time frame to six years would not just cap our authorized budget, but would effectively **reduce**

our budget over that time frame. The result would preclude the proposition and adoption of new initiatives and reduce the Council's ability to strengthen existing initiatives found to be effective and worth continuing.

Also of concern is the SBA's proposal to eliminate funding for sustainability grants to the women's business center program. The National Women's Business Council opposes this proposal. **We strongly support continuing sustainability grants for the women's business center program.**

Women-owned firms now number over 9 million, representing 38% of the Nation's businesses, and they are growing in number at twice the rate of all U.S. firms. Women-owned firms employ 27.5 million workers – one out of every four company workers – and contribute over $3.6 trillion in annual revenues to our economy. They are a population worth serving, and worth serving well.

Despite this growth, there are still inequities – such as the fact that women-owned firms receive slightly more than 2% of Federal procurement dollars, and a similarly low share of venture capital investment. Thus, the playing field is not yet level. Further, research shows that women business owners learn and manage their firms differently from their male counterparts, and thus may need environments that acknowledge their unique style of learning and address their specific circumstances. Indeed, many men may be more comfortable with such a model as well – and fully 10% of the clients of women's business centers are men.

Since its inception as a pilot program with the passage of the Women's Business Ownership Act of 1988, the impact of the women's business center program has steadily increased. Over the past five years alone:

- the budget has increased from $4M to $12.5M;
- the number of supported centers has grown from 27 to 81; and
- the number of clients served has increased from 8,000 to 86,000.

Thus, with a budget that has tripled in the past five years, the number of clients served has increased more than ten-fold. This would indicate increased efficiencies gained from sustained support for the centers.

The Council is supporting a multi-year study among clients of four women's business centers. Although the final study report will not be published until this fall, some preliminary findings from the study do indicate that the program is having an impact and is meeting its mission. For example:

- **Women's business centers are meeting their mission of reaching out to underserved populations.** The clients of the women's business centers participating in the study are more ethnically and economically diverse than are women business owners in general. The study participants are more likely to be women of color (42%) than the average woman business owner (approximately 13%). One quarter (23%) had less than $20,000 in household income, and 7% had no income.
- **Women's business centers are serving a valuable role in enterprise creation.** Four in ten (42%) of the study participants have already started or acquired their own firms. Of course, many of these firms are still small. In one quarter (25%) of the firms, the owner is the sole employee, and also in one quarter (24%) of the firms, no revenues were recorded in the previous year.
- **Women's business center clients are loyal and regular users of center services.** Those interviewed in the first of four rounds of interviewing have been clients of their respective women's business centers for an average of 2.3 years, and during this time, study participants have averaged a total of 17.7 visits to their respective center, for an average of 7.7 visits per year.
- **Women's business centers are an important early resource for women thinking about starting a business.** In the first round of interviewing, the centers and other public sector sources such as Small Business Development Centers (18%), local community colleges (11%), and the Service Corps of Retired Executives (10%) were key sources of information. Six months later, center clients had branched out to include the Internet (24%), other entrepreneurs (22%), and friends and/or family (22%) as important additional sources of business information.

The Council recognizes the need to measure the economic impact of the program to gain greater efficiencies and to make wiser decisions about how best to allocate limited resources. We feel that the National Women's Business Council can play a vital role in this process. We are willing to assist the SBA in fulfilling its obligation to analyze the data provided to the Agency by the women's business centers. Further, we offer to assist the Office of Women's Business Ownership in more effectively evaluating the efficiency of the program, and integrating regional economic and business growth information in its grant selection criteria.

In closing, let me add a personal note – I am proud to serve as the Chair of the National Women's Business Council. I am passionate about the role and mission of the Council, and I am excited to think of the impact that we are making today and will continue to make in the years ahead.

Statement of Marilyn Carlson Nelson, NWBC Chair

We thank the Senate Committee on Small Business and Entrepreneurship for the support you have shown the Council in the past, and very much look forward to continuing to work together on behalf of this Nation's women-owned businesses – which continue to grow rapidly in number and economic power. At this impressive rate of growth, the need is greater than ever to actively assist them in acquiring the access to capital, access to markets, access to networks, and access to information and technical assistance that they most need to succeed. Thank you.

Statement of Marilyn Carlson Nelson, NWBC Chair

FY2002 NWBC Projects

In September 2002, the National Women's Business Council committed over $500,000 to research and programmatic activities in furtherance of its mission, representing 69% of its $750,000 appropriation. Below is a summary of the eight projects to which these funds have been committed.

Access to Affordable Health Care: Background Research and Issues Discussion
Access to affordable health care has become one of the most important and urgent issues facing business owners today. It is estimated that 60% of the 41 million uninsured in the U.S. are small business owners.[1] This project consists of two elements: first, a literature review and analysis of existing research to determine the differential impact of this issue on women-owned firms; and second, the organization and convening of a roundtable discussion on the issue involving the leaders of women's business and industry association leaders, women business owners, policy analysts, and elected officials. While the research analysis will focus more broadly on the issue of access and affordability, the issue discussion will hone in on several of the proposals now actively under consideration on Capitol Hill, namely Association Health Plans and Medical Savings Accounts. Both phases of this project will produce reports that will be useful in further public policy discussions and action. (Westover Consultants, a minority woman-owned business)

Enterprising Women, Yesterday and Today: An Issues Discussion
The Schlesinger Library at the Radcliffe Institute of Advanced Studies has mounted an exhibit highlighting the history of women's enterprises over the past 250 years. Entitled, "Enterprising Women: 250 Years of American Business," the exhibit profiles a variety of women business owners and their stories throughout the history of the United States. The exhibit opened in October 2002 at the National Heritage Museum in Lexington, MA, and will travel to five additional cities (New York, Atlanta, Washington, DC, Los Angeles, and Detroit) over the next 24 months. This traveling exhibit provides a perfect opportunity to convene a series of issues discussions among local women business owners and organizations. The NWBC will convene three such discussions during 2003, in Boston, New York, and Atlanta. Drawing upon some of the individual stories of the women profiled, local businesswomen will look at the progress that women in business have made, and turn their attention to the challenges that still remain. These focus group discussions will be coordinated with local SBA district offices, and will produce a report containing recommendations for public policy action. (Synthesis Professional Services, a woman-owned business)

The Existence and Effectiveness of Mentoring Programs for Women in Business
A key element to the successful business growth and development is the availability of situation-specific training and technical assistance. While formal programs such as those offered by Small Business Development Centers and Women's Business Centers play a key role, so can the one-on-one assistance offered through mentoring relationships. This project will provide a literature review of existing information and research specifically focused on business and entrepreneurial mentoring programs to

[1] National Federation of Independent Business, www.nfib.com.

assess what elements of such programs seem most effective, as well as profiles of programs targeted specifically toward women business owners. The results of this background research and analysis will inform possible future research into this issue, and will offer useful information to program providers. (Barrera Associates, a minority-owned business)

Micro-Credit Opportunities for Women Business Owners: The Count-Me-In Model
While access to traditional forms of debt capital for women already in business has improved greatly in recent years, access to capital for start-ups remain more difficult. A new micro-credit lending program, Count-Me-In for Women's Economic Independence, offers a new model for credit scoring that may provide insight for public sector micro-lending programs. This project will examine this new model, assessing its structure, client profile, and repayment record. By examining this proprietary model and client database, the Council may uncover implications for broadening the impact of such a micro-credit methodology. (Count Me In, a woman-owned organization)

Regional Economic Seminars: Programmatic Support
During 2002, the U.S. Small Business Administration and the Department of Labor, with support from the White House and the National Women's Business Council, held a national women's business summit, followed by regional summits in Connecticut, Missouri, Tennessee and Texas. These meetings were designed to provide women business owners, women's business association leaders, and service providers the opportunity to discuss important issues and challenges facing the women's business community, and to learn more about government programs that exist to assist entrepreneurial development. The national summit drew over 1,200 participants, and each of the regional seminars attracted between 300 and 600 attendees. The NWBC contributed funds toward these efforts, supporting the work of the Public Forum Institute, which coordinated the seminars.

Regional Economic Seminars: Data Analysis
At each of the above-mentioned economic seminars, participants answered questions pertaining to the issues facing them in their businesses via hand-held radio-controlled devices, which provided nearly instant feedback to the audiences. This project is designed to collect and analyze all of this information, to ascertain the overall issue priorities of the seminar attendees and to determine the most significant subgroup variations. (Synthesis Professional Services, a woman-owned business)

Trend in Growth of Women-Owned Firms
The NWBC has entered into a ground-breaking agreement with the Census Bureau to produce annual tabulations on the growth in the number, employment and revenue of women-owned employer firms. These are the only data available annually between Census years, and will provide a detailed, more up-to-date picture of trends in women's entrepreneurship. The tables to be produced will include information on establishment growth in number, employment and revenue by state and by industry. The first set of tabulations will cover the years 1997-1998, 1997-1999, and 1997-2000.

Womenbiz.gov Website Relocation and Expansion
In 1999 and 2000, the National Women's Business Council was the driving force behind the creation of a web site resigned to be a "one-stop shop" for women seeking to do business with the Federal government. After its launch in 2000, it was moved to the General Services Administration for maintenance and upkeep. Since that time, it has not been adequately maintained and kept up to date, so the NWBC will be taking the site back under its wing. The Council will work with the SBA's CAWBO office to provide up to date content for the site, and will reannounce its availability. (User Technology Associates, a minority-owned business)

Comments of Ronald Newlan, Chairman HUBZone Contractors National Council at the Senate Committee on Small Business and Entrepreneurship's Roundtable of April 9, 2003

Madam Chair, Ranking Member Kerry, and Other Distinguished Members of This Committee:

I thank you for the opportunity to come before you and this Committee to discuss the reauthorization of the SBA non-credit Programs. As the Chair of the HUBZone Contractors National Council, I will focus my comments today on the reauthorization of the HUBZone Program. In my written comments to be submitted, I will address other SBA non-credit issues and programs.

The HUBZone Program will soon be completing its fifth fiscal year since implementation. The Program was enacted to bring good employment opportunities and economic development to the 8,000 geographical areas of our Nation designated as HUBZones due to their high rates of unemployment or the low wages paid in these areas. As designed, the Program is very sound and, at best, only requires some very fine tuning during reauthorization. Just as the design of the Program was and remains quite solid, the implementation of the Program has been quite flawed. The Program is authorized $10M annually. During its years of highest funding, only $2 M was appropriated in the SBA budget for HUBZone Program management and oversight. In FY 2002 and FY 2003 during Conference, the two Congressional Appropriations Subcommittees, eliminated the Program's $2M line item. Only through the extraordinary efforts of Senator Bond was the funding for FY 2002 restored. As of today, there has been no funding restored for FY 2003.

This eliminated funding would have paid for community outreach and new firm certification, program management including keeping the award winning website current and functional, program examination audits of currently certified firms, and the adjudication of HUBZone award protests.

Recently the Program has come under some fire for not performing an adequate number of oversight reviews to ensure the eligibility of all HUBZone certified firms. With no appropriations

to fund the Program, it is impossible for the SBA to perform the necessary oversight and to protect the taxpayers from those willing to commit fraud.

With this being the case, I must urge this Committee to closely and aggressively work with Congressional Appropriators and ensure they do not eliminate our funding for FY 2004. The SBA cannot perform the tasks required by the statute without the resources to do so.

The second area of the Program's implementation that needs to improve is at the individual agency/Department level. The statute is clear. The regulations have been clear for some time. However, the executive agencies have failed to follow them. The annual contracting goal started at 1% and has increased by one half percent each year and is now at 3%. The Executive Agencies have failed to even come close to these statutory HUBZone contracting goals. For FY 2001, the Government achieved a .72% level of actual HUBZone awards with a 2% goal. In FY 2002, the goal was 2.5%. FY 2002 data has not yet been released to the public but I have no reason to believe that actual contract award progress was made in 2002 over the 2001 level.

We in the HUBZone community are frustrated. We have a well designed program--designed to reduce and/or eliminate poverty in the US. We have a program that focuses on economically developing communities and their infrastructure by offering good jobs where they are needed most. This is no hand out program. Virtually all contracts are awarded competitively. The biggest problem facing the program today is the Government's failure to overcome the inertia in implementing it. This inertia can and will be overcome when the program is adequately resourced and each Agency focuses on statutory compliance.

Meanwhile, the HUBZone business community is frustrated and becoming impatient. Today, there are nearly 7,800 HUBZone firms certified by the SBA. They range from a very small helicopter transportation firm located in Hawaii to a bullet-proof/blast-proof shelter manufacturer in Missouri to a 150-person precision machine shop in Maine. Collectively HUBZone firms have annual

revenues approaching $14 Billion. With this size, if ranked on the Fortune 500 list, collectively we are larger than Kodak or General Dynamics and we'd be ranked at # 135. Unfortunately, only a small percentage of our business today comes from HUBZone Federal contracts. We, as a group, are ready to begin to fulfill the promise of the American dream to the 32 million Americans who today live in poverty. When the Federal Agencies begin to award HUBZone contracts per the statute, we will be able to deliver good jobs at fair wages with medical insurance and other benefits. We will continue to move people off of the welfare rolls and give them a chance they have never had before. To accomplish this, we simply need the current Program reauthorized at the $10M annual level, we need a like amount of appropriations, and we need each Agency to follow the law. It is within our grasp. With the continued strong focus, interest, and oversight of this Committee, it will happen.

Thank you for your consideration of these matters.

Ronald Newlan
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Statement of Kaaren J. Street
Associate Deputy Administrator
U.S. Small Business Administration
Office of Entrepreneurial Development
Senate Committee on Small Business and Entrepreneurship
April 9, 2003

Thank you for the opportunity to submit testimony on behalf of SBA's Entrepreneurial Development programs and the Administrations proposals for the Small Business Act Reauthorization.

SBA is committed to serving America's small business men and women as an effective and efficient 21st century organization. SBA is reforming its programs and management to be dynamic and responsive, and to aggressively reach out to those entrepreneurs who need its services. SBA particularly seeks to expand its reach into emerging markets. Above all, SBA is working hard in the Office of Entrepreneurial Development (ED) to integrate its services and programs into a client-based organization that answers the needs of entrepreneurs whether they come to SCORE, SBDCs, WBCs, or any other SBA program.

An example of an innovative and adaptive program is the Service Corps of Retired Executives (SCORE). SCORE operates in a dynamic, innovative fashion and leverages its grant funding with strategic alliances and seasoned small business volunteers. These volunteers annually donate more than a million hours of hands-on, real-life experience to the pre-venture and start-up entrepreneur market segment. SCORE works aggressively to deliver its services to entrepreneurs wherever they may be. In fact, SCORE pioneered small business e-mail counseling in 1997, which now accounts for approximately 20% of SCORE's total counseling.

Despite SCORE's track record, which embodies the spirit of innovation that should serve as a model for all ED programs, it still suffers from a lack of verifiable economic impact data.

This lack of information makes it difficult to evaluate and justify the SCORE program and all other ED programs under the Government Performance and Results Act (GPRA).

Innovation requires flexibility, and many ED programs simply do not have the flexibility they need to improve efficiency, institute new ideas, and reach out to emerging markets. One example in particular is the Women's Business Center (WBC) program, and its "sustainability" pilot, which is about to expire. The WBC program provides valuable services to an underserved community, but it is the most expensive program within the ED office, and reaches fewer women than any of these programs, including SCORE, which operates for half the cost.

Currently, there are 52 centers receiving WBC grants. The sustainability pilot requires SBA to spend 30.2% of the program budget ($3.6 million in 2003) on WBCs that have already graduated from the original 5-year program. Therefore, SBA is awarding grants to 81 centers leaving little or no budget resources available for new centers, innovation, marketing, or outreach. As a result, there are no WBCs in many of our largest urban areas, including Cleveland, Miami, Los Angeles, San Diego, Pittsburgh, Tampa, Little Rock, Minneapolis, Las Vegas, and more. In the coming fiscal year, SBA will be able to open only four new centers, in spite of the fact that the budget for the Women's Business Center program has grown from $1 million in 1990 to $12.5 million in 2003. By redirecting the $3.6 million allocated to the sustainability pilot, SBA could instead offer grants to 24 new centers this year alone.

Unfortunately, with the sustainability pilot in place, the budget will be entirely accounted for. There will be little expansion into larger markets like Los Angeles, Miami and elsewhere. All WBC funding will be concentrated on simply maintaining the status quo. SBA is requesting that this pilot program be allowed to expire. Our goal is not to close or hinder existing centers, but to encourage growth and innovation in the current program.

Another important ED program is the Small Business Development Center (SBDC) program. The SBDC program is the largest non-credit program at SBA, and provides a wide array of information and services to new and existing entrepreneurs - counseling hundreds of thousands of small businesses and start-ups every year. Like the WBC program, however, SBA believes that the SBDC program could benefit from a new sense of innovation. The agency proposes a competitive grant process for the administration of the lead center in each state on a 5-year basis. This competition would affect only the lead center. It would not threaten the networks of individual centers themselves. Current lead centers would, for the first time, be asked to find new and better ways of serving small business, or face the possibility of being replaced. The resulting competition would ensure dynamic administration of the program at the critical, lead center level, and result in better service to our clients - America's entrepreneurs. SBA's proposal does not mandate a change in lead center administration rather it introduces the potential for competitive leadership concepts. Competition is the backbone of American society and leads to efficiency and innovation. This process will not result in a wholesale turnover of lead centers despite the dire predictions of certain parties. Lead centers that perform well will continue to be successful.

With regards to an area of entrepreneurial development that has been sadly ignored in prior administrations, SBA will, by April 30th, notify the Committee on Appropriations of its proposal for allocating the $2 million received in FY 03 for a Native American initiative. At that time, the agency will unveil its plan in detail, but a preview is in order.

This initiative will be innovative and collaborative. SBA recently appointed Thelma Stiffarm to head the Office of Native American Affairs and lead this initiative. To develop the initiative, SBA gathered input and support from tribal leaders, and is working with the Bureau of

Indian Affairs and other government and tribal agencies to maximize its effectiveness. The initiative will not be based in any one office, building, or organization. Instead, SBA will reach underserved communities using all possible means: mobile centers, tribal colleges, correspondence courses by mail, e-mail and CD-ROM, collaboration with tribal and private organizations, e-government initiatives, and more. The goal is not merely to deliver government funds to Indian country. The initiative is to bring new investment, jobs, and skills to Native American entrepreneurs – building economic growth within the Indian community. A dynamic, innovative approach will be the rule in the new Office of Native American Affairs.

To conclude, small businesses create over two-thirds of all new jobs in the American economy. That is what the President's Management Agenda is all about – creating jobs and growth for the American people, while protecting the assets of hard working taxpayers.

The changes we propose to the Congress in this reauthorization share a common goal: success through innovation. To achieve innovation, SBA must be able to invest in the marketplace of new ideas, and the agency asks for your support in its efforts.

Thank you for your leadership and support in the small business community. SBA looks forward to continuing to work together.

Statement of Women Impacting Public Policy
And
National Association of Women Business Owners (NAWBO)

Submitted Before
U.S. Senate Committee on Small Business and Entrepreneurship
Roundtable

On

Small Business Administration Reauthorization
April 11, 2003

May 9, 2003

Women Impacting Public Policy
www.WIPP.org

Madam Chair, Women Impacting Public Policy (WIPP) appreciates the opportunity to give you our thoughts on the SBA programs which will be reauthorized this year. As you know, we represent 425,000 women and minority business owners nationwide. Our association partner, National Association of Women Business Owners (NAWBO) is joining us in submitting remarks to the Committee. WIPP's review of the programs at the SBA are based on three directives with regard to women owned businesses contained in the Small Business Act. The Act states programs at the SBA should:

A) vigorously promote the legitimate interests of small business concerns owned and controlled by women;

(B) remove, insofar as possible, the discriminatory barriers that are encountered by women in accessing capital and other factors of production; and

(C) require that the Government engage in a systematic and sustained effort to identify, define and analyze those discriminatory barriers facing women and that such effort directly involve the participation of women business owners in the public/private sector partnership.

In light of those objectives, we address the implementation of P.L. 106-554. As the Committee knows, this legislation was passed into law in the year 2000. Three years later we are still waiting for implementation of the law. SBA recently announced its decision to "study the study" required to implement P.L. 106-554. The law requires completion of a study of industries in which women owned businesses are underrepresented in federal contracting before the regulations can be implemented. The SBA plans on spending $150,000 and seven months to complete this work. Madam Chair, the first study was completed over a year ago. WIPP believes a 90-120 day review is sufficient. Furthermore, we urge the Committee to require implementation of the law in its reauthorization of the SBA.

SBA Advocacy Programs

The Office of Advocacy has performed an exemplary effort in reviewing government regulations with an eye toward protecting the interests of small businesses. Our suggestion going forward is that any report Advocacy prepares or regulation it reviews, should take women owned businesses into consideration.

We are pleased the Office has an in-house researcher dedicated to women and minority owned business research. We urge that any research reflect the three goals stated above—what can be done to vigorously promote interests of women owned businesses, identification and recommendations with regard to barriers encountered by

women accessing capital, and identify and define discriminatory barriers facing women in federal procurement opportunities.

Entrepreneurial Development Programs

Our membership tells us that while the SBA does a good job of helping an entrepreneur start a business, very little exist for businesses who are at the next level of growth. And, yet, small businesses at this stage of growth could really use the SBA's help. Many of our women owned businesses are first generation businesses. Their critical needs come when they are considering expanding the business beyond five or ten employees. We believe much could be done throughout SBA's programs to shift some of the resources toward helping businesses at Stage II of their growth. WIPP suggests that the Committee turn its attention to the focus of the SBA programs with regard to this segment of small business.

With regard to the Women's Business Centers (WBC) s, usage statistics show a real growth in women served by the Centers- so few people would dispute the need. However, funding for WBCs remains an issue of concern for WIPP. We believe the WBCs should spend as little time chasing corporate money and as much time helping women. To require WBCs to become 100% sustainable after 5 years appears to us to be pound wise and penny foolish. WBCs grow businesses, which contribute to the economy.

In the initial two years, WBCS are required to raise 50 cents per every dollar granted by SBA – ½ unkind (donated services) and ½ in cash. In year three, they are required to raise a dollar for dollar match. Under the current proposal, after year five, the Centers would need to become completely sustainable. Since it is unlikely that Centers can become 100% sustainable through a fee structure, the only alternative is to raise corporate money. As the Committee knows, it is exceedingly difficult to raise corporate funds in a soft economy, which we currently face. Loss of sustainability grants will undoubtedly result in closing of Centers or vastly reduced services offered by the Center.

We also note that Centers which do raise more money than they need required to in the initial stages, are penalized further complicating the goal of 100% sustainability.

Government Contracting/Business

There is much to be done in these programs and initiatives. WIPP believes more resources at the SBA should be devoted to assisting companies with getting the right contracting vehicles, how to position their companies as primes and subcontractors, and understanding how to structure teaming agreements – to mention a few. We also ask the

Committee to "unbundle" the paperwork required of small business such as GSA schedule contracts and 8(a) certification.

In light of the President's initiative to unbundle contracts, it is of little use if we cannot help small businesses understand how to work with the government. We appreciate the matchmaking events that SBA has recently initiated, but it is just the tip of the iceberg on what needs to be done to help small businesses get into the federal contracting system.

The Administration and the small business community have spent much time on the issue of how to make bring "accountability" to government contracts. We believe it is impossible for 47 Procurement Center Representatives (PCR)s to adequately monitor compliance for all small business procurement activity throughout the Country. The law also asks PCRs to increase the procurement dollars available to small businesses. We urge the Committee to increase the resources at the SBA devoted to monitoring compliance and increasing procurement dollars for small business.

We recommend the Committee take a look at how the mentor-protégé program works at SBA. How does it interact with other mentor-protégé programs within the federal government, in particular, DOD? Small businesses are confused about how to utilize this program and it seems to us that further thought needs to be given to the structure and outreach of this program.

Madam Chair, we appreciate your inviting us to participate in this forum. We look forward to working with the Committee as it considers the reauthorization of SBA programs.

Statement of

Donald Wilson

President, Association of Small Business Development Centers

Submitted to the

United States Senate Committee on Small Business and Entrepreneurship

Roundtable Discussion on SBA's Non-Credit Programs

April 9, 2003

Chairman Snowe, Members of the Committee, I am Donald Wilson, President of the Association of Small Business Development Centers (ASBDC). The association is grateful for being invited to participate in today's roundtable. ASBDC is the association specifically provided for in Section 21(a) (3) (A) of the Small Business Act. Every SBDC grantee located in all fifty states, the District of Columbia, Puerto Rico, the Virgin Islands, Guam and American Samoa is a member of the ASBDC.

In 1980 Congress authorized the establishment of the Small Business Development Center Program. For nearly a quarter of a century, this unique program has been providing quality management and technical assistance to America's small business owners as Congress envisioned at the program's inception. Since 1980, America's Small Business Development Center Network has provided in depth counseling of an hour or more and training of two hours or more to roughly ten million small business owners and aspiring entrepreneurs. In addition, millions more entrepreneurs have used the network as an informational resource for answers to questions as simple as how to get a business license or where to get an employer identification number.

With the bipartisan support of Congress, state and local governments, institutions of higher learning, Chambers of Commerce, small business trade associations, foundations, and private sector companies, a remarkable national educational infrastructure has been developed. That infrastructure currently includes nearly 1,000 SBDC service centers employing over 5,000 counselors, trainers, researchers and administrative personnel. Many of these counselors have records of service exceeding ten years. They are uniquely qualified to help their clients because of the relationships they have built in their states and their knowledge of additional resources that will be helpful to their clients. Many of the network's current counselors have owned or managed businesses and many have MBA's or graduate degrees in finance. As a group they represent an irreplaceable national resource.

We come before the committee today extremely proud of what the SBDC network has accomplished during its first quarter of a century. We believe this network has exceeded the aspirations of those who had the original vision of a federally supported, broad based system of management and technical assistance for small businesses "linking the resources of Federal, State and local governments with the resources of the educational community and private sector." We are committed to working with this committee to assure the continued effectiveness of the SBDC program in order to strengthen our nation's economy in the years ahead.

Reauthorization of the SBDC program comes at a critical time for our nation's economy. Small businesses generate 52% of Gross Domestic Product, represent 99 % of all employers and employ 51 % of all private sector employees. During the past decade small businesses created roughly 70% of net new jobs in our economy. But all is not well with the small business sector The latest data available from SBA's Office of Advocacy confirms that in 2001 small business bankruptcies nationwide increased nearly 13% over the previous year. No doubt, newer national figures will show those numbers further increasing. The majority of small business owners have never received any formal entrepreneurial training. A majority have never managed a business during an economic downturn. The need for management and technical assistance within the small business sector is greater today than ever before. The Department of Labor confirms that when unemployment rises, self-employment rises.

As I suspect everyone at this Roundtable would acknowledge, small businesses are truly the engine of our nation's economy. And yet in recent decades, programs designed to assist small businesses have been marginalized. In 1978, the SBA budget represented six-tenths of the total federal budget. If that ratio had been sustained, the SBA would be a $12 billion agency. Unfortunately, SBA's current budget of less than $800,000,000 represents barely four-one hundredths of one percent of federal spending. During the past decade, spending on SBA non credit programs, including the SBDC program, has declined in real dollar terms. It is not surprising therefore that during the past two calendar years, job creation in this country fell to the lowest twenty-four month level since the Eisenhower Administration and unemployment hovers at nearly 6%.

In light of the growing need among small business owners for management and technical assistance, we would respectfully ask this committee to encourage appropriators to reverse the decade long decline in funding for SBA non credit programs. We would ask that you increase the currently authorized SBDC program funding level of $125 million to $135 million in FY 2004, $155 million in FY 2005 and $175 million in FY 2006. This is not unreasonable when you consider that the SBDC program, unlike most federal programs, has demonstrated a positive return on investment. There are 23 million small business owners in the U.S. and the Kauffman Foundation estimates that one in ten adult Americans is seeking to start his or her own business. Forty percent of SBDC clients are women (SBDC's served over a quarter million female clients last year) and twenty-two percent are minorities. Demand for entrepreneurial services among these constituencies is exploding. If we are to have any chance of growing this economy at the level needed to provide jobs and enhance federal revenues, there must be a clear determination by Congress to provide the resource to increase the service capacity of SBA non-credit assistance programs.

ASBDC is aware that SBA has presented proposals to this committee that would radically restructure the SBDC program. ASBDC strongly opposes these recommendations and urges the committee to do so as well. The SBDC program is the most successful small business assistance program in history. The SBDC program annually serves more entrepreneurs than all other SBA credit and non-credit programs combined and serves them well. There is neither need nor other justification for this committee to adopt the radical SBDC restructuring proposals submitted by SBA. If adopted, these proposals would cripple the ability of the SBDC network to effectively provide quality service to its clients and to work cooperatively and effectively with its many program partners.

The SBDC program, as currently structured, is literally the envy of much of the world. Government representatives from nearly every continent visit SBA and SBDCs regularly to try and learn how to replicate the SBDC program in their own country. One of the key components of President Bush's Partnership for Prosperity with Mexico is a commitment to assist in the establishment of SBDCs in Mexico. Interestingly, before the Partnership for Prosperity was ever initiated, ASBDC members, working with universities in Merida, Guadalajara and Vera Cruz, had already helped to establish SBDC type programs in Mexico. We are told that one of the key requests of Central American representatives negotiating with the U.S. Government on the establishment of a Central American Free Trade Agreement is for assistance establishing the equivalent of SBDCs in their native countries. It is inexplicable why SBA would now propose to Congress a radical restructuring of the SBDC program.

Specifically, SBA has proposed that Congress authorize the agency to re-compete SBDC grants every five years. For what purpose? Has any documentation been provided to indicate that current grant recipients are not performing well? On the contrary, SBA's own data confirms that the number of counseling and training clients served by the SBDC program increased in 2002 to over 650,000, an increase of nearly 5.7% from 2001 with essentially no increase in federal program funding. The OMB in its budget presentation to Congress acknowledged that independent studies showed that the SBDC program returned $2.7 dollars to the federal treasury for every federal dollar invested. SBDC clients receiving long term counseling in 2000 created an estimated 47,000 new jobs and attributed the saving of an additional 34,000 jobs to SBDC assistance. SBDC counseling helped long-term counseling clients grow sales by almost four times the rate of the average U.S. business. SBDC counseling helped long term counseling clients create new jobs at more than ten times the rate of the average U.S. business. With a superlative performance record like this, there appears to be no justification for SBA's proposal that Congress radically restructure the SBDC program.

Limiting SBDC grants to five years duration may sound reasonable enough at first blush. And who could be against competition? The fact is, the success of the SBDC program is integrally tied to its structure which was carefully thought out by Congress at the program's inception. The SBDC program was created as a federal, state, and local partnership to ensure accountability and effectiveness. With its matching funds component, the SBDC program was wisely and carefully designed to leverage federal resources to the maximum extent possible. The program's existing grantees, whether institutions of higher learning or state agencies, understood when they sought to host SBDC programs in their states that they would be expected to contribute resources at least to the same extent as the federal government. In fact, institutional hosts have contributed or raised matching funds far in excess of the federal government's financial contribution. In well over 90% of SBDC programs, the federal government contributes less than 50% of operating resources. This extraordinary investment by the institutional hosts has been made with the understanding that they could and would continue to host the program as long as their performance was satisfactory. It would be inherently unfair now to take the program away from those program hosts who, assuming good faith on the part of the Federal Government and SBA, have invested so much in this program.

The SBDC program was modeled in many ways after the highly successful agriculture extension program. The Smith-Lever Act sought to establish a strong partnership between Federal, state and local governments and land grant colleges and universities across the nation to insure the dissemination of knowledge, developed at our nation's land grant colleges of agriculture, to our nation's farmers. Similarly, the SBDC program was designed to create a lasting partnership between Federal, state and local government and institutions of higher learning to disseminate

the very best practical business management and technical knowledge to our nation's small business owners and aspiring entrepreneurs. And the plan has worked remarkably well.

Outstanding higher educational institutions such as the University of Missouri, the University of North Carolina, the University of Wisconsin, Howard University, Washington State University, the University of Houston, the University of Wyoming, the University of Southern Maine, the University of Georgia, the University of Pennsylvania, the University of Arkansas, the University of Massachusetts, the University of Delaware, the State University of New York, George Mason University, the University of Kentucky, Rutgers University, Boise State University, Iowa State University, and the University of Maryland, to name a few, are hosts grantees of the SBDC program. These are not the community store front non-profit groups to whom the SBA proposes to have Congress open the SBDC grant process. These are institutions that bring unique stability to the SBDC program. They are institutions built on solid financial and community foundations. Many of these institutions house the great business schools and entrepreneurial programs in our nation, such as the Wharton School, the Kenan-Flagler School of Business, the Robert H. Smith School of Business, the Isenberg School of Management and the Terry College of Business. These are institutions with world wide reputations. These are institutions with our nation's finest business school faculties and MBA and entrepreneurial programs. The talent and knowledge of these world class faculty and students are a resource readily available to the SBSDC program only as long as the SBDC program is an integral part of these renowned institutions. The broad class of grant applicants to which SBA would have Congress open the SBDC program overall has very little if any background or expertise in providing entrepreneurial training or management and technical assistance to small businesses.

The outstanding institutions who are the SBDC program's current hosts also help to ensure the financial integrity of the SBDC network. Great institutions of higher learning are generally recipients of a broad range of grants from numerous state and federal agencies. The programs educational institution hosts have full time professional grants management departments. These departments enforce the highest levels of financial accountability because if one grant program should fail to meet OMB financial standards, it could threaten all federal grant programs at the institution. .

And our hosts also include distinguished state agencies such as the Minnesota Department of Trade and Commerce, the Ohio Department of Development, the Illinois Department of Commerce, and the Montana Department of Commerce. These institutions, like the institutions of higher learning, bring to the SBDC program resources, relationships, and unparalleled leadership within their respective states that simply cannot be replicated by others. Why would Congress want to authorize the SBA to alienate these state government institutions that are critical components of the economic development infrastructure within each of their respective states by terminating the existing partnerships? Why would Congress want to authorize SBA to breach and abrogate the partnership relationships with great educational institutions, partnerships on which the SBDC program was predicated and which has served the nation's small business sector and taxpayers so very well for a quarter century.

The SBDC program is not some federal contract issued to purchase a product. It is a unique infrastructure in which federal, state and local governments and institutions of higher learning have invested hundreds of millions of dollars. You do not dismantle that infrastructure and start over again for the sake of ribbon cuttings and photo opportunities. The SBDC program was structured by Congress so as to provide the highest quality management and technical assistance possible to the men and women who are responsible for growing this economy.

Let's examine the likely real life results if Congress approves SBA's core proposals. Two years after the signing of reauthorization, SBA will begin to re-compete SBDC grants. Requests for proposals will be issued and a hodgepodge of non-profit entities, most with little or no background in providing business management and technical assistance will apply. Few applicants, if any, will have the matching resources or will be able to attract the matching resources of the program's existing hosts. The existing hosts will have already begun to reduce their financial commitment to the program. They will have quickly realized that the SBDC program is no longer a meaningful partnership with a long term commitment by all partners. They will realize the program has become a politicized, short term grant program. Hundreds of dedicated, highly trained, experienced SBDC business counselors will depart the program realizing their SBDC careers are now short lived. Existing programs will find it virtually impossible to attract new counselors because qualified potential applicants for counseling positions will recognize that they face the prospect of only short term employment with the new hosts.

New grant recipients will face the daunting challenge of trying to rebuild a statewide service delivery network from scratch with limited resources, and limited ability to attract partners or qualified staff. One year of quality service delivery to the state host's small business community will be lost.

It will take a new host probably a minimum of two years to put a semi-effective statewide service delivery system together. Why? Because critical relationships built over decades will have been torn down and will not be rebuilt easily. The new host will be reluctant to share research and resources with program partners for fear the partners may compete against the host in the next round of competition. Two more years of effective service delivery will likely be lost. If the new host is lucky, it will then have two reasonably productive years of service delivery and program management before the grant expiration year will begin. Early in that fifth year, SBA will issue a new Request for Proposal and counselors, many of whom have been on the job three years or less, will depart the program, recognizing their days of employment by the host are numbered. And then the horrible cycle of low productivity and compromised service delivery will begin all over again. In fact over a six year period, we will likely see only two years of moderately productive service delivery. Does this committee want to be a party to such a nihilistic, destructive process? I cannot believe you do. What I have just described is not fantasy. It will likely be reality. The scenario I have painted is stark testimony to how little thought has gone into the agency's unfortunately shortsighted recommendations. We would submit that change for the sake of change is mindless. The better prescription would be "first do not harm". And second, "if it ain't broke, don't fix it. And clearly the SBDC program is not "broke."

Some will say that re-competition is necessary to encourage existing hosts to perform adequately. Our current SBDC programs are more productive, with greater economic impact than ever before. A private firm, Economic Policy Resources Inc. found that, in 2001, Vermont SBDC business assistance resulted in approximately $3.2 million in new state tax revenues. Economics professors at Ohio University using the nationally recognized Economic Development Modeling Program, IMPLAN, created by MIC, Inc of Massachusetts, found that the Ohio SBDC helped create and save 7,097 jobs and $302 million in payroll in 2001 with a total economic impact of $1.1 billion. A 2002 study funded by the Oregon Economic and Community Development Department and conducted by Campbell –DeLong Resources found that clients of the Oregon SBDC generated $44 million in new payroll, increased productivity by 23% and increased sales by $66.6 million.

The SBDC program is unique among federal programs in that it has a Congressionally mandated accreditation program. An SBDC program must undergo a comprehensive accreditation review every four years. If an SBDC program fails to be accredited, the SBA cannot continue to fund the program. The program's accreditation standards are based on the Malcolm Baldrige management principles and are designed to serve as the foundation of a world class organization. And the SBDC accreditation program works very well.

One needs only to look at the accolades bestowed on members of the SBDC network to know this is true. For example, the Maine SBDC program was one of four organizations honored last fall with the Margaret Chase Smith State Quality Award. The award is administered by the Maine Quality Awards Committee on behalf of the American Society for Quality. The National Association of Management and Technical Assistance Centers presented its 2002 Outstanding Project of the Year Award to the New York State SBDC for its efforts to help small businesses recover from the September 11, 2001 attack by terrorists on the World Trade Center. The Bill J. Priest Institute for Economic Development, a division of the Dallas County Community College District, was the only recipient of the Texas Award for Performance Excellence in 2002. The award is patterned after the Malcolm Baldrige National Quality Award and recognizes Texas organizations that excel in world-class management, achievement, and performance excellence in applying quality and customer satisfaction principles. An integral and vital component of the Bill J. Priest Institute is the Dallas Regional SBDC. In June of last year, Secretary of Commerce Evans presented the Black Hawk College Export Trade Center, a special component of the Black Haw College SBDC, with the President's "E" Award for Exporting Excellence. This prestigious award was created by President John F. Kennedy to recognize U.S. businesses or organizations that have demonstrated outstanding growth and innovation in exports or export service. Clearly, the SBDC accreditation process is working as Congress intended to insure quality and continuing improvement within the SBDC network. Re-competing grants every five years cannot possibly achieve what the SBDC Accreditation program is achieving. Moreover, SBA, under existing law, is fully empowered to pull a grant at any time from an SBDC program that is not performing effectively. And SBA personnel perform a financial and program review of every SBDC program, every two years.

SBA also recommends that Congress repeal the current law's requirement that the awarding of grants to applicants not be inconsistent with State Government plans where such plans exist. This proposal for statutory change is likely to be patently offensive to state officials. Cooperation with and support of state governments was a fundamental principle on which the SBDC program was founded. It is absolutely essential that the SBDC program in any given state enjoy the support of the state government. State government support is usually critical to an SBDC program being able to secure adequate match. Essentially what SBA proposes is for state government to be an absolutely silent but financially generous partner. It would seem illogical that state governments would willingly accept such a subservient role. There is less incentive for states to support the SBDC program financially if a state's views are ignored by SBA. And we believe state government officials are likely to have a better grasp of how an SBDC program fits into the state's overall economic development plan than SBA officials in Washington. We fear that this proposal by SBA is an unfortunate reaction to the current situation in California. We understand that officials in the governor's office have advised SBA that California wants one grantee host in California. SBA, apparently to placate the self interests of the six SBA district directors in California, has reportedly decided to create six grantees in California. ASBDC believes this decision is an unfortunate one. Clearly, six SBDC grantees in California will necessitate replication of lead center overhead expenses thereby reducing the resources available

for direct services to small businesses. Six hosts will also prevent the SBDC program in California from being able to address the state's needs on a "coordinated" and "comprehensive" basis as the statute envisions. None if the six hosts will be able to compete for state or federal grants from agencies that seek a statewide service delivery system.

SBA also proposes that Congress authorize the agency to take additional SBDC program funds intended for direct program delivery from the program and divert the funds to SBA for agency operating expenses. The agency is requesting that the $ 500,000 currently taken from the program by SBA be increased to one percent of the total program funding. At current program funding levels, SBA would take an additional $400,000 for their own use. This would mean a further reduction in program funds for service delivery to small businesses. Nationwide the program has suffered cuts in state and local funding. The needs of small businesses are acute. In the past two years, SBA has proposed dramatic increases in its salaries and expenses budget amounting to tens of millions of dollars. At the same time the agency has proposed sharp reductions in funding for the agency's non credit small business programs. ASBDC, in light of the current dire economic conditions facing our nation's small business owners, believes it would be unconscionable for Congress to take SBDC program funds intended for direct small business assistance, and divert them to administrative overhead at SBA central. What is really needed is for Congress to redirect some of the budget increases proposed for salaries and expenses at SBA central to the pressing management assistance needs of our nation's small business owners.

We would also request that this committee address the serious issue of SBDC client confidentiality. The full House of Representatives has twice passed language protecting the confidentiality of SBDC clients. This committee approved similar language when it adopted S. 2483 last fall. Client confidentiality is critical to the relationship between this program and its clients. The OMB approved "request for counseling" form leaves clients with the clear impression that their confidentiality is protected and assured. Regretfully, various marketing groups, and others have sought to breach or have successfully breached the veil of confidentiality. Statutory protection is clearly needed. ASBDC supports the confidentiality language approved by this committee in S. 2483 last year and encourages you to incorporate that language in the SBA reauthorization bill.

In closing, let me again thank you Chairman Snowe and members of the committee for holding this roundtable on the reauthorization of SBA non-credit programs. ASBDC appreciates your solicitation of the association's views. I will be glad to respond to any questions the committee may have and ASBDC will be pleased to try and provide any additional information that the committee may require.

APPENDIX MATERIAL SUBMITTED

Post-Roundtable Questions
Committee on Small Business and Entrepreneurship
to
Harry Alford

"SBA Reauthorization: Non-Credit Programs"
April 9, 2003

Questions submitted by Senator Olympia J. Snowe, Chair

1. One benchmark for this Committee to measure the success of small businesses is the government-wide 23 percent goal of prime contracts awarded to small business. Are small businesses receiving their fair share? Do agency reports accurately reflect achievement? Do we know how many small businesses (of the reported 25 million) are actually doing business with the Federal Government?

2. The Procurement Center Representative is a powerful and valuable resource to the small business that wants to do business with the Federal Government, yet their numbers are shrinking. There are also budget constraints that make it difficult for PCRs to provide necessary oversight. In addition, the strategy to unbundle contracts imposes new responsibilities on PCRs. How is the SBA managing the growing role of the PCR?

3. Agencies increasingly rely on multiple databases for small business information; some of these sources allow inconsistent and conflicting data about small businesses; and, in other instances, data entry errors account for inaccurate information. What can be done to ensure the quality of small business data?

4. Current regulations state a firm's size status for a contract is determined at the time a contractor submits its offer. The Administration recently took action to limit the amount of time a concern is considered a small business. In addition, the Office of Federal Procurement Policy issued guidance that requires agencies that run GWACs to include a clause in the contract that will make small businesses re-certify the size and type of their business annually. How are these efforts accomplished without hurting/inhibiting small business growth?

5. Last year the Federal Government used purchase cards to purchase close to $14 billion of goods and services. The SBA Office of Advocacy issued a recent report that indicates that small businesses are receiving a lower share of these prime contracting dollars and that agencies are not following through in setting aside their purchases between $2,500 and $100,000 for small businesses. What can we do to ensure that small businesses are not excluded from credit card purchases?

6. Current regulations provide thresholds to determine when a bundling acquisition strategy has "measurably substantial" benefits that make bundling necessary and justified

under the law. How do these thresholds compare to the size of contracts that you see at Federal agencies?

7. While some argue that subcontracting is the answer to small business access to the Federal marketplace - there are others that believe that nothing could be further from the truth. When a small business receives a subcontract it is forced into a secondary role, losing control over key decisions about what rates get charged and how work is divided.

The Committee also heard from small businesses at the contract bundling hearing that they are regularly used as "window dressing" on bid proposals to help large firms win contracts and then don't receive the proposed level of work once the contract is awarded. How can we improve subcontracting opportunities? How do agencies currently monitor compliance with subcontracting plans? What is the SBA's role? How do agencies address failures to achieve subcontracting plans? How frequently do agencies impose liquidated damages on a contractor, for failing to make a good faith effort to comply with the requirements of a subcontracting plan.

8. Recent reports raise questions about the level of program funding and the ability of the SBA to effectively oversee and enforce compliance with the program. What actions can be taken to ensure that only eligible firms are certified and benefit from the program?

9. Although the power to let contracts under the 8(a) program to selected small businesses is a means of achieving the program's business development goal, it is not the only one. What does the SBA do for a firm once it enters the program? How does the SBA measure and track this assistance? How effectively does the 8(a) program develop minority owned businesses. How many firms succeed after leaving the program? When an 8(a) firm develops - who in the minority community benefits? Do we know which agencies use the program? For those low-award agencies, why is the program not used more?

10. The 7(j) program provides the primary component of the Business Development portion of the 8(a) Business Development Program. Yet there is a significant number of 8(a) and SDB firms which do not receive assistance. Why is the cost of the 7(j) program rising, while the number of businesses served is falling? What can we do to improve the effectiveness of the program?

Ledwin, Lindsey (Small Business)

From: Harry Alford [halford@nationalbcc.org]
Sent: Friday, May 02, 2003 3:13 PM
To: Ledwin, Lindsey (Small Business)
Subject: Post-Roundtable Questions

1. Agency reports do not accurately reflect achievement. There has been much confusion and misrepresentation of small businesses. The Los Angeles Times did a good job of elaborating on the inaccuracies of Pro-Net. Also, perhaps a formal process certification for small businesses needs to occur. We really don't know the true picture.

2. We need more funding to provide more PCR's in the marketplace. This is a serious problem and it affects those small businesses throughout the nation who need a local advocate to assist them. A PCR is more valuable than an SBDC office.

3. Have one complete source that is beyond rapproach. Also, it should be confidential to the SBA and shared with federal buying offices only.

4. In the day of bundling and super size conglomerates, we need to re-evaluate the size standards for small business and have a noticeable increase in the volume. As a development consideration, we need to allow small businesses more time and growth before they are no longer considered small.

5. There should be penalties for buying offices that do not adhere to small business set asides. Strong penalties!

6. This is all in the "eyes of the contracting officer". The desired result can be justified through creative articulation.

7. We need more "muscle" in implementing subcontracting plans that are truly effective. The SBA should have a role in recommending penalties for agencies that do not adhere to subcontracting plans. Exit interviews should be taken of subcontractors after a procurement is completed. These interviews can be compiled and trends can be correlated to specific prime contractors.

8. SBA should be the sole source for certification and implementation of the programs. Competitive programs such as MBDA, OSDBU's, etc. should be eliminated and the funding transferred to the SBA. Eliminating MBDA and the OSDBU slots could translate into 300+ PCR slots.

9. Again, we need more PCR's to be available for 8a's. The most successful 8a's probably would succeed without the program. There needs to be improvement in the reporting procedures and the information made more public and agencies held accountable. 8a firms can provide jobs to underutilized communities and invest in such communities. We need more utilization of the 8a portfolio. 200 businesses, mostly Virginia and Maryland firms, account for over 50% of total 8a volume. Something is very wrong with this picture.

10. Let's reflect back on the days when the 7J appeared to be quite effective. What made the 7J program effective in the late '80's? At least, everyone knew of the resource and how to utilize it.

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Post-Roundtable Questions
Committee on Small Business and Entrepreneurship
to
Fred Armendariz
U.S. Small Business Administration

"SBA Reauthorization: Non-Credit Programs"
April 9, 2003

Questions submitted by Senator Olympia J. Snowe, Chair

1. One benchmark for this Committee to measure the success of small businesses is the government-wide 23 percent goal of prime contracts awarded to small business. Are small businesses receiving their fair share? Do agency reports accurately reflect achievement? Do we know how many small businesses (of the reported 25 million) are actually doing business with the Federal Government?

Are small businesses receiving their fair share?

- Small businesses could certainly receive a larger share of Federal procurement opportunities.
- SBA is trying to deliver an environment where small businesses will have better access to contracting opportunities. The implementation of the President's Small Business Agenda, specifically the recent OMB report on Contract Bundling, is an important part of that environment.
- That environment also includes holding one-on-one meetings with Deputies of major agencies to seek their commitment and holding National Matchmaking events.
- Agencies will be held accountable for avoiding unnecessary contract bundling which will help to create opportunities for small businesses.

Do agency reports accurately reflecting achievement?

- SBA relies on data in the Federal Procurement Data System (FPDS) to measure agencies' goal achievements.
- GSA, which operates the FPDS, provides the goaling data to SBA, who verifies the data with the agencies before it is published on SBA's Website.
- As part of the Administration's Integrated Acquisition Environment Initiative (IAE), the FPDS is being re-engineered to improve the system so that there is more accurate and timely data. On April 23, 2003, GSA announced the award of the FPDS-NG re-

engineering contract that was made to a small business, Global Computer Enterprises, Inc, in Maryland.

Do we know how many small businesses (of the reported 25 million) are actually doing business with the Federal Government?

- NO. There are small businesses that are prime contractors and subcontractors.
- Information is not available on the number of small businesses that have contracts below $25,000 or that are subcontractors.
- Based on FY 2001 FPDS data, there are 49,650 unique small businesses that have contract actions over $25,000.

2. The Procurement Center Representative is a powerful and valuable resource to the small business that wants to do business with the Federal Government, yet their numbers are shrinking. There are also budget constraints that make it difficult for PCRs to provide necessary oversight. In addition, the strategy to unbundle contracts imposes new responsibilities on PCRs. **How is the SBA managing the growing role of the PCR?**

- The work of the PCRs has been impacted by several dynamics, including the procurement reforms of the last eight years.
- SBA will manage their changing role by leveraging our resources through working with the OSDBU Directors, using technology to help get the job done, and relying on leadership and accountability at each agency to support the small business programs.

3. Agencies increasingly rely on multiple databases for small business information; some of these sources allow inconsistent and conflicting data about small businesses; and, in other instances, data entry errors account for inaccurate information. **What can be done to ensure the quality of small business data?**

- The quality and consistency of small business data can be improved through integration of data sources. This will eliminate opportunity for error and misrepresentation in multiple data bases upon which public and private sectors rely.

- In implementing the Administration's Electronic Commerce initiative, SBA partnered with the Department of Defense to integrate the PRO-Net and the Central Contractor Registry (CCR) databases to create a single point of vendor registration for companies doing business with the government.

- On December 17, 2002, the Administration announced the single point of vendor

registration for both systems.. The second phase, transmission of procurement preference information from SBA to CCR, will take place during FY 2003. These steps will streamline the registration process for small businesses, and improve long-range data integrity for government purchasers.

- SBA is reviewing the PRO-Net database and removing companies that based on their number of employees or annual receipts are not small businesses.

- SBA is also researching the feasibility of having upfront automated quality checks to better screen companies when they register on PRO-Net/CCR.

4. Current regulations state a firm's size status for a contract is determined at the time a contractor submits its offer. The Administration recently took action to limit the amount of time a concern is considered a small business. In addition, the Office of Federal Procurement Policy issued guidance that requires agencies that run GWACs to include a clause in the contract that will make small businesses re-certify the size and type of their business annually. **How are these efforts accomplished without hurting/inhibiting small business growth?**

   - The goal is to help small businesses grow and prosper.
   - According to the OFPP guidance for GWAC contracts, small businesses would be asked to re-certify their status annually. The guidance gives agencies the discretion to shape implementation in their respective programs in consultation with OFPP. OFPP has not prescribed specific clauses.
   - If the firm is no longer small, agencies will not be able to take credit towards their goals for any subsequent orders placed with the firm. However, the firm will continue to perform on the contract.
   - On April 25, 2003, SBA published changes to our size regulations that also will require annual re-certification of size status under GWACs, Federal supply schedule contracts, and multiple award contracts. The rule also provides other alternatives to annual certification, e.g., re-certification at the time the option is exercised.

5. Last year the Federal Government used purchase cards to purchase close to $14 billion of goods and services. The SBA Office of Advocacy issued a recent report that indicates that small businesses are receiving a lower share of these prime contracting dollars and that agencies are not following through in setting aside their purchases between $2,500 and $100,000 for small businesses. **What can we do to ensure that small businesses are not excluded from credit card purchases?**

- Agencies primarily use the credit card to obtain goods and services of $2,500 or less, which are known as micro-purchases. These purchases are exempt from the small business reservation set forth in Section 15(j) of the Small Business Act.
- SBA will continue to encourage the agencies to use small businesses for their credit card purchases.

6. Current regulations provide thresholds to determine when a bundling acquisition strategy has "measurably substantial" benefits that make bundling necessary and justified under the law. **How do these thresholds compare to the size of contracts that you see at Federal agencies?**

- To justify bundling, agencies must achieve "measurably substantial benefits that equal 10% of the estimated contract value (including options) if the value is $75 million or less, or 5% of the estimated value, or $7.5 million whichever is greater, if the value exceeds $75 million.
- These thresholds were chosen based on historical experience of the value of contract bundling requirements that the PCRs review.

7. While some argue that subcontracting is the answer to small business access to the Federal marketplace - there are others that believe that nothing could be further from the truth. When a small business receives a subcontract it is forced into a secondary role, losing control over key decisions about what rates get charged and how work is divided.

The Committee also heard from small businesses at the contract bundling hearing that they are regularly used as "window dressing" on bid proposals to help large firms win contracts and then don't receive the proposed level of work once the contract is awarded. How can we improve subcontracting opportunities? How do agencies currently monitor compliance with subcontracting plans? What is the SBA's role? How do agencies address failures to achieve subcontracting plans? How frequently do agencies impose liquidated damages on a contractor, for failing to make a good faith effort to comply with the requirements of a subcontracting plan?

How can we improve subcontracting opportunities?

- Our Matchmaking events focus on matching the capabilities of small businesses with Federal, state, and local agencies and Prime contractors. These events will help small business gain subcontracting opportunities.
- Agencies are also using past performance as one of the source selection factors for

making awards. Large businesses will be more accountable for having good past performance in complying with subcontracting plans and proposing to use small businesses in future procurements.

- SBA is working with OMB to automate the subcontracting information and capture data on lower-tier subcontracting.
- SBA also encourages large prime contractors to post subcontracting opportunities in SBA's Subcontracting Network (SUB-Net).

How do agencies currently monitor compliance with subcontracting plans?

- Prime contractors submit reports to agencies with achievements toward the goals set forth in the subcontracting plans.
- The recent OMB Report on Contract Bundling requires agencies to strengthen their oversight of the subcontracting program.
- The OSDBUs will be required to conduct periodic evaluations of their agencies' compliance with small business programs, including the oversight of their prime contractors' compliance with subcontracting programs and report to the Agency Head and the SBA Administrator.

How do agencies address failures to achieve subcontracting plans?

- When prime contractors fail to achieve goals in subcontracting plans, agencies have the option of assessing liquidated damages if they can prove the contractor did not make a good faith effort to comply with their subcontracting plan.
- Agencies rarely assess liquidated damages.
- Last July, the Administration implemented a Past Performance Data Base that contains information on companies past performance on prime contracts. As part of the automation of the subcontracting data, information on a company's failure to comply with subcontracting plans could be captured and sent to the Past Performance Database.

What is SBA's role?

- SBA has commercial market representatives that conduct compliance reviews of large business prime contractors and make recommendations on how they can strengthen their subcontracting programs.
- SBA is re-negotiating our MOU with the Defense Contract Management Agency to conduct compliance review of the DOD contractors. This partnership helps to

leverage SBA's limited resources.

- Re-instituted the surveillance review program to assess agencies overall compliance with small business programs, including subcontracting.

How frequently do agencies impose liquidated damages on a contractor, for failing to make a good faith effort to comply with the requirements of a subcontracting plan?

- Agencies rarely impose liquidated damages.
- Agencies now include past performance as a significant evaluation factor for consideration of contractors for future contract awards.

8. Recent reports raise questions about the level of HUBZone program funding and the ability of the SBA to effectively oversee and enforce compliance with the program. **What actions can be taken to ensure that only eligible firms are certified and benefit from the program?**

- The Administration supports the FY 2004 Budget request, including funding for the HUBZone Program.

- Companies provide information under penalty of perjury that it is accurate and complete.

- We have developed, documented, and pilot- tested a methodology for conduct of desk-based program examinations. This methodology will ensure consistency and rigor in performance of program examinations.

- We plan to fully implement this methodology during FY 2003. During the second half of this fiscal year, we plan to conduct approximately 200 desk-based program examination, representing roughly 2.5% of the HUBZone portfolio.

- Within existing resources, SBA has also accelerated development of the HUBZone System to include conduct of both desk-based and on-site program examinations. This action will automate the above noted methodology, allowing us to process program examinations more efficiently. We plan to deploy this component by mid FY 2004.

- Subject to availability of FY 2004 funding, we plan to perform approximately 400 desk-based program examinations, or about 5% of the portfolio.

9. Congress has taken a number of steps to improve contracting opportunities for women-owned businesses. The Federal Acquisition Streamlining Act of 1994 established a 5 percent government-wide goal for women-owned businesses; and the Women's Equity in Contracting Act authorized agencies to set-aside five percent of

its contracts for women-owned businesses. Lastly, the 2000 Small Business Reauthorization established a procurement program for women-owned small businesses. **What is the status of the Women-owned Business Procurement Program?**

- SBA has allocated funding to assess the draft study and methodology to determine if any changes need to be made.
- We expect to have the contract awarded within the next 30 days.

10. Although the power to let contracts under the 8(a) program to selected small businesses is a means of achieving the program's business development goal, it is not the only one. What does the SBA do for a firm once it enters the program? How does the SBA measure and track this assistance?

How effectively does the 8(a) program develop minority owned businesses. How many firms succeed after leaving the program? When an 8(a) firm develops - who in the minority community benefits? Do we know which agencies use the program? For those low-award agencies, why is the program not used more?

What does the SBA do for a firm once it enters the program?

- SBA has to leverage our resources to provide assistance to 8(a) firms.
- SBA provides one-on-one counseling through the District Offices.
- SBA's PCRs and the Business Opportunity Specialist work with the agencies to find contracting opportunities for 8(a) firms.
- SBA is conducting matchmaking events to help match the capability of these firms with the agencies and prime contractors.
- SBA is developing a Procurement Academy that will provide on-line training to 7(j) eligible participants.
- SBA assists in arranging financial assistance to firms
- SBA facilitates the provision of developmental training through SBA Resource Partners as required.

How does the SBA measure and track this assistance?

- Assistance provided through 7(j) services is reported to SBA on a quarterly basis.
- Other assistance provided through SBA Resource Partners is reported through SBA internal reporting mechanisms, e.g., the ED reporting systems.

How effectively does the 8(a) program develop minority owned businesses?

- The 8(a) Program is not designed specifically to develop minority-owned businesses.
- It is a business development program designed to assist firms that are owned, operated, and controlled by socially and economically disadvantaged individuals.
- Since the inception of the Program in 1968, there have been more than 542,000 contracting actions worth about $88 billion.
- The 7,585 current 8(a) firms provided employment for an estimated 171,524 people during FY 2002, an average of 23 employees per company compared to an average of 2 people per firm for all small businesses.
- While 71 percent of new businesses fail within 8 years, 42 percent of 8(a) firms are still independently operational 10 years after they enter the program.

How many firms succeed after leaving the program?

- SBA recently surveyed 1,093 firms that completed their 8(a) Program terms within the last three years. Of those firms, 628 or 57.5% were independently operational; 11 or 1 percent has substantially curtailed operations; 10 or 1 percent have been acquired by other firms; 54 or 5 % had ceased business operations, and 390 or 35.7% did not respond.
- Many of the owners are voluntarily ceasing operations and not being forced out of business.
- The total annual revenue of graduated firms that responded to the survey and reported earnings was more than $8.8 billion dollars.

When an 8(a) firm develops - who in the minority community benefits?

- The primary benefit of the Program is to assist socially and economically disadvantaged individuals by providing business development assistance.
- By assisting these individuals, their respective communities are indirect beneficiaries.

Do we know which agencies use the program? For those low-award agencies, why is the program not used more?

- All federal agencies may use the 8(a) Program.
- Agencies have the flexibility to use any of the small business programs to meet mission needs.

- Due to the changing procurement environment, agencies look for the quickest and easiest way to get the job done.
- They can award an order under a Federal Schedule Contract quicker that using the 8(a) Program.

11. The 7(j) program provides the primary component of the Business Development portion of the 8(a) Business Development Program. Yet there is a significant number of 8(a) and SDB firms which do not receive assistance. Why is the cost of the 7(j) program rising, while the number of businesses served is falling? What can we do to improve the effectiveness of the program?

Why is the cost of the 7(j) program rising, while the number of businesses served is falling?

- SBA's cost allocation model has reflected an increase in cost allocated to the 7(j) Program.

- While the costs associated with administering the Program, e.g., overhead, marketing and outreach, etc, have increased over time due to personnel costs increases, the program funding has continued to decrease. Consequently, the Program costs per participant have increased resulting in a smaller number of participants served.

What can we do to improve the effectiveness of the program?

- In an effort to serve more participants within existing budget authority, SBA is developing a Procurement Academy that will be able to train hundreds of 7(j) participants at less cost.

12. Thirty percent of SBIR and STTR awards are concentrated in just ten states. Technical assistance under the FAST program affords each state and territory with an opportunity to receive Federal grant/cooperative agreement funding to expand their technology infrastructure; and, the ROP serves to broaden geographical dispersion of SBIR and STTR awards. Are these two programs generating the desired return on investment? What can we do to improve the effectiveness of these two programs?

Are these two programs generating the desired return on investment?

- Agencies have reported a significant increase in the number of proposals received for their most recent SBIR/STTR solicitations.
- This is attributable to the outreach and training activities provided by the states that received these grants.

What can we do to improve the effectiveness of these two programs?

- SBA supports the Administration's FY 04 request for funding these two programs.
- Without funding in FY 03, SBA will have to leverage its existing resources to continue to support the states in their efforts to provide outreach and technical assistance to small high tech firms.
- SBA is working with existing FAST and ROP recipients to use their existing fund to maximize their efforts to assist small businesses.

Questions submitted by Senator John Kerry, Ranking Member

1. With 2,200 Procurement Centers, nationwide, how effectively can small businesses be represented by 47 Procurement Center Representatives (PCRs) who are currently servicing only 255 Centers? Does the Agency or the Administration have any data on how many contract opportunities and contract dollars go to small businesses from contracts reviewed by PCRs compared to those not reviewed?

- The 47 PCRs cover approximately 60 percent of the dollars spent through Federal procurement.
- PCRs review contract actions not set-aside for small business, including bundled contract actions.
- The recent proposed regulations to implement the Administration's strategy to avoid unnecessary contract bundling also will require PCRs to review orders under multiple award contracts, government wide acquisition contracts, and Federal supply schedule contracts.
- With this increased coverage, more contracting actions will be reviewed for possible small business participation.

Does the Agency or the Administration have any data on how many contract opportunities and contract dollars go to small businesses from contracts reviewed by PCRs compared to those not reviewed?

- Neither SBA nor the Administration has this data.

2. It has been stated many times that 60% of Federal contracts are covered by the 47 PCRs serving 255 Centers. Is the SBA satisfied that 40% of Federal procurement dollars, or approximately $90 billion, is not reviewed by the current number of PCRs?"

- SBA has allocated its resources to achieve coverage of the largest buying activities involved in Federal procurement.
- Although a PCR is not located in each state, all states are covered by the PCRs from their location at major buying activities.
- SBA leverages its existing resources by working closely with the Directors, Office of Small and Disadvantaged Business Utilization to advocate on behalf of small businesses.

- Also, SBA must use technology to the greatest extent possible to help us cover more buying activities.

3. Would additional authority help the SBA hold federal agencies accountable for government-wide contracting goals for Service Disabled Veterans, Women Owned Businesses, 8(a) and HUBZone firms? What specific authorities would be helpful?

- Federal Agencies are responsible for achieving the small business goals and must be held accountable.

- Leadership and accountability at the Agency Head level will make the difference for our Nation's small businesses, thus alleviating the need for additional authorities.

- The recent OMB Report to the President included a nine-step strategy for avoiding unnecessary contract bundling. The first two steps pertain to holding agencies accountable for improving contract opportunities for small businesses through quarterly reports to the OMB.

- SBA's role is to establish individual agency goals to meet or exceed the government-wide goals, monitor achievements, and report results to the President and Congress.

- SBA is committed to seeking top level support from the agencies for our small business programs and assisting them in developing procurement strategies to increase opportunities for small businesses.

4. What measures should be taken to ensure that procuring agencies comply with the SBA's proposed anti-bundling rule once it is finalized? Will SBA need additional resources, above and beyond additional PCRs, to implement these measures? Please provide a schedule for the remaining SBA visits with procuring agencies to educate them and enlist their help in the anti-bundling efforts.

What measures should be taken to ensure that procuring agencies comply with the SBA's proposed anti-bundling rule once it is finalized?

- SBA is involved in educating buying activities and the private sector as part of our commitment to ensure that small businesses obtain their share of Federal procurement dollars. For example, SBA staff teaches an advanced training course on small business at the Defense Acquisition University which includes contract bundling. We also participate in Government conferences held by agencies and the private sector where we give an overview of our small business programs.

- SBA will compile best practices to share with agencies on maximizing prime and subcontracting opportunities for small businesses in justified bundled contracts.

- Our Procurement Center Representatives (PCRs) will continue to review all non set-aside procurements for small business opportunities and for bundling implications. We will continue to work closely with agency contracting offices and OSDBUs to mitigate the effects of contract bundling through small business teaming arrangements and promoting maximum subcontracting opportunities.

- In addition, SBA has reinitiated surveillance reviews as one way of holding agencies accountable for complying with small business programs. The PCRs will review and analyze contract files to determine if buying activities made every effort to maximize contract opportunities for small businesses and the buying activities policies and procedures in support of small business programs.

Will SBA need additional resources, above and beyond additional PCRs, to implement these measures?

- SBA believes that controlling contract bundling can only be accomplished if the agencies are held accountable for increasing opportunities for small businesses.

- SBA's role should be to educate and train the procurement community about our procurement programs, monitor agencies' compliance with small business programs, and train small businesses how to do business with the government.

- SBA will leverage its resources by working with the OSDBU Directors and the Federal Acquisition Council to implement the final contract bundling regulation.

Please provide a schedule for the remaining SBA visits with procuring agencies to educate them and enlist their help in the anti-bundling efforts.

- SBA is in the process of scheduling the remaining meetings.

Senator Christopher S. Bond
Questions for Participants
The Roundtable on SBA's Reauthorization: Non-Credit Programs Before the Senate Committee on Small Business & Entrepreneurship
April 9, 2003

Fred Armendariz

1. How does the SBA plan to monitor the HUBZone program to ensure that all of the certified entities are and will continue to be eligible under the program's requirements?

- The Administration supports the FY 2004 Budget request, including funding for the HUBZone Program.
- Due to budget constraints in FY 2003, SBA has been unable to conduct on-site program examinations of companies in the Program.
- However, companies provide information under penalty of perjury that it is accurate and complete.
- We have developed, documented, and pilot- tested a methodology for conduct of desk-based program examinations. This methodology will ensure consistency and rigor in performance of program examinations.
- We plan to fully implement this methodology during FY 2003. During the second half of this fiscal year, we plan to conduct approximately 200 desk-based program examination, representing roughly 2.5% of the HUBZone portfolio.
- Within existing resources, SBA has also accelerated development of the HUBZone System to include conduct of both desk-based and on-site program examinations. This action will automate the above noted methodology, allowing us to process program examinations more efficiently. We plan to deploy this component by mid FY 2004.
- Subject to availability of FY 2004 funding, we plan to perform approximately 400 desk-based program examinations, or about 5% of the portfolio.

2. What steps does the SBA intend to take to allow the HUBZone program to continue functioning for the rest of FY 2003, given that the program received zero funding for FY 2003? Please discuss any similar plans for SBIR FAST and Rural Outreach.

- Notwithstanding HUBZone Program's zero line-item funding for FY 2003, the Agency has funded its operating plan at approximately $323,195, net of compensation and benefits, rent, utilities, overhead, and indirect costs.

- It should be noted that direct compensation and benefits for the program's nine full time permanent employees will aggregate approximately $876,501, for this fiscal year.

Please discuss any similar plans for SBIR FAST and Rural Outreach.

- SBA does not plan to allocate funds for SBIR FAST and Rural Outreach in FY 2003.

- SBA is working with existing FAST and Rural Outreach recipients to use their existing funds to maximize their efforts to assist small businesses during FY 2003.

3. What will the SBA do in the future to ensure that the HUBZone program receives at least the funding amount that was requested by the Administration for FY 2004? Please discuss any similar plans for SBIR FAST and Rural Outreach FY 2004 appropriations.

- The SBA will continue to support the Administration's request for FY 2004 funding for these programs.

- As part of its planning process, the Agency will prepare an operating budget for the HUBZone Program for FY 2004 reflecting the amount requested by the administration as a line item.

- The operating budget will include direct compensation and benefits, operating funds, rent, utilities, and overhead costs.

- This operating budget will be modified in accordance with the Agency's appropriation for FY 2004.

Post-Roundtable Questions
Committee on Small Business and Entrepreneurship
to
Allen Neece

"SBA Reauthorization: Non-Credit Programs"
April 9, 2003

Questions submitted by Senator John Kerry, Ranking Member

1. How will the SBA's proposed changes to the Small Business Development Centers (SBDC) program establishing a five-year award period and allowing the participation by nonprofit organizations benefit or hurt the program and the assistance they provide small businesses?

Ledwin, Lindsey (Small Business)

From: AllenNCMA@aol.com
Sent: Monday, May 12, 2003 11:25 AM
To: Ledwin, Lindsey (Small Business)
Cc: Forbes, Patty (Small-Business)
Subject: SBA REAUTHORIZATION: NON-CREDIT PROGRAMS, APRIL 9, 2003

Lindsey,

Sorry for the delay in responding to Senator Kerry's inquiry about the SBDC program. I trust I am not too late given how long it takes to close the record.

Dear Senator Kerry:

Requiring state agencies or academic organizations to recompete every five years to serve as the host of the state SBDC program would have a calamitous affect on the program.

Although the SBDC enabling legislation was enacted in 1980, many states had not come into the program until the late 1980s. And then for most states, it took another ten or more years to develop a highly experienced, well regarded service provider network that would give genuine, value added help to small and emerging businesses. Relieable funding relationships and reliable academic subcontracting partnerships also took many years to develop as did the institutionalization of the SBDC program with governors and state legislatures. Equally important, the SBDC program over time attracted top flight, experienced talent. These hard to find, qualified professionals joined SBDCs because they provided career tracks. Should renewal of the SBDC charter now become manditory, many professional SBDC counselors will leave to find more secure employment opportunities.

I recognize this concept of secure, long term employment may be foreign to political short timers who are often employed for relatively brief periods by federal agencies. It is these short timers who have advocated behind the scenes changing the meritorious policy assuring continuity of SBDC host institutions.

Why has the Administration formally submitted their proposal requiring periodic competition given the program has successfully operated for 23 years and helped almost ten million pre-business and business clients? It may be SBA wants nonprofit organizations to serve as state SBDC hosts as they may be more compliant in responding to the agency's periodic, whimsical requests for the SBDC network to help the agency carry out some new, but soon to be forgotten initiative that will have minimal economic impact. SBDCs sponsored by academic institutions have not, will not and should not so respond to such silliness as they are committed to educate and serve the independent sector and must be conscientious in how they expend valuable, scarce resources.

Non-profits do not have education as their primary mission. Many have short term perspectives and others regularly seek or curry political favor. Neither of which is conducive to helping small businesses survive and grow. No, experience and dedication are needed, both of which are found in abundance in existing SBDC host institutions.

I urge you and your colleagues to reject the Administration's request to compete the lead SBDC every five years.

Thank you for the opportunity to appear before your committee and to answer this inquiry.

Allen Nice, Esquire
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www.nwbc.gov

May 1, 2003

The Honorable Olympia J. Snowe
Chair
U.S. Senate Committee on Small Business and Entrepreneurship
428A Russell Senate Office Building
Washington, DC 20510

Dear Madam Chairman:

Thank you for affording the National Women's Business Council the opportunity to participate in the Committee's recent reauthorization roundtable, and submit our thoughts and comments about the mission of the Council and suggestions for changes that could be made during this reauthorization period. On April 16, you forwarded to us an additional question after the April 9th roundtable meeting. Below is a repeat of the question, as well as our response.

Question
"Congress has taken a number of steps to improve contracting opportunities for women-owned businesses. The Federal Acquisition Streamlining Act of 1994 established a 5 percent government-wide goal for women-owned businesses; and the Women's Equity in Contracting Act authorized agencies to set-aside five percent of its contracts for women-owned businesses. Lastly, the 2000 Small Business Reauthorization established a procurement program for women-owned small business. What is the status of the Women-owned Procurement Program?"

Answer
In response to the 2000 Small Business Reauthorization, the US Small Business Administration established an Office of Contract Assistance for Women Business Owners (CAWBO). Information about this office and its programs can be found at: http://www.sba.gov/GC/indexprograms-cawbo.html For further information on the SBA's Women-Owned Procurement Program, please contact the CAWBO office. The National Women's Business Council has worked with CAWBO to update and expand the Council's web site for women interested in Federal procurement opportunities, www.womenbiz.gov

In our 2002 Annual Report, the Council has also shared with the Senate Committee on Small Business and Entrepreneurship the results of a recent study on women-owned businesses and subcontracting, which found that lack of ability to perform (i.e. capacity) is not a valid reason why women are under-represented in Federal subcontracting opportunities. For more information on that research, please see the Council's Web site at: http://www.nwbc.gov/research/documents/press1-29.pdf and http://www.nwbc.gov/research/documents/subcontractingresearchbrief.pdf

If you have any further questions, we would be pleased to address them.

Sincerely,

Julie R. Weeks
Executive Director

Federal Recycling Program Printed on Recycled Paper

Post-Roundtable Questions
Committee on Small Business and Entrepreneurship
to
Ron Newlan

"SBA Reauthorization: Non-Credit Programs"
April 9, 2003

Question submitted by Senator Olympia J. Snowe, Chair

1. Recent reports raise questions about the level of HUBZone program funding and the ability of the SBA to effectively oversee and enforce compliance with the program. What actions can be taken to ensure that only eligible firms are certified and benefit from the program?

Madam Chair:
The issues of HUBZone program funding and the ability of the SBA to effectively oversee the program are linked very closely. As you know so well, the funding profile of the SBA HUBZone program office has not been good. The program's appropriations profile varies from zero to far below the annual $10 million authorized level. Never has the program received more than $2 million of appropriations in any year. The civilian employees of the SBA must wonder daily whether they will have a job tomorrow.

The Congress must appropriate an adequate amount of resources and the Administrator of the SBA must ensure that the SBA HUBZone program office is given adequate resources to perform every aspect of the required oversight. I believe that the absolute minimum acceptable level is $5 million annually. With this funding, the office currently has the plans in place and is ready to implement them in order to ensure that the program is managed in a very efficient and effective way. This should include using the SBA field offices for random/preliminary eligibility screening at the time of HUBZone application as well as field office periodic oversight after a firm has been certified by the SBA.

The office has done so much with so little for so long, we cannot continue to demand this of them. It may be helpful to look at how similar contracting programs are funded at the SBA.

Program	SBA FY 2004 Budget Request submitted to the Congress
8(a)	+$40 M
Women-owned (includes Entrepreneurial Development)	+$18 M

It is quite disconcerting that the program designed to aid the 31 million Americans who live in poverty continually is under funded year in and year out.

Madam Chair, I again thank you for all you are doing to ensure the HUBZone Program Office is funded at the $5 million annual level.

Post-Roundtable Questions
Committee on Small Business and Entrepreneurship

"SBA Reauthorization: Non-Credit Programs"
April 9, 2003

Entrepreneurial Development Programs, General

1. How will SBA transformation impact the delivery of programs and services through SBA District Offices and SBA sponsored programs (SBDCs, SCORE, and WBCs)?

SBDCs, SCORE and WBCs aren't district oriented programs but transformation will help improve that by moving our field staff from a backroom oriented posture to a customer service, marketing and outreach posture. It is SBA's plan to make district offices an effective coordinator of SBA services.

One of the goals of transformation is to provide a simple, integrated point of access to all of SBA's services, so that clients can find the services and programs that fit their needs more easily and effortlessly.

2. What is the justification for the proposed change from three year to six year program authorizations?

The request stems from the administration's support for SBA's programs and the attendant belief that it is not necessary to reauthorize them more frequently. This proposal does not in any way diminish the oversight role of the authorizing committees which are founded on House or Senate rules, nor does it affect the annual budget process.

3. What is the status of Tribal BICs, One Stop Capital Shops, and U.S. Export Assistance Centers? Does SBA plan to support these three programs in the future? If not, please provide an explanation.

SBA has discontinued its participation in both the Tribal BIC (T-BIC) and One Stop Capital Shop (OSCS) programs, and has no plans at this time to resume its participation in either program. In the case of the OSCSs, it should be noted that SBA was specifically directed by the Congress not use appropriated funds to support the centers. Despite its withdrawal from the two initiatives, however, SBA is assisting in efforts to meet the original objectives of both programs.

Although SBA is no longer directly supporting the T-BICS and OSCSs, some of the centers are continuing to operate under the management of the local entities that were SBA's partners in the

endeavors. SBA assisted these continued operations by donating computers and other equipment to the centers.

In addition to support activities similar to those engaged in by the OSCSs, SBA enhanced some of its existing programs, including its Business Information Centers, and is implementing other initiatives intended to provide a full range of services to local business communities.

SBA is also expanding and enhancing its delivery of services to the Native American community. This effort is being supported by $2 million in funding provided in the President's FY 2003 budget. Using these funds, and building on the lessons learned through the T-BIC program, SBA is crafting a new Native American initiative. SBA is finalizing the spending plan for this initiative which is due to Congress on April 30, 2003.

SBA believes the USEAC's play an important role in assisting small business' export needs. The Agency has arranged with Department of Commerce to cover SBA's rent and related expenses through fiscal year 2003. SBA has internally funded all employee related expenses through the same period. The Presidents budget has requested $3.1 million in order to serve the export needs of small business.

4. At the Roundtable, it is stated several times that SBA does a good job providing start-ups with programs and services but SBA is falling short in providing assistance to established small businesses. How can the SBA respond to this need through existing resource partners and District Offices?

SBA and their partners provide both credit and non-credit services to small businesses at every stage of business. SBDC's have been helping small businesses with services spanning a complete range of business needs since 1980, SCORE since 1964. SBA loan programs help existing small businesses by the thousands get access to needed capital every year. SBA government contracting programs are targeted primarily at pre-existing businesses capable of fulfilling those contracts. Through SBA transformation, SBA hopes to better integrate our programs and services, so that clients can find the services and programs that fit their needs more easily and effortlessly, what ever stage of business they are.

Women's Issues:

1. How is the SBA's Office of the Women's Business Ownership helping women today and what are the major initiatives the office would like to undertake during the next three years?

The Office of Women's Business Ownership (OWBO) continues to manage the Women's Business Center (WBC) program and the WNET mentoring program. The WBC program helps train and counsel socially and economically disadvantaged women as they begin lives of economic self-sufficiency, either by starting their own businesses or preparing for the business

they may wish to start at a later date. The WNET mentoring program is adding mentoring roundtables regularly and there are now approximately 190 such groups throughout the country. In the next three years, OWBO would like to become a presence in those locations where we do not now have a WBC, help train our existing WBC's on techniques to make their private match grow towards self-sufficiency, and continue to expand their reach to the emerging trend of women who wish to start their own small businesses.

2. What resources and funded projects are provided to the SBA District Offices in order to conduct marketing and outreach activities for women entrepreneurs?

Women's Business Centers (WBC) serves as a resource for SBA District Offices (DO) to conduct marketing and outreach activities for women entrepreneurs. Currently, the Office of Women's Business Ownership has a funded WBC in every state and U.S. Territory except Nevada, Delaware and Guam. The grant agreement requires the WBC's conduct collaborative activities with the local DO such as:

- Involvement in the WBC's conferences and workshops and speaking engagements;
- The WBC's and the DO's cooperative effort in displaying and distributing each other's brochures;
- District Office support of and involvement in collaborative activities between the WBC's and other SBA resource partners.

3. What is the role of the SBA OWBO in carrying out the mission of the National Women's Business Council (NWBC) and the Interagency Committee on Women's Business Enterprise?

Now that the NWBC has a Chair and Executive Director and is fully staffed, OWBO works cooperatively with NWBC on small group research projects and events. The two staffs interact on a regular basis. The Interagency Committee on Women's Business Enterprise stopped meeting on a regular basis in the late 1990's and has not been reconstituted since 2000.

Women's Business Centers

1. As long as the SBA requires that WBC's provide programs and services to markets that cannot afford to pay for services, how does the SBA expect WBC's to become self-sufficient within five years -- or longer?

The WBC program does not restrict its services to any particular markets. However, it does logically tend to favor underserved areas where business assistance is not readily available (10 points out of a potential 115). All WBCs operate under a matching grant, and grant agreements require that WBCs make efforts to raise funds in expectation of self-sufficiency. Matching resources include non-federal cash and in-kind contributions. Five or more years of receiving matching fund from partnering organizations should enable the private/non-profit recipient to establish on-going funding after funding has ceased through the SBA. Also, though many clients

Comment: Absent additional detail, this parenthetical is not helpful. Deletion recommended.

are economically disadvantaged and unable to pay tuition, the WBCs receive some tuition fees from clients who are able to pay.

2. What is the track record for the Women's Business Centers? How many have failed? How many have been able to become self-sufficient within the five year funding period?

From 1989 to 1994, the Women's Business Center program was a demonstration project experimenting with various program formats and grant periods (one year/three year). In FY 1995, the program began to operate as the five year grant program (shown below as "Regular") that it is today. Legislation passed in 1997 made the five year period permanent. In FY 2000, a four year sustainability pilot was added to the program with a specific percentage (from 17% in 2000 to 30.2% presently) of the budget to go to existing WBC's who chose to compete for an additional five year sustainability grant. It is this pilot that is scheduled to sunset at the end of the 2003 budget period.

From FY 1989 through FY 2002, SBA funded 117 new/regular WBC's and from FY 2000 through FY 2002, SBA funded 21 sustainability WBCs for a total of 138 awards. Seventeen (17) regular WBCs have closed since FY 1989 and two (2) sustainability WBCs have closed for a total of 19 closed WBCs.

In its present format (five years regular and three years to date of sustainability) the program has not existed long enough to determine self-sufficiency rates. All existing regular grants that stayed in the program and chose to compete for sustainability won sustainability awards. Of the three who have not elected to compete for sustainability one (GA) continued to operate as a women's business center and applied this year for a sustainability grant. Two other WBC's(OR and MT) have not chosen, or been able, to continue as women's business centers.

3. What is the timetable for the new WBC program - from grant announcement date to the date of award to the WBC? After the award announcement, how much time lapses until the WBC is open for business?

The FY 2003 Women's Business Center Program Announcement was released on February 19, 2003. The closing date of application was March 26, 2003 for Regular WBC's and March 27, 2003 for Sustainability WBC's. The start date for the WBC project is July 1, 2003. The WBC must be open for business within 60 days after the project start date, i.e., September 1, 2003.

4. How long does it take a WBC to become an effective service-producing center?

The measure of effectiveness is an on-going process that is evaluated on a quarterly basis. Each WBC must demonstrate its ability to begin providing technical assistance activities no later than 60 days after the award.

5. What is the SBA's rationale for supporting new Women's Business Centers rather than continuation funding for existing Women's Business Centers that have proven to be valued resource for women?

The SBA has taken a comprehensive look at the pattern of appropriations over the past few years and has determined it is necessary to prepare for the continuation of this pattern. Each agency program has been thoroughly reviewed and assessed with an eye toward insuring the agency can provide a legacy of training and counseling for the largest possible number of clients who want to start and manage successful businesses. The Agency has determined the Women's Business Center program can best meet that goal by making sure they are strategically located and equipped to train and counsel in each of the fifty states and all of the U.S. territories, and that starting more new centers would offer the greatest number of opportunities to the greatest number of potential clients.

6. If grants are awarded on a competitive basis, would an existing center be prohibited from competing again?

No. A recipient is not prohibited from applying for a WBC in a different target area.

7. What are the evaluation criteria and the scoring for grant proposals?

The evaluation criteria and rating for FY 2003 WBC applications are provided below:

Evaluation Criteria.

1. Applicant experience and internal organizational structure (25 Points)
2. Ability of applicant to reach a representative number of women who are both socially and economically disadvantaged (10 Points)
3. Location for the Women's Business Center site proposed by applicant (10 Points)
4. Services and activities to be offered to small businesses owned or controlled by women or women entrepreneurs and other clients (20 Points)
5. Ability of applicant to assist clients who are in business and addressing sustainability and growth issues (10 Points)
6. Plans for Coordination with SBA and Other Community and Small Business Organizations (10 Points)
7. Financial Capability (15 Points)
8. States and Territories Without an SBA-Funded WBC in Operation (15 Points)

8. Who makes the final decision on grant awards?

All proposals go through a technical evaluation process by non-OWBO panelists and the final decision is then based on those proposals that score the highest points from the evaluation criteria stated previously.

Interagency Committee on Women's Business Enterprise

1. Why hasn't the Committee been active the past few years?

The Interagency Committee on Women's Business Enterprise consists of women from government agencies in policy positions that deal with issues of interest to women. The committee Chair is appointed by the President and the Associate Administrator of the Office of Women's Business Ownership serves as Vice-Chair. During the previous administration the Committee stopped meeting for several years in the late 1990's, although they did have a final session in October of 2000. The committee was not reactivated during the periods that the National Women's Business Council was without a Chair and has not been reactivated since.

2. What is needed to reactiveate the Interagency Committee?

Mutual agreement by all parties that the Committee should be reactivated, selection of a Chair, followed by the selection of Agency representatives.

SBDC Program

1. What would the projected "savings" be if the SBDC grant program was changed to a "full and open competitive grant" program?

Under the current legislatively mandated SBDC funding formula, there would be no cost savings. Rather, competition would likely result in innovation and overall program improvements to the benefit of small businesses.

2. How would entrepreneurs be impacted if existing host sites of SBDC programs changed?

Although the existing lead center hosts could change as a result of competition, much of the network where direct client services are provided would be expected to continue. It is expected that only those service centers that were performing poorly would be changed. We expect this to have a positive impact on the entrepreneurs served.

3. How would the grant announcements, in terms of evaluation criteria and eligibility, be changed?

We would continue to use essentially the same criteria we have used on past grant announcements for new hosts.

4. How would SBA select the areas and times of program announcements?

SBA would stagger the program announcements. For example if the SBDC program had 60 hosts nationwide, we would issue 12 competitive announcements each year, so that the entire program would be re-competed within each five year period.

5. How could the SBDC program be more portable in order to respond to quickly to rural areas as well as areas impacted by dramatic economic change?

The SBDC program could become more portable by having SBA hold a discretionary fund that could provide grants at the discretion of the SBA Administrator to respond to special needs in distressed communities. For example, if SBA was authorized to retain $5 million of the SBDC funding the Agency would be able to assist a number of communities with special needs.

Veterans Program

1. What has the SBA OVBD provided to the SBA District Offices to help veterans?

OVBD has performed a number of functions that directly and indirectly support the SBA District Offices including:

- Organized and hosted the first national Training Conference (in 10 years) for District Office Veterans Business Development Officers (VBDO)
- Established a National Award for VBDO of the Year.
- Developed the VetGazette Newsletter distributed through the District Offices (DO).
- Provided competitive funding opportunities to DOs for special outreach and needs assessment for veterans, service-disabled veterans and Reserve & Guard members in their communities.
- Developed and disseminated the National Outreach Poster, the VET Program Guide, the comprehensive Veterans Business Resource Guide, the Veterans Procurement Guide and other print products for use and distribution by DOs.
- Attended, participated, and presented at numerous DO events.
- Funded the VBOP program that support DOs efforts for veterans.
- Developed a comprehensive agency plan for assistance to members of the Reserve and Guard, and provided materials to the DOs.
- Utilize and communicate with the DO VBDOs for directed referrals of hundreds of inquiries received by OVBD.
- Developed working relationships with Department of Labor, Department of Defense, Department of Veterans Affairs, and SBA Office of Advocacy, Office of the Ombudsman, Office of Women's Business Ownership, Office of Capitol Access, Office of Government Contracting, Office of Entrepreneurial Development, the National Veterans Business Development Corporation and numerous Veterans Service Organizations in support of DO efforts for veterans.
- Promote special policy and program initiatives that increase usability and availability of SBA

DO efforts for veterans.

2. The SBA OVBD projects that it will double the number of veterans served through outreach programs. Please provide the details.

OVBD is unclear of the basis of this question. OVBD's goal for FY2004 is to assist 118,000 veterans overall through SBA programs. This represents an increase over the FY2003 goal of 112,000 veterans and the FY 2002 actual of 107,190 veterans.

3. Besides printed materials and referrals, what does the SBA OVBD provide to veterans?

- OVBD handles a minimum of 200 inquiries each month from veterans, providing information and specific guidance as needed.
- We make a minimum of 20 public presentations each year to outreach to and inform the veteran's community of SBA services for veterans.
- We oversee and fund special, competitive outreach events for District Offices.
- We oversee and fund the Veterans Business Outreach Program Centers that assist approximately 15,000 veterans each year.
- We develop collaborative working relationships with numerous partners, including jointly funding Research with the Office of Advocacy, Jointly developing and funding the pilot VET program with the National Veterans business Development Corporation, conducting Joint Outreach with many partners, Hosting the creation of the National Veterans Business Development Corporation Board of Directors and hosting the meetings of the Vets Corporation PCAP.
- We promote and coordinate agency wide efforts, including the Reserve and Guard Small Business Assistance (RGSBA), the Advisory Committee of Veterans Business Affairs, and coordination and reporting of agency data collection.
- As necessary, we intervene in other program office delivery of services to the veteran's community, fulfilling our ombudsman function.
- We ensure that veterans are included in other program office efforts, and agency wide initiatives.
- We assist public and private sector partners of the agency to enhance their services for veterans.
- We develop recommendations for agency initiatives for veterans and for Reserve and Guard members for consideration by the Administrator and the Deputy Administrator.
- We organize agency wide efforts to recognize veterans and their sacrifices on Memorial Day and Veterans Day each year.

Questions submitted by Senator John Kerry, Ranking Member

1. Why is it necessary to re-compete SBDC grants every five years, given that the SBA already has the authority to revoke an SBDC grant if the grant recipient is under-performing?

Although SBA has the authority to revoke an SBDC grant if the grant recipient is underperforming, the process is long and cumbersome and can be very confrontational. Grant recipients often feel denigrated and the publicity can be bad for all parties involved. Allowing for a competitive process every five years stimulates all SBDCs to perform at peak performance and for a smoother transition where a change is needed.

2. Why would the SBA want to award an SBDC grant if it is not endorsed by the State government? Wouldn't that create a situation in which Federal economic policies are working at cross-purposes with State policies?

SBA does not want to issue an award that is not in accordance with a state government's plan unless the plan would conflict with the Small Business Act requirements. The SBA intends to continue to seek input from each governor's office to ensure that the needs of the small business community are met and that the SBDC proposals/plans are in accordance with the state government's plan where possible. Although we will continue to work with the state governments, this proposed change will benefit the SBDC program in those situations where we do not receive a timely response from the governor's office.

3. Why would a State government want to provide State matching funds for an SBDC that was not endorsed by the State's governor? And what effect would it have on the national SBDC network if States cut back on their funding for the SBDC network, given that most states overmatch the Federal contribution?

We intend to continue to work with the State governments to develop the best plan possible for the small business community in each state.

4. Why would the SBA want to take SBDC programs away from institutions of higher education, considering the resources that institutions of higher education bring to the table?

Generally, institutions of higher education are the best place for the SBDC program. However, in a limited number of cases, a non-profit entity may provide the best lead center location to manage and oversee a network of service providers located primarily at institutions of higher education. We would like to keep this non-profit option open for situations where a non-profit would provide the best lead center choice. Besides, a change would not necessarily mean that the new host would not be an institution of higher education.

5. How many women-owned businesses did the Women's Business Centers serve nationwide in 2002?

In FY 2002 the WBC's served 85,748 women-owned businesses.

6. What regions or cities has the SBA identified that would benefit from having a Women's Business Center that are not currently served by an existing center? Please list in order of greatest need.

Delaware, Nevada and the U.S. territory, Guam, presently prevent OWBO from having a WBC in each of the fifty states and U.S. territories. As a particular example, Las Vegas is one of the fastest growing city in the nation and has no WBC. As we look at a map of the United States we see many remaining areas that are presently without Women's Business Centers. We know, for example, that we have lost centers in southern California, that Florida is underserved and that all of western Pennsylvania is now without a Women's Business Center. As we also know, socially and economically disadvantaged people must have convenient public transportation available in order to access counseling and training on a regular basis. We continue to investigate the use of distance learning for some of the rural areas and that process is now being tested in several of the more sparsely populated states.
The OWBO does not have a list that ranks areas based on need, and we believe that most areas of the country might benefit from a WBC. However, we have a long list of applicants from unserved areas who will be denied based on lack of resources.

7. What is the SBA's current timeline for opening new Women's Business Centers over the next several years? Please list by year of opening, in which regions, or cities the SBA anticipates establishing a Women's Business Center.

The opening of new Women's Business Centers is dependent upon the funding for the program. The next consideration is always those states and territories that are completely without a Women's Business Centers. The competitive process then determines which Centers will be funded.

Post-Roundtable Questions
Committee on Small Business and Entrepreneurship
to
Ann Sullivan

"SBA Reauthorization: Non-Credit Programs"
April 9, 2003

Questions submitted by Senator Olympia J. Snowe, Chair

1. Congress has taken a number of steps to improve contracting opportunities for women-owned businesses. The Federal Acquisition Streamlining Act of 1994 established a 5 percent government-wide goal for women-owned businesses; and the Women's Equity in Contracting Act authorized agencies to set-aside five percent of its contracts for women-owned businesses. Lastly, the 2000 Small Business Reauthorization established a procurement program for women-owned small businesses. What is the status of the Women-owned Business Procurement Program?

2. One benchmark for this Committee to measure the success of small businesses is the government-wide 23 percent goal of prime contracts awarded to small business. Are small businesses receiving their fair share? Do agency reports accurately reflect achievement? Do we know how many small businesses (of the reported 25 million) are actually doing business with the Federal Government?

3. The Procurement Center Representative is a powerful and valuable resource to the small business that wants to do business with the Federal Government, yet their numbers are shrinking. There are also budget constraints that make it difficult for PCRs to provide necessary oversight. In addition, the strategy to unbundle contracts imposes new responsibilities on PCRs. How is the SBA managing the growing role of the PCR?

4. Agencies increasingly rely on multiple databases for small business information; some of these sources allow inconsistent and conflicting data about small businesses; and, in other instances, data entry errors account for inaccurate information. What can be done to ensure the quality of small business data?

5. Current regulations state a firm's size status for a contract is determined at the time a contractor submits its offer. The Administration recently took action to limit the amount of time a concern is considered a small business. In addition, the Office of Federal Procurement Policy issued guidance that requires agencies that run GWACs to include a clause in the contract that will make small businesses re-certify the size and type of their business annually. How are these efforts accomplished without hurting/inhibiting small business growth?

6. Last year the Federal Government used purchase cards to purchase close to $14 billion of goods and services. The SBA Office of Advocacy issued a recent report that indicates that small businesses are receiving a lower share of these prime contracting dollars and that agencies are not following through in setting aside their purchases between $2,500 and $100,000 for small businesses. What can we do to ensure that small businesses are not excluded from credit card purchases?

7. Current regulations provide thresholds to determine when a bundling acquisition strategy has "measurably substantial" benefits that make bundling necessary and justified under the law. How do these thresholds compare to the size of contracts that you see at Federal agencies?

8. While some argue that subcontracting is the answer to small business access to the Federal marketplace - there are others that believe that nothing could be further from the truth. When a small business receives a subcontract it is forced into a secondary role, losing control over key decisions about what rates get charged and how work is divided.

The Committee also heard from small businesses at the contract bundling hearing that they are regularly used as "window dressing" on bid proposals to help large firms win contracts and then don't receive the proposed level of work once the contract is awarded. How can we improve subcontracting opportunities? How do agencies currently monitor compliance with subcontracting plans? What is the SBA's role? How do agencies address failures to achieve subcontracting plans? How frequently do agencies impose liquidated damages on a contractor, for failing to make a good faith effort to comply with the requirements of a subcontracting plan.

9. Recent reports raise questions about the level of program funding and the ability of the SBA to effectively oversee and enforce compliance with the program. What actions can be taken to ensure that only eligible firms are certified and benefit from the program?

10. Although the power to let contracts under the 8(a) program to selected small businesses is a means of achieving the program's business development goal, it is not the only one. What does the SBA do for a firm once it enters the program? How does the SBA measure and track this assistance? How effectively does the 8(a) program develop minority owned businesses. How many firms succeed after leaving the program? When an 8(a) firm develops - who in the minority community benefits? Do we know which agencies use the program? For those low-award agencies, why is the program not used more?

11. The 7(j) program provides the primary component of the Business Development portion of the 8(a) Business Development Program. Yet there is a significant number of 8(a) and SDB firms which do not receive assistance. Why is the cost of the 7(j) program rising, while the number of businesses served is falling? What can we do to improve the effectiveness of the program?

Post Roundtable Answers Submitted before
U.S. Senate Committee on Small Business and Entrepreneurship
Roundtable

On

"SBA Reauthorization: Non-Credit Programs"

April 9, 2003

May 2, 2003

Women Impacting Public Policy
www.WIPP.org

1. The Women-owned Business Procurement program has been on hold since passage of P.L. 106-554 in the year 2000. The SBA recently announced its intention to "study the study" for 7 months at the cost of $150,000. A study of industries in which women-owned businesses were underrepresented in federal contracts is required by the law. The first study done by SBA was completed a year ago and was rejected by the Administration. We have been waiting a year for that issue to be resolved. WIPP believes that 90-120 days is sufficient to "study the study" and urges expeditious implementation of P.L. 106-554.

   WIPP conducted an online survey in January 2003 and found 94% of respondents are ready and capable to bid on Federal contracts. The survey also revealed nearly a 95% gap between actual Federal government contracts awarded to women-owned businesses and those businesses willing to bid in the procurement arena.

   Our survey respondents stated that if the Federal contract process were simplified with more realistic and attainable opportunities, they would submit bids. In addition, a growing percentage – from 80% a year ago to 90% -- believes the current system does not offer equal opportunities for women-owned and minority-owned businesses. Implementation of P.L. 106-554 would greatly aid the entry of women-owned businesses into the federal contracting arena.

2. We quote from the annual study prepared by Rep. Nydia Velasquez ranking member of the House Small Business Committee. The most recent study entitled "2002 Scorecard III" can be found at: http://www.house.gov/smbiz/democrats/Scorecard_III.pdf. The study states that the government wide goal of 23% was not met—the government wide small business achievement was 22.81%. Of that 23%, the women owned business goal of 5% was not met. That number came in at 2.49%. The Committee estimates a loss of $5.5 billion to women owned businesses as a result. WIPP does not have the capability to independently analyze how agencies report their numbers and whether they are factually accurate. However, our pulse polling suggests that 94% of our women owned businesses feel they could are capable of performing on government contracts. However, the federal government has only contracted 2.4% with women owned businesses.

3. There is no question in our minds that PCRs perform an essential function for the small business owner who wants to get into federal contracting. But the current number of 37 PCRs nationwide is not enough to be able to monitor and promote small business in the federal contacting arena.

4. WIPP believes that verification of the data by SBA on its ProNet (now merged with the CCR) and SubNet sites are the only way the database will become credible. Another approach would be to require at least one certification (private or public) in order to be listed in the database. It seems to WIPP that the current ProNet/CCR database needs to be closely monitored and SBA should be required

to keep it "honest." We believe SBA should coordinate its findings with other agencies, so that the agency databases adequately reflect the changes made in ProNet/CCR with regard to small business listings. Certainly, a company should be required to inform the government when it has exceeded its small business designation. We do not believe verification should be a difficult process, or require new regulations—the government already has much of the information it needs to make a small business determination.

5. We believe that recertification annually could act as a penalty to a small business that has just obtained a sizable government contract. The goal is to encourage larger awards to small businesses, so we don't want to penalize a small business for acquiring one. One such award does not automatically make it a big business. There are ramp up costs to accommodate sizable contracts and an annual certification could hurt the companies we are trying to help. Because of the fluctuation of a business' size and profitability, we think a better approach would be to require recertification every three years.

   We agree, however, with the premise behind the proposed regulations, which is to improve agency reporting with regard its small business awards. GWACs skew the small business numbers because the company is considered a small business for the length of the contract, which can be as long as 5 to 10 years.

6. Increased vigilance on behalf of the SBA and increased pressure from the small business advocates within the federal agencies will increase dollars spent. One way to achieve greater purchase results would be to create GWAC vehicles for small businesses only. The GWAC could set a size, any contract under $7 million and below, which would be purchased under this vehicle.

   Increased education for small businesses to accept credit cards and actively market to the agencies for their credit card business will also help. We believe the SBA could do much more to educate the small business community regarding these purchases.

7. WIPP believes the ceilings on each category of NAICS codes should reflect real-time business revised annually. The standards should be based on economic analyses and tied to the federal economic indicators that are standard to valuation principles.

8. (a) WIPP believes that a "bundled contract" should designate for small business, a dollar amount to a scalable-percentage attached to the total contract award. We suggest a minimum of 28 percent to a maximum of 50 percent per contract award.

   (b) If the contracting officer is doing his/her job, the subcontracting plans are reviewed once a year. Most frequently, subcontracting plans are reviewed at the end of the contract life, if at all. WIPP believes that federal agencies should be

required to monitor all subcontracting plans in the form of a "normal billing cycle of the prime contractor report." The report should show the actual amount of subcontract taskings to track percentage of work to the subcontractor from the prime contractor. This does not need to be a complicated process.

(c) Given the proper resources, SBA could and should, aggressively monitor compliance. Some of our members believe that the SBA should be given authorization to initiate audits through a Federal Inspector General if necessary in behalf of the small business for noncompliance. There is debate within the Administration as to whether penalties or incentives will increase compliance. We suggest that a combination of both will compel prime contractors to work with small businesses as subs fairly and equitably.

(d) It is WIPP's members' experience that rarely are subcontracting provisions enforced and penalties assessed. We quote from the Small Business Committee Report FY 2002 which says: "In fact since 1990, fines penalties, restitution, and settlements for 43 of the government's top contractors -- all big businesses -- have totaled nearly $3.4 billion. These 43 contractors accounted for over 45 percent of all contracting dollars awarded in 1999. Sixteen of these 43 companies have been convicted of 28 criminal violations; two of the top ten has at least two criminal convictions. But only one of these 43 businesses was actually debarred -- the ultimate penalty for bad actors -- for a total of just five days."

9. There is currently a rigorous certification process already in place and operational restrictions are stringent on the SBA's 8(a)s. However, we believe that all economically and socially disadvantaged programs within SBA should be on a "level playing field." Until Congress, not SBA, decides to bring back the equality of the system as originally intended to the Small Disadvantaged Business programs, there will be disparities in the program.

10. The SBA regional offices are really in charge of education and marketing for 8(a) firms, when they have entered the program and some do a better job than others. We do not have statistics about how many firms succeed after leaving the program, however, we want to emphasize that a critical element of 8(a) success, is education and understanding how to leverage the 8(a) status into viable government contracts.

11. WIPP goes back to the need for education and training for small businesses with regard to business development and implementation of the 7(j) program. We suspect that many small businesses have no idea that this assistance exists or how to use it. Specific programs targeted to outreach to 7(j) participants that will actually provide concrete information and mentoring are required.

Post-Roundtable Questions
Committee on Small Business and Entrepreneurship
to
The Honorable Thomas M. Sullivan
U.S. Small Business Administration Office of Advocacy

"SBA Reauthorization: Non-Credit Programs"
April 9, 2003

1. How many staff positions are currently allocated to the Office of Advocacy and how many of those positions are currently vacant?

According to the official FY 2004 Small Business Administration (SBA) Congressional budget submission, "...SBA plans to fund the Office of Advocacy at approximately 50 employees..." (*SBA Budget Request and Performance Plan: FY 2004 Congressional Submission*, p. 16). Currently, two Regional Advocate positions are vacant (Region III and Region V). Also, there are currently three headquarters slots open. Therefore, 45 of the 50 positions are currently filled. Of those positions that are filled, two are part-time (including an intern) and one is an interagency transfer from the Department of Transportation (whose transfer will end on September 30, 2003).

2. Given the expanded duties of the Office of Advocacy, would additional staff, above the current allocation, make the office more effective?

If the question is one of effectiveness, the Office of Advocacy is managing its current responsibilities required by the Small Business Act, the Regulatory Flexibility Act (as amended by the Small Business Regulatory Enforcement Fairness Act [SBREFA]) and Executive Order 13272 by prioritizing our resources and contracting out activities that are not inherently governmental.

3. Would additional authority help the Chief Counsel hold Federal agencies accountable for addressing small business regulatory burdens? If yes, what specific authorities would be helpful?

Yes, in particular, budget authority would be helpful. A line-item appropriation within SBA's budget would eliminate the conundrum faced by every SBA Administrator of having to balance the resource needs for SBA's priorities and those of Advocacy. Since Advocacy is in the position of potentially criticizing SBA (and all other Federal regulatory agencies) for its policies toward small businesses, it is particularly inappropriate for SBA to determine Advocacy's budget level. The small business community also believes such a line item is necessary to preserve the role our office plays in removing regulatory barriers for entrepreneurial growth imposed by Federal agencies. The line-item will help ensure that the Office of Advocacy's ability to help small business survives from one Administration to the next. Also, as there will be a need to defend its own budget each year, a line item will insure the continued accountability of the Office of Advocacy from one chief counsel to the next.

Post-Roundtable Questions
Committee on Small Business and Entrepreneurship
to
James Turpin

"SBA Reauthorization: Non-Credit Programs"
April 9, 2003

Questions submitted by Senator Olympia J. Snowe, Chair

1. While some argue that subcontracting is the answer to small business access to the Federal marketplace - there are others that believe that nothing could be further from the truth. When a small business receives a subcontract it is forced into a secondary role, losing control over key decisions about what rates get charged and how work is divided.

The Committee also heard from small businesses at the contract bundling hearing that they are regularly used as "window dressing" on bid proposals to help large firms win contracts and then don't receive the proposed level of work once the contract is awarded. How can we improve subcontracting opportunities? How do agencies currently monitor compliance with subcontracting plans? What is the SBA's role? How do agencies address failures to achieve subcontracting plans? How frequently do agencies impose liquidated damages on a contractor, for failing to make a good faith effort to comply with the requirements of a subcontracting plan.

The American Subcontractors Association (ASA) has long advocated for an open and fair procurement process. We have watched with concern as a variety of steps designed to make the system more efficient have made it less competitive and brought into question the integrity of the system. These actions include the practice of bid shopping; the effort to treat construction as a commercial item, the increased bundling of federal contracts, and the ability to get paid in a timely manner. Finally, we support strengthening the Office of Federal Procurement Policy.

The competitive bidding system used for federal construction is based on the award of a contract to the lowest responsive and responsible bidder. Unfortunately, the actual result is often different because of a practice known as bid-shopping. When this occurs the integrity of the entire system is compromised. At the same time, such a manipulation deprives taxpayers of the full benefit of fair competition among contractors and subcontractors and too often results in poor quality of work. The reduced subcontract cost is not passed on to the owner, in this case the federal government – they simply go to increase the profit of the general contractor. This situation has been made even worse by reverse auctioning. While this system may work for some commodities and products, it is clearly a bad idea when it comes to construction. We should not allow our infrastructure to be built like it was part of an online auction service. ASA is currently actively pursuing a legislative solution to this issue.

The General Services Administration (GSA) is leading an effort to treat construction as a commercial item (Part XII of the Federal Acquisition Regulation (FAR)) rather than its current unique status (Part XXXVI). If this went forward, it would significantly change how federal construction is handled. The current federal system functions in a manner very similar to the private sector. The listing of construction services on the GSA schedule like they were a commodity would change the nature of the acquisition process. This would establish new and unnecessary barriers to entry into the federal marketplace.

The bundling of contracts has become a matter of increasing concern for construction contractors and subcontractors. According to a study done for the Office of Advocacy of the Small Business Administration (SBA), the bundling of construction contracts has increase by over 150% in the last decade. Even recent regulatory changes do little to improve the situation. As an example, the dollar limits established for the unbundling of contracts exceed the gross revenues of most construction subcontractors.

The traditional payment system creates cash flow problems for subcontractors. An alternative system, known as direct disbursement, is already used in some parts of the country. In this case, the government would make payment directly to subcontractors for work properly performed rather than sending the money to another party, usually the general contractor, to actually disburse the funds. ASA strongly supports the use of direct disbursement in lieu of the traditional payment system in construction.

Contractors and subcontractors increasingly are confused by the proliferation of regulations and rules governing federal acquisition. ASA supported the establishment of

the Office of Federal Procurement Policy and the implementation of the Federal Acquisition Regulation, the single government-wide acquisition code. ASA supports the strengthening of OFPP and strong congressional oversight of that agency and the acquisition agencies' continued trend to create a hodgepodge of acquisition rules.

The goal of virtually every subcontractor is to become a prime contractor and thereby control there own destiny. Because of an overly complicated system, bid shopping, ever changing regulations, bundling, and difficulty in getting paid, this objective is becoming harder and harder to achieve.

As the largest owner and purchaser of construction services, the federal government is in a unique position to set both the tone and precedent for the rest of the economy. For that reason, the actions of the federal government take on even more significance than in many other parts of the economy. While the rhetoric surrounding procurement for smaller businesses has been good, the results and commitment of resources to the issue have been lacking.

Post-Roundtable Questions
Committee on Small Business and Entrepreneurship
to
Don Wilson

"SBA Reauthorization: Non-Credit Programs"
April 9, 2003

Questions submitted by Senator John Kerry, Ranking Member

1. How will the SBA's proposed changes to the Small Business Development Centers (SBDC) program establishing a five-year award period and allowing the participation by nonprofit organizations benefit or hurt the program and the assistance they provide small businesses?

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May 13, 2003

Ms. Lindsey Ledwin
Hearing Clerk
Committee on Small Business and Entrepreneurship
United States Senate
Washington, DC 20510
VIA E-MAIL: Lindsey_Ledwin@Small-Bus.senate.gov

Dear Ms. Ledwin:

I am writing to respond to the question submitted by Senator Kerry following the Committee's Roundtable Discussion of April 9, concerning the Small Business Administration's (SBA) non-credit programs. I appreciate the opportunity that the Committee gave the Association of Small Business Development Centers (ASBDC) to participate in the Roundtable.

The question submitted by Senator Kerry is: "How will the SBA's proposed changes to the Small Business Development Centers (SBDC) program establishing a five-year award period and allowing the participation by nonprofit organizations benefit or hurt the program and the assistance it provides small businesses?"

The SBA's proposed changes would severely damage the SBDC program and its ability to serve small business owners and aspiring entrepreneurs. First, the SBA's proposal to establish a new five-year limit on the award period of SBDC grants, and require SBDC grants to be re-competed every five years, would discourage institutions with significant resources from participating in the SBDC network. Such institutions would not want to invest significant matching resources in a program that might be available to them for only a short period of time. In addition, requiring host institutions to re-compete for SBDC grants every five years would not add to the accountability or quality of SBDC programs. Under current law, the SBA can already revoke an SBDC grant if the grant recipient is under-performing, and under current law the SBDC program is already required to have an accreditation program that ensures quality among grant recipients.

Second, the SBA's proposal to repeal the requirement in current law that SBDC grantees must be institutions of higher learning, State government agencies or women's business centers would make any non-profit organization eligible to apply for an SBDC grant, regardless of whether it had any expertise in entrepreneurship or the delivery of management and technical assistance to small businesses. It makes no sense to take the SBDC program away from institutions of higher learning and State governments. Institutions of higher learning and State governments help to

ensure the quality of a State's SBDC services to small business owners and aspiring entrepreneurs. A State SBDC program that is supported by an institution of higher learning or a State government benefits from both the resources and high standards that such an institution brings to bear.

The success of the SBDC program is integrally tied to its structure, which was carefully thought out by Congress at the program's inception. The SBDC program was created as a Federal, state, and local partnership to ensure accountability and effectiveness. With its matching funds component, the SBDC program was wisely and carefully designed to leverage Federal resources to the maximum extent possible. The program's existing grantees, whether institutions of higher learning or state agencies, understood when they sought to host SBDC programs in their states that they would be expected to contribute resources at least to the same extent as the Federal government. In fact, institutional hosts have contributed or raised matching funds far in excess of the Federal government's financial contribution. In well over 90% of SBDC programs, the Federal government contributes less than 50% of operating resources. This extraordinary investment by the institutional hosts has been made with the understanding that they could and would continue to host the program as long as their performance was satisfactory. It would be inherently unfair now to take the program away from those program hosts who, assuming good faith on the part of the Federal Government and SBA, have invested so much in this program.

The SBDC program was modeled in many ways after the highly successful agriculture extension program. The Smith-Lever Act sought to establish a strong partnership between Federal, state and local governments and land grant colleges and universities across the nation to ensure the dissemination of knowledge, developed at our nation's land grant colleges of agriculture, to our nation's farmers. Similarly, the SBDC program was designed to create a lasting partnership between Federal, state and local government and institutions of higher learning to disseminate the very best practical business management and technical knowledge to our nation's small business owners and aspiring entrepreneurs. And the plan has worked remarkably well.

Outstanding higher educational institutions such as the University of Missouri, the University of North Carolina, the University of Wisconsin, Howard University, Washington State University, the University of Houston, the University of Wyoming, the University of Southern Maine, the University of Georgia, the University of Pennsylvania, the University of Arkansas, the University of Massachusetts, the University of Delaware, the State University of New York, George Mason University, the University of Kentucky, Rutgers University, Boise State University, Iowa State University, and the University of Maryland, to name a few, are hosts grantees of the SBDC program.

These are not the community store front non-profit groups to whom the SBA proposes to have Congress open the SBDC grant process. These are institutions that bring unique stability to the SBDC program. They are institutions built on solid financial and community foundations. Many of these institutions house the great business schools and entrepreneurial programs in our nation, such as the Wharton School, the Kenan-Flagler School of Business, the Robert H. Smith School of Business, the Isenberg School of Management and the Terry College of Business. These are institutions with worldwide reputations. These are institutions with our nation's finest business school faculties and MBA and entrepreneurial programs. The talent and knowledge of

these world class faculty and students are a resource readily available to the SBSDC program only as long as the SBDC program is an integral part of these renowned institutions. The broad class of grant applicants to which SBA would have Congress open the SBDC program overall has very little if any background or expertise in providing entrepreneurial training or management and technical assistance to small businesses.

And our hosts also include distinguished state agencies such as the Minnesota Department of Trade and Commerce, the Ohio Department of Development, the Illinois Department of Commerce, and the Montana Department of Commerce. These institutions, like the institutions of higher learning, bring to the SBDC program resources, relationships, and unparalleled leadership within their respective states that simply cannot be replicated by others.

The ASBDC is concerned that the SBA's proposal to recompete SBDC grants every five years would result in the creation of multiple SBDC hosts in each state, much as the SBA is currently attempting to create in California. This is contrary to the intent of current law, which provides that the SBA shall review SBDC plans with a view toward providing small business with the most comprehensive and coordinated assistance in the State. In California, officials in the governor's office have advised SBA that California wants one grantee host in California. However, SBA, apparently to placate the interests of the six SBA district directors in California, has reportedly decided to create six grantees in California. ASBDC believes this decision is an unfortunate one. Clearly, six SBDC grantees in California will necessitate replication of lead center overhead expenses thereby reducing the resources available for direct services to small businesses. Six hosts will also prevent the SBDC program in California from being able to address the state's needs on a "coordinated" and "comprehensive" basis as the statute envisions. None if the six hosts will be able to compete for state or Federal grants from agencies that seek a statewide service delivery system.

Let's examine the likely real life results if Congress approves SBA's proposal. Two years after the signing of the reauthorization legislation, SBA will begin to re-compete SBDC grants. Requests for proposals will be issued and a hodgepodge of non-profit entities, most with little or no background in providing business management and technical assistance will apply. Few applicants, if any, will have the matching resources or will be able to attract the matching resources of the program's existing hosts. The existing hosts will have already begun to reduce their financial commitment to the program. They will have quickly realized that the SBDC program is no longer a meaningful partnership with a long-term commitment by all partners. They will realize the program has become a politicized, short-term grant program.

Hundreds of dedicated, highly trained, experienced SBDC business counselors will depart the program realizing their SBDC careers are now short lived. Existing programs will find it virtually impossible to attract new counselors because qualified potential applicants for counseling positions will recognize that they face the prospect of only short-term employment with the new hosts. New grant recipients will face the daunting challenge of trying to rebuild a statewide service delivery network from scratch with limited resources, and limited ability to attract partners or qualified staff. One year of quality service delivery to the state host's small business community will be lost.

It will take a new host probably a minimum of two years to put a semi-effective statewide service delivery system together. Why? Because critical relationships built over decades will have been torn down and will not be rebuilt easily. The new host will be reluctant to share research and resources with program partners for fear the partners may compete against the host in the next round of competition. Two more years of effective service delivery will likely be lost. If the new host is lucky, it will then have two reasonably productive years of service delivery and program management before the grant expiration year will begin. Early in that fifth year, SBA will issue a new Request for Proposal and counselors, many of whom have been on the job three years or less, will depart the program, recognizing their days of employment by the host are numbered. And then the horrible cycle of low productivity and compromised service delivery will begin all over again. In fact, over a six-year period, we will likely see only two years of moderately productive service delivery.

What I have just described is not fantasy. It will likely be reality. The scenario I have painted is stark testimony to how little thought has gone into the agency's unfortunately shortsighted proposal. I would submit that change for the sake of change is mindless. The better prescription would be "first do not harm." And second, "if it ain't broke, don't fix it. And clearly the SBDC program is not "broke."

The SBDC program has a proven track record of creating new businesses, jobs, sales and economic development by leveraging Federal, State and private resources. It makes no sense for the SBA to propose changes to the SBDC program that will weaken its ability to fulfill its mission. The SBA's proposals would be very harmful to the efforts of our nation's SBDC network to build an effective service delivery system to help small businesses get started and grow. The ASBDC urges the Committee to oppose the SBA's damaging proposals. Thank you.

Sincerely,

Donald Wilson
President

c: Ms. Patricia Forbes
Mr. Mark Comer

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