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SMALL BUSINESS PRIORITIES OF THE 109TH CONGRESS

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BEFORE THE

COMMITTEE ON SMALL BUSINESS
HOUSE OF REPRESENTATIVES

ONE HUNDRED NINTH CONGRESS

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SMALL BUSINESS PRIORITIES OF THE 109TH CONGRESS

TUESDAY, MARCH 8, 2005

HOUSE OF REPRESENTATIVES
COMMITTEE ON SMALL BUSINESS
Washington, D.C.

The Committee met, pursuant to call, at 3:15 p.m. in Room 311, Rayburn House Office Building, Hon. Donald A. Manzullo [Chairman of the Committee] presiding.

Present: Representatives Manzullo, Keller, Sodrel, Gohmert, Velazquez, Lipinski, Case, Bordallo, Grijalva.

Chairman MANZULLO. The Committee will be in order. Today the Committee examines the small business priorities for this Congress.

Representative Ric Keller has authored a commendable resolution based on input he has received from his small business constituents, which expresses the sense of the House of Representatives the top challenges facing small businesses are staggering health care costs, high tax, regulatory and paperwork burden and frivolous lawsuits.

Surveys of small businesses continually show similar priorities. These priorities should be the focus of Congressional action to improve the climate for small businesses.

I am pleased that one of Mr. Keller's constituents has taken the time out of his busy schedule to be with us today.

On many fronts, Congress is making progress addressing these issues. Last month we were finally able to break the log jam in the Senate on class action litigation reform and it is now the law of the land.

This Committee held two hearings on health care in recent weeks and I am optimistic that we can build on the success in the previous Congress that established health savings accounts to break the impasse in the Senate on association health plans and medical liability reform.

I am pleased the President's fiscal year 2006 budget request includes making the tax cuts we already passed into law permanent, including the important estate or death tax repeal so that small businesses can be passed on to the next generation.

Next week we will most likely see a budget resolution adopted by the House to make the tax cuts permanent. Finally, I am going to work hard this Congress to see meaningful reform of Regulatory Flexibility Act and Equal Access to Justice Act to ensure that no

federal agency bypasses the concerns of small business in the regulatory process.

As a first step, the Committee plans a hearing on legislation to approve the Regulatory Flexibility Act next week.

I look forward to learning of the priorities of the small business groups here before us today, based on input from their membership.

I now yield for an opening statement from distinguished Ranking Democrat Member from the State of New York, Representative Velazquez.

Ms. VELAZQUEZ. Thank you, Mr. Chairman. As the economic engines of this country, small businesses play a vital role in job creation and economic growth.

As the main job creators, creating three out of every four new jobs, small businesses make up nearly 99 percent of all employers.

This sector is responsible for making up over half of the gross domestic product. Despite their overwhelming impact on our economy, small businesses unfortunately continue to face a myriad of challenges.

The number one challenge facing small businesses today is their ability to access affordable health care. These costs have only continued to skyrocket over the past few years, increasing by double digits.

Every one out of six uninsured Americans are in families headed by the self-employed or a small business employee. This is simply unacceptable.

However, it is important to recognize that there is no one size fits all solution to this health care crisis facing our nation's entrepreneurs.

In addition, this nation's small businesses continue to be overburdened by regulations and paperwork. In fact, the Bush Administration holds the record for the largest increase in paperwork burdens in a single year in history.

According to OMB, Americans spend 720 million more hours a year on federal paperwork than they did before President Bush took office.

Also, a serious concern for many aspiring entrepreneurs is their ability to access affordable capital. Whether it is bank lending, seed capital or venture capital, small businesses rely on this capital to start and grow their enterprises.

However, they are oftentimes unavailable to qualify for traditional bank loans and depend on help from the federal government to access affordable capital.

Another way for small businesses to increase their capital is by doing business with the federal government. Unfortunately, the $285 billion federal marketplace has not been open to small firms. For the fourth year in a row, the federal government missed their small business contracting goal, costing small businesses $45 billion in lost contracting opportunities over the past four years.

In addition, we need to ensure that SBA and its programs will be modernized and adequately funded so small businesses have a vibrant and strong agency at their disposal.

Over 50 vital small business programs has been slated for cuts and elimination in the President's latest budget request. We must ensure that small businesses have access to all of the tools they need in order to succeed.

Small businesses also face obstacles, in regard to their pension plans. Right now, they simply do not have the same types of options as their larger counterparts.

Only a quarter of workers at firms with fewer than 25 employees participated in an employer sponsored retirement plan in 2003. This is compared to nearly 70 percent of works at firms with 100 or more employees.

The priorities of our nation's small businesses have been pushed aside for far too long in favor of measures like the dividend tax cut, which cost nearly $200 billion, but did nothing to help small firms. Entrepreneurs are in need of permanent targeted tax relief.

In order for small businesses to drive our economy, these challenges need to be overcome. Today we will be examining House Resolution 22 that intends to put this Congress on the record as to what the real priorities should be for this vital sector.

A few of these challenges are addressed in the resolution, but many are not. There are also some questionable priorities listed, such as frivolous lawsuits, where it is not clear if it is truly a tough concern for small firms.

I look forward to hearing the testimony of all the witnesses today and to hearing what truly are the top priorities for small businesses. This Committee and Congress needs to truly champion all of the top priorities for small businesses, if we want to see them continue to do what they do best: Create jobs and spur economic growth.

Thank you, Mr. Chairman.

Chairman MANZULLO. Thank you. I am going to recognize the author of this legislation, Mr. Keller, for five minutes to explain this resolution and the hearing we are having on it today. Mr. Keller?

Mr. KELLER. Thank you, Mr. Chairman and I want to especially thank all of the witnesses for being here today.

The goal of the Small Business Bill of Rights is to provide a blueprint for Congress to help small business employers create more jobs.

A job is the best social program in the world. It provides income, health insurance and dignity. Significantly, 70 percent of all new jobs in the U.S. are created by small businesses.

In light of the fact that small business employers are the engine that drive this economy, I decided to meet with 20 very successful small business people in Orlando, Florida to learn firsthand what Congress could do to help small businesses to create even more jobs.

One of the individuals I met with was Mr. Jerry Pierce, the owner and CEO of Restaurant Equipment World, a family-owned small business in Orlando, Florida. In Orlando, there are three famous worlds. We have Disney World, Sea World and Restaurant Equipment World.

It may not be the most entertaining, but it has the shortest lines I assure you.

I am very pleased that Mr. Jerry Pierce is here today as one of our witnesses and I especially, having flown up with you this morning, thank you for giving up the Florida sunshine to come here to this D.C. snowstorm.

I learned a lot by sitting down and listening to these small business people. First, I learned that the number one issue facing small business people today is the skyrocketing cost of health insurance.

In fact, a growing number of small business people today are not able to provide health insurance to their employees, primarily because of the surging cost. Of the 45 million Americans without health insurance, 60 percent are small business employees and their families.

Right now, small businesses are unable to achieve the bargaining power of large corporations and unions, when negotiating with insurance companies to obtain affordable health insurance.

The premiums that small businesses pay for health insurance are typically 20 to 30 percent higher than those of large companies or unions.

According to the Congressional Budget Office, small businesses that obtained insurance from association health plans can save up to 25 percent.

These small business people told me that they needed the right to be able to join together to purchase affordable health insurance for their employees so that their workers would have the same opportunity to get the same health care benefits now reserved to employees of Fortune 500 companies.

The second thing I learned is that many of these small businesses are family-owned. Unfortunately, the death tax causes one-third of all family-owned small businesses to liquidate, after the death of the owner.

If Congress does not undertake any meaningful reforms of the death tax laws, then small business people will go back to paying up to 55 percent in tax rates in the year 2011.

Understandably, these small businesses want the right to tax laws that allow family-owned small business people to survive over several generations and offer them incentives to grow.

The third thing I learned is that frivolous lawsuits and the rising cost of liability insurance represent a very serious threat to small business owners. Unlike large multinational corporations, small business owners do not have the resources to defend themselves against frivolous litigation and are often forced, for business reasons, to settle a claim for five to $10,000, rather than pay a defense lawyer $100,000 to successfully defend the claim in court.

Finally, I learned that burdensome regulations and paperwork costs small businesses more than $5,500 per employee and these small business owners, understandably, want the right to be free of unnecessary restrictive regulations and paperwork, which end up wasting their time and energy and prevent them from creating additional jobs.

After listening to the challenges and solutions proposed by various small business people, I worked with some of my Democratic colleagues to craft a Small Business Bill of Rights.

I want to particularly thank Congressman Bud Cramer of Alabama, as well as Congressman Ed Case of Hawaii for their cosponsorship of this legislation.

I want to again thank the witnesses for taking time out of their busy lives to come testify before Congress and I look forward to listening and learning from your testimony today.

Mr. Chairman, I yield back the balance of my time.

Chairman MANZULLO. Thank you.

We have a five-minute rule. There is no trap door that if you exceed that you fall into the story below us, but if you could, when you see the yellow light on there, try to begin to sum up.

I would encourage you to explore as many personal anecdotal stories as possible. The testimony of many of you is going to be almost the same. That is okay. It reinforces what we are trying to do today, but if you have a small business, personalize this.

Tell us how this impacts you directly. That makes your testimony even more powerful.

Our first witness is Jerry Pierce. You don't even want to say Wally World you know, but from Orlando, Florida testifying on behalf of himself and the National Federation of Independent Businesses.

The testimony of all the witnesses will be made part and the written testimony will be made part of the permanent record and we look forward to your testimony.

Mr. Pierce?

STATEMENT OF JERRY PIERCE, RESTAURANT EQUIPMENT SALES

Mr. PIERCE. Thank you. Good afternoon, Mr. Chairman and members of the Committee.

Thank you for inviting me here to speak today on House Resolution 22, the Small Business Bill of Rights, sponsored by Congressman Ric Keller and Bud Cramer.

I am pleased to be here on behalf of the National Federation of Independent Businesses to represent their 600,000 members.

My name is Jerry Pierce and I own and operate Restaurant Equipment World, headquartered in Orlando, Florida.

I founded the company in 1976 in Cleveland, Ohio selling restaurant equipment to small delicatessens and restaurants. We eventually began furnishing equipment and services to theme parks, such as Sea World and Cypress Gardens and later to chain restaurants, such as Applebee's and Denny's and many others.

We offer a full range of employee benefits, including health insurance. Concerning small business health plans, the small business community is struggling each year to afford the cost of increasing health insurance premiums.

One way to solve the cost problem is through the use of small business health plans. These plans would allow small businesses to band together across the state lines to purchase health insurance as part of large groups, thus ensuring greater bargaining power, lowered administration cost and the freedom from costs of complying with 50 different sets of state insurance mandates.

When compared with large corporations, small businesses face dramatic disparities in the health care marketplace. For instance, my own daughter, who works in our company, does not participate in company health care plan, because she can be added to her husband's plan. He works for a large corporation and she can be added to his plan for only $40 a month.

If, however, her husband quit his job and wanted to join under our company plan with her being insured, the cost to add him onto our plan would be $428.51 per month, a very dramatic difference.

Concerning the death tax repeal, the death tax threatens the livelihood of small businesses and their employees.

Annually small businesses pay income taxes, pay personal property taxes, employment taxes, social security, excise taxes, just to name a few.

After small businesses pay all those taxes with their after tax dollars, they then have the choice of investing in people, equipment, plant and inventory in order to make their businesses more efficient.

If these businesses do not have the cash available, they will be forced to sell critical parts of their businesses or the entire business outright in order to cover the tax liability.

I remember when my father-in-law was in his 70's and stated it was time to cash in his chips and to close his businesses and liquidate assets so that his family would have money to pay the death tax.

This certainly hurt the family, but it also destroyed a life's worth of work, where he created a company that built the machines that made machinery. He had highly paid craftsmen and built a reputation in the tool and dye industry.

The employees of that company lost their jobs and so did our society lose, because that company is gone and I can assure you that the employees who lost their jobs, none of them were named Warren Buffet or Bill Gates.

In my personal case, I wasted money on setting up a trust and by encouraging my children to purchase second-to-die insurance on my wife and myself in addition to other strategies. I urge Congress to permanently repeal the death tax.

In terms of legal reform, another issue, the escalating numbers of lawsuits threatened or filed are having a strong impact on small business owners. For a small business owner with five employees for us, the problem is not the multi-million dollar settlement, it is the five to $10,000 settlement or the threat of one.

When you consider that many of these small businesses only maybe make 40 to $60,000 a year, a $5,000 settlement on a case would be ten percent of a business' annual profit.

Small business owners are troubled by the fact that they are often forced to settle a case at the urging of the insurance company and then what happens is the insurance company raises the premium next year. So many owners of businesses simply settle, pay the $5,000 or ten and don't bother filing the claim with their insurance company.

Regulatory reform, another issue. Simple government regulations, particularly when it comes to paperwork they generate, can create a burden on small businesses.

Regulatory costs per employees are debilitating for small firms. A report commissioned by the Small Business Administration's Office of Advocacy estimates that the regulatory compliance costs for firms with fewer than 20 employees is nearly $7,000 per employee per year.

According to the NFIB research foundation, the best thing for small businesses—

Chairman MANZULLO. How are you doing on time, Jerry? You are over.

Mr. PIERCE. I am sorry. I didn't notice that. I apologize. I am just about done on that and all I do at this point is like to thank you for the opportunity to testify and in closing to thank the members who have been supporters of small business health plans, particularly Chairman Manzullo, Ranking Member Velazquez and Congressman Case. Thank you very much.

[Mr. Pierce's statement may be found in the appendix.]

Chairman MANZULLO. Thank you.

Our next witness is Giovanni Coratolo with the Small Business Division as part of the U.S. Chamber of Commerce. We look forward to your testimony.

STATEMENT OF GIOVANNI CORATOLO, SMALL BUSINESS POLICY, U.S. CHAMBER OF COMMERCE

Mr. CORATOLO. Thank you, Chairman. Chairman Manzullo, Ranking Member Velazquez, members of the Committee, I thank you very much for inviting me here to give testimony on small business priorities.

My name is Giovanni Coratolo and I am Director of Small Business Policy for the U.S. Chamber of Commerce.

Quite frankly, I have written testimony and I am not going to sit there and read it. What I would like to do is give you a few remarks off the cuff about H.Res.22, which we find very important to small business.

I have seen the Chairman and this Committee and Ranking Member do a lot for small business through this Committee. Unfortunately, this Committee doesn't have jurisdiction over those issues that most affect small business and those are the issues that are encompassed in H.Res.22.

Health care is number one. We just got back from a small business council meeting. I am constantly bombarded. This is no secret. Health care for small business is important. Solutions for that are important.

If you look, obviously in the eyes of small businesses, they don't understand why they can't pool and provide or obtain health care for them and their employees, as large businesses do.

It is just unbelievable to them that Congress has not enacted some measures to help them belong in health care policy issues.

Health care is currently 15 percent of our GDP. It will be, in the year 2013, 18 percent. It is absorbing our ability to compete.

Internationally if you look at any of the industrialized nations, other industrialized nations, it is eight or nine percent. So we are at a competitive disadvantage to those we are trying to compete against.

Going on to tax relief. The small businesses that are members of the Chamber, when they get extra money, it is not so they can have a better house. They reinvest it. They reinvest it in jobs and the growth of their businesses.

They need some permanency to these tax cuts that were made in 2001 and 2003. Section 179 is very important to them. They use that for reinvestment. So this is a very important feature to our small businesses.

Reduction of red tape. All these issues are the four most prominent issues. All the polls we have done, these are the four most prominent issues that come up in all the polls, whether it is our members or outside our membership.

Red tape reduction, frivolous lawsuits, tax relief and health care, those are the four top issues that perennially poll for small business.

Congressman Keller is correct. It is a mirror of what we have seen in our membership.

Red tape. We have had four bills pass in the last decade that have mandated for agencies to reduce the paperwork burdens. That has not taken place. It has only grown.

If you talk to the agencies and I have been in many roundtables and panels, you see that the agencies say we can't provide compliance assistance. We cannot provide the help and they talk about lack of resources, yet they expect small businesses to use their limited resources to understand these regulations.

We need to have further regulatory controls to hold the agencies feet to the fire when it comes to adhering to the regulations that Congress imposes to them. It is very important.

Lastly, frivolous lawsuits or tort reform. Prior to me going with the Chamber, for 25 years I owned and operated businesses. I know what it is like to be sued and I know what it is like to have a frivolous lawsuit, one that is baseless.

It is not only a financial drain, it is an emotional drain. It makes you want to take a defensive posture. It makes you not want to expand and grow like you should.

This is something that is important. We have to reign in this. We have to do something. There is a tort tax of $845 per person that is also eroding our ability to compete.

I thank you very much for inviting me to this. We hope that you will be able to pass this and send a clear message to the House that this is important for small business. Thank you.

[Mr. Coratolo's statement may be found in the appendix.]

Chairman MANZULLO. Thank you.

Our next witness is Todd McCracken, President of National Small Business Association. I look forward to your testimony.

STATEMENT OF TODD MCCRACKEN, NATIONAL SMALL BUSINESS ASSOCIATION

Mr. MCCRACKEN. Thank you, Mr. Chairman. I appreciate the opportunity to be here. The National Small Business Association is the nation's oldest small business advocacy organization and we have only come back from a conference last month where we biannually develop our priorities for the Congress. This hearing is particularly timely.

As the two witnesses before me have indicated, you can look at any survey of a small business community and you will see that absolutely the top issue concern is health care, health insurance and the affordability of health insurance and the ability to get health insurance to their employees.

Certainly everything we have seen supports that notion of something absolutely must be done to fix the health insurance situation.

Also as you probably know and the panel probably know, I am probably alone up here in saying that we don't think that association health plans is the way to go to accomplish that.

Health care does take 15 percent of our GDP. It is going to take 18 percent of our GDP and AHP's aren't going to change that. They will rearrange who pays how much of that 15 percent and 18 percent, but at the end of the day we have got to tackle head on those enormous costs that are really driving a health care crisis we have now.

We hope we can get started in this Congress, who really needs to begin to address that. Really look at the overall health care picture. We have got to inject new market forces into the health care system.

We have to hold providers and insurers' feet to the fire. Make sure they are insuring everyone. I mean we have got to take a much bigger look at this than just nibbling around the edges.

I don't have time to get into all of that today, but there is a lot more detail in my testimony and a lot more detail that we can get to you as well.

The other really huge issue that faces a small business every year, of course, is taxes. All forms of taxes and we are encouraged that the President has a commission on tax reform. We hope that the Congress and the President will be able to step up and be very bold and propose that this year as well.

We think that we need to fundamentally get rid of the tax system that we have and replace it with something new. We favor a consumption tax, called the fair tax, that we think is, after years of study, we think is absolutely the best system for the small business community. We hope you will move in that direction.

That said, those are two very big ideas and while we are trying to promote them, we are also realists in knowing that what needs to get done really maybe what can get done.

You look at what can get done realistically in this Congress in the tax field. Absolutely we need to take the opportunity again in this Congress to repeal the death tax once and for all and again not nibble around the edges. It is a tax the American people don't support.

It is very difficult to find ways to reform it or change it that really solve the underlying problems. We need to get rid of the death tax.

Then I would also point you to a series of changes that really discriminate against small businesses. I put them under the rubric of tax equity for small companies. One is the self-employment tax on health care. I mean for a self-employed individual, they can't deduct against self-employment taxes, their FICA taxes, the cost of the health insurance.

For a family policy, that is maybe $2,000 a year in health insurance. No other worker in the economy pays today. That needs to change.

I want to thank Chairman Manzullo and Congresswoman Velazquez for sponsoring a bill in the last Congress that would fix that, but that is not the only way that small businesses are discriminated against in the tax system.

They also can't save as much in their 401-K's, so-called simple plans, that larger employers can. Small businesses just don't have the wherewithal to put together a full 401-K plan, if they are very, very small and if they only have a simple plan, they can't save as much and their employees can't save as much. We think that is wrong and it ought to change.

Also, small business owners, just because they are small business owners, can't put any money into a 125 plan. I mean they can have a 125 plan for their employees. These are so-called cafeteria plans, but they can't put any money in them. That ought to change. That is a fundamental unfairness in the system I believe and that would change the scenario for the small business community.

Then on health care, we ought to reform the medical malpractice system now. We ought to pass the tax equity provision I mentioned before. Both those two things would give some, not substantial, but very real cost relief to the small business community on what they are really paying for health care costs.

Finally, as I begin to wrap up, many small businesses still have real problems with access to capital. We think that the 7A program in particular ought to be funded at a higher level than what the Administration has proposed, because we think ultimately it does return money, both to the federal coffers and it really helps the small business community get real capital into their businesses and create jobs.

Finally, I had mentioned continuing great need for reg reform and there is a lot of detail in my written testimony about what needs to happen there and tort reform, but I am out of time.

[Mr. McCracken's statement may be found in the appendix.]

Chairman MANZULLO. Thank you.

Our next witness is Barbara Kasoff, co-founder with Terry Neese of Women Impacting Public Policy.

How many members do you have now, Barbara?

Ms. KASOFF. 505,000 members and 29 affiliate organizations that belong to our organization.

Chairman MANZULLO. I look forward to your testimony.

STATEMENT OF BARBARA KASOFF, WOMEN IMPACTING PUBLIC POLICY

Ms. KASOFF. Thank you so much, Mr. Chairman and Ranking Member Velazquez for inviting me to testify.

The subject of this hearing is very near and dear to my heart, small business priorities for the 109th Congress. This hearing coincides with the upcoming release of WIPP's annual poll.

We poll our members annually to gain insight and information from WIPP's business owners on a number of economic issues.

It also gives our members the opportunity for them to gauge the importance of several policy issues to their business.

We sought information on a number of issues, such as health care, tax reform, tort reform, social security, estate tax and federal contracting, but let me take a few minutes, if I can right now, to share with you some of the results and the highlights of the poll.

It is not going to come to any surprise to any member of this Committee that 71 percent of our members identified health care as their top issues. Our members overwhelmingly agree that AHP's would be very helpful to them, but here is an important statistic for you.

42 percent said that if Congress took away their deduction for health care coverage, they would be forced to cancel the employer's sponsored health care and an equal percentage said that they would be forced to decrease the employer paid portion of the health care coverage they now offer to their employees.

An overwhelming 84 percent of our members believe that a total overhaul of the health care system is necessary and what that is saying to quote Todd [McCracken] is "we need to address this issue head on."

The second highest priority identified by our membership was having an energy policy. Seventy-eight percent are in favor of the development of alternative energy sources to providing tax and monetary incentives to manufacturers and users.

We haven't heard this issue before as a priority in previous polls so we have to think that the price of energy is inhibiting small business growth.

The third highest priority was social security reform. 71 percent of our members believed that we need to address this issue now. 46 percent were not in favor of private retirement accounts. 19 percent need more information and 37 percent said that market fluctuations are a serious concern in this.

The fourth highest priority identified by our members was in reform of the tax code. 57 percent believed that simplification is the route to tax reform. 48 percent favored flat tax. 71 percent of our members believed that any changes to the tax code must be revenue neutral and 56 percent of our members said that the federal tax deficit is an issue of major concern to them.

Lastly, tort reform was identified by 40 percent of our members as a priority. Although most respondents had not been sued and 50 percent weren't too concerned about being subjected to a frivolous lawsuit, our members believe that the legal system should be structured to discourage frivolous lawsuits.

Our members also listed fairness in procurement and repeal of the estate tax as important issues.

Our members are very optimistic about the economy. In fact, 72 percent expect their revenues to increase in 2005 and this is good news for this Committee and for our economy.

As you set your priorities, we urge you to take a look at what our members have said. Without a doubt, we are going to have to work together to make rising health care costs a priority.

We are pleased that this Committee is working in a bipartisan way to enact AHP's and to look at this issue in a full and comprehensive way.

In last week's hearing on health care, everyone agreed that affordable and accessible health care for small business is in dire need of fixing and we urge you to continue to pressure your colleagues for action. Also, please take a second look at energy costs and their impact on small businesses.

With regard to social security reform and tax reform, no solution is complete unless small business has a seat at the table. We will continue our efforts to educate our members on the various proposals before Congress, as it deliberates on these important policy changes.

We believe it is critically important that a woman business owner be at the table when any of these issues are discussed.

With H.Res.22, we thank you and commend Representative Keller for identifying the issues, which are so important for small business. We spoke of three or four of the issues that were mentioned and with regard to reduced paperwork, our members know firsthand the overwhelming amount of paperwork that is required.

Chairman MANZULLO. We are overwhelmed by time.

Ms. KASOFF. Thank you very much for the opportunity in allowing me to testify.

[Ms. Kasoff's statement may be found in the appendix.]

Chairman MANZULLO. Thank you.

Our next witness is Karen Kerrigan, President and CEO of the Small Business and Entrepreneurship Council. I look forward to your testimony.

STATEMENT OF KAREN KERRIGAN, SMALL BUSINESS AND ENTREPRENEURSHIP COUNCIL

Ms. KERRIGAN. Thank you, Chairman Manzullo, Congresswoman Velazquez, members of the Committee for inviting the SBE Council to have input into this important hearing today.

For the most part, our organization will continue to focus on what we call the bread and butter issues of the small business community. That is issues that continue to present cost, competitive and certainty challenges to our members.

With respect to H.R.22, the Small Business Bill of Rights, we believe that piece of legislation, that sense of the House legislation, does capture the key issues that our members are concerned about, namely taxes, affordable health coverage, regulation and frivolous lawsuits.

Advancing H.R.22 will serve to underscore the need for Congress to continue to focus on the small business sector, so that we can continue to grow, to innovate and to create jobs.

On taxes, we will be pushing for tax cut permanence, when it comes to 2001 and 2003 tax relief packages. The measures within those packages made a significant difference for our members, both in terms of having additional resources to keep and hire employees, to provide or to maintain coverage for their employees, to purchase and upgrade equipment and technology and the things that a small business needs to stay competitive in the domestic and the competitive marketplace.

Certainly making those packages permanent adds to certainty, allowing small businesses to plan for both their short-term and their long-term capital and business development needs.

Tax system overhaul is something that we hear over and over and over again and we are very pleased to see that the President did put together the advisory panel on federal tax reform.

The principles that he outlined in terms of making it fair, simpler and more growth oriented, is something that certainly our organization has supported since our founding. Congressman Keller, one of your constituents, I know one is here today, but also an SBE Council member, was at Tampa for the advisory panel's hearing today where he talked about the tax system impact on business and entrepreneurship. That was Todd Fleming of Infosafe.

You have star witnesses today, represented both in the south and certainly inside the beltway.

On the issue of affordable health coverage, certainly some progress has been made with respect to HSA's. Enhancing HSA's through tax credits and incentives certainly will give small business owners and individuals more access to this new features.

Our comprehensive approach really is enacting what we talked about in the hearing last week, Chairman Manzullo, which is to bring more equity to the system and make it more competitive, the adoption of AHP's, giving tax credits to individuals, the FICA deduction for the self-employed and creating a nationwide marketplace and certainly enhancing HSA's.

All these things will give greater access to the system, make it more competitive and in the end, more accountable to health care consumers.

On the issue of regulation, really a bane for small business, certainly, we will be pushing for broad reforms that make the regulatory system more flexible, more modern, more accountable for small businesses and certainly we will be focusing on very specific items as well, in terms of OSHA reform, flexibility in the workplace, independent contractor reform.

One of the issues that we are hearing more and more about from our members is the issue of Sarbanes-Oxley, particularly small public companies and their ability to comply with that.

We are very happy to see that the SEC extended the filing for accelerated filers, mostly small businesses, for another year. That is something that we proposed and that they recently adopted.

But even if you aren't a small public company, the downstream impact is being felt by small firms, particularly those who do audits every year where they are absorbing and they are adopting

some of these Sarbanes-Oxley elements in their auditing procedures, which obviously raises the cost for small businesses.

What that all—

Chairman MANZULLO. You got a red light.

Ms. KERRIGAN. I am going to wrap up right now and there are plenty of other things in my testimony I echo on the energy front that Barbara [Kasoff] brought up, that is also included and I look forward to our dialogue. Thank you.

[Ms. Kerrigan's statement may be found in the appendix.]

Chairman MANZULLO. Thank you.

Our last witness is Sheila Brooks, who is the President and Founder of SRB Productions. I bet that stands for Sheila R. Brooks Productions and we look forward to your testimony.

STATEMENT OF SHEILA BROOKS, SRB PRODUCTIONS, INC.

Ms. BROOKS. Thank you, Mr. Chairman, as well as thank you, Ranking Member Congresswoman Nydia Velazquez and other Committee members for the opportunity to testify before the U.S. House of Representatives' Committee on Small Business.

Mr. Chairman already told you who I am, Sheila Brooks and SRB Productions is a full-service communications firm here in Washington, D.C..

We provide original programming for the networks, as well as streaming interactive media services, advertising, marketing, PR and an in-house production facility.

I am here today to address H.R.22 and offer my testimony in some respect for legislation towards the efforts of revitalizing the 8(a) program.

I am really proud to be one of the 10.6 million women-owned firms in this country, doing business in our nation's Capitol and today I am sincerely humble to share with you my successes, a minority business leader and a graduate of the 8(a) program.

My vision for my business was instilled and my mission for myself I found many years ago that the media, specifically television and broadcasting, was an environment of which I could survive in. After working for 13 years as a television newscaster, I decided to start my own business, because I had a vision that creating a firm, creating a business opportunity for myself would be one that I could be self-satisfied with.

I am grateful for the leadership skills that I developed in the corporate world, because it provided me the framework to create a professional small business.

As you know, nearly half of the privately held U.S. firms are women-owned, according to the Center for Women's Business Research and they are growing faster than the nation's average.

Let me share with you a little of my success. SRB Productions has experienced significant growth in the last few years, since graduating from the 8(a) program.

This year we will celebrate 15 years of communications excellence and we also are sincerely proud of our accomplishments, not

only to move into a half million dollar facility that we constructed a year ago, but last year we also expanded our services in the area of advertising, marketing and public relations, not only to one of the largest utilities, Pepco Holdings in this area, but as well as to a couple of federal government agencies.

We are proud to be a federal government contractor, particularly in these last 14 years. But we know that with each accomplishment come continuing challenges and we realize that in order to achieve our goal, it is important to continue to break down the barriers that continue to face minority and women-owned businesses. We still face intolerable obstacles to access to capital, credit worthiness, increased procurement opportunities in the federal government and for far too long, as you all know, women-owned businesses haven't received their fair share of federal contracts. Most women entrepreneurs, especially women entrepreneurs of color, have trouble maintaining business profitability, managing cash flow, maintaining growth and attracting and retaining qualified employees.

What I know is that determination, perseverance and faith ultimately prevail and I also know that it was programs like the 8(a) program that contributed to my company's success.

It was the first loan from the U.S. Small Business Administration that we received five years after we were in business, allowed us to make our first equipment purchase.

So I believe it is critical that women business owners are a part of this dialogue. I will continue to be a staunch advocate of women business ownership and will continue to work tirelessly to champion minority and women business owners on how they can procure more contracting opportunities in the federal government. My work won't stop here.

I will continue to be a strong voice in organizations that support minority and women business issues. Doing business with women and particularly doing business with women of color, is the right thing to do.

Let us just not pay lip service to small business issues. Let us be part of putting a full, realistic plan of action into place and I know together we can succeed.

Thank you very much.

[Ms. Brooks' statement may be found in the appendix.]

Chairman MANZULLO. Thank you very much. I have got to leave for some meetings that are conflicting. What I am going to do is have Mr. Keller take over the chairmanship and then start with Mrs. Velazquez five minutes and then Mr. Keller, you would have the five minutes after that.

Ms. Velazquez, you are recognized for five minutes.

Ms. VELAZQUEZ. Thank you, Mr. Chairman.

Ms. Brooks, thank you for coming before our Committee today. Regarding the resolution that we have, it talks about four areas: Health care, regulations, estate tax and frivolous lawsuits.

Do you think that these issues reflect small businesses' priorities?

Ms. BROOKS. Let me address, Congresswoman, each of those areas, particularly and briefly. Health care and regulatory relief are certainly very, very important issues for small business owners.

Income taxes are more the problem than a real estate tax or I should say the estate tax for business owners. So I am not really sure why the estate tax is singled out in that legislation.

You know when you look at reducing frivolous lawsuits, that is not really on the radar for small business owners right now, because they are many, many more important issues that we face.

As I mentioned in my testimony, access to capital and access to the federal government marketplace.

Ms. VELAZQUEZ. Mr. McCracken, you talk about, in your written testimony, about SBA and its programs. Many people often minimize the impact of this agency and its initiatives.

Can you talk to the Committee about the important role that the SBA programs play for your members?

Mr. MCCRACKEN. Sure. I do think it plays an important role and often the SBA I think has criticism, because in any given year, whether it is a 7(a) program or the small business development center program or whichever one it is, it only reaches a fraction of the small business community and that is true.

I would argue that is as it should be, frankly, because the Small Business Administration ought to be targeted at places where businesses need the help, rather than a full service, one-stop-shop for any business problem.

But that creates a situation of where if you survey the small business community and asked them, did you use an SBA program this year, most of them are going to say no, they didn't.

But if you look at the life cycle of the business, if you look at the impact of a small business community overall, you see something very different. I mean because banks, for instance, we are looking at the 7(a) program, have a limited portfolio of the amount of loans they are going to make. Having a guarantee available, greatly increased the amount of loans they can make to a lot of other companies. So the impact is bigger than just the direct loans that are made.

Ms. VELAZQUEZ. Regarding the 7(a) program, you talked in your testimony about re-engaging an appropriation for this program, which will reduce the increased costs associated with the program to basically the borrowers and the lenders.

Many individuals maintain that the $3,000 additional costs that doesn't represent a lot of money for a small business person who wants to start up their business or expand their business.

Can you please comment? Is $3,000 a lot of money for an entrepreneur to come up with?

Mr. MCCRACKEN. It is a great deal of money. Also, you look at what the bank has to pay as well. I mean, you are also creating disincentives for banks to participate in the program everywhere. Some banks obviously will continue to participate, but not all of them.

So loans could become less available and the small business owners themselves, what we are going to see are particularly the higher end loans going away and our concern is the default rate on the program overall will begin to go up also over time.

Ms. VELAZQUEZ. As you note in your testimony, the SBA continues to make smaller loans, declining from $211,000 in 2001 to only $153,000 in the first quarter of fiscal year 2005.

That represents a decline of 30 percent. So this decline has occurred while the cost of operating a business has increased and we talk about energy costs.

Are these shrinking loan sizes a good thing?

Mr. MCCRACKEN. No, I don't think it is. I mean obviously there is a market for loans in the smaller end, but sometimes the most difficult loan for businesses to get is those midrange loans. They are not really a big company yet, but it is still a substantial risk for the bank. There is a lot of paperwork involved in the bank's end of things.

So sometimes the most difficult loan are the ones that are sort of getting carved out of the program.

Ms. VELAZQUEZ. Thank you.

Ms. Brooks, while the average size for the 7(a) loan in 2004 was nearly $170,000 across the entire program, the average loan for the loan to an African American firm is only $86,000.

The average for a loan for a Hispanic firm is $128,000 and the average loan to a women-owned firm is $123,000. What is your perspective on why minorities and women received substantially smaller loans than non-minorities?

Ms. BROOKS. Congresswoman, minority firms as well as women-owned firms need just as much capital as any non-minority firm. In fact, I believe that there is too little capital could really actually hurt us even more, both minority and women entrepreneurs and leave us undercapitalized.

Ms. VELAZQUEZ. Mr. Chairman, I have just one more question and then I will be done.

Mr. KELLER. Yes, ma'am.

Ms. VELAZQUEZ. Based on your testimony, Mr. McCracken and Ms. Brooks and our discussion here today, would you all agree that funding for the 7(a) program and cutting the costs associated with this program really represents priorities for small businesses in this country?

Mr. MCCRACKEN. My view is that clearly access to capital is an important issue to the small business community. I don't know if the typical small business owner however realizes the important role of the 7(a) program plays in that.

So yes, I think it should be an important priority representing small business. I think if you poll the small business community, it wouldn't show up, because they don't know that 7(a) program.

Ms. VELAZQUEZ. Would you want to see this as part of this resolution?

Mr. MCCRACKEN. I think probably it would be a good idea, but there are other things I would add too. I don't know that I would add just—

Ms. VELAZQUEZ. In any survey that we see conducted by any organization, access to capital and health care costs and energy costs, those are priorities and especially if we look at the face of small businesses in this country, in terms of women and minorities. Access to capital is important.

Ms. Brooks, would you like to see this as part of the priorities that should be included in this Congress?

Ms. BROOKS. Absolutely, Congresswoman.

Ms. VELAZQUEZ. Thank you.

Mr. KELLER. I want to thank the Ranking Member for excellent questions.

Mr. Pierce, let me start with you. To get an idea for the health care costs paid by small business people, when I was a lawyer practicing in a law firm, which some would consider a small business here in D.C. I guess, back in Orlando, we paid about $800 a month for health insurance for a family of four.

Give me an idea of about what employees would have to pay at your company for a family of four, in terms of monthly health care costs.

Mr. PIERCE. Currently right now our company would be paying the base part for the employee of $204 and month and the current quote that we have right now for a family would be in addition to that of $797.12 per month, in addition to the $204 paid for by the company.

Mr. KELLER. So about $900 a month?

Mr. PIERCE. Almost a thousand.

Mr. KELLER. Okay. Have you ever had a situation, because of the surging cost of health care, where it has been necessary for you to have to change insurance plans, just to be able to keep affording health insurance for your employees?

Mr. PIERCE. We have had to do that regularly and as we have changed from different staffing companies, which are very popular in Florida.

When one coverage we get dropped with one company to have to switch onto another one. Yes. That has happened several times.

Mr. KELLER. I want to direct this question to a couple of our ladies, because our small business had to do that and it is more than just about money, because as a partner in a law firm to sit down and tell one of my paralegals or secretaries, I know you are happy with your ob/gyn and I know you love your kids' pediatrician, but we are switching plans and by the way, they aren't on the new plan.

Is that a concern, let me start with Ms. Kerrigan, to women in the workforce?

Ms. KERRIGAN. Absolutely. You know just the whole issue of health security and health insurance security is a huge issue for women and any type of uncertainty or instability in coverage plans is a major issue.

The short answer is yes. I mean having good coverage, at affordable prices and having the type of coverage that women need is very important.

Mr. KELLER. Ms. Kasoff, would you agree with that?

Ms. KASOFF. Totally. I am a small business owner as well as the co-founder of Women Impacting Public Policy. Our premiums rise yearly and it becomes more and more difficult for us to provide our employees the same quality and the same portion of paid insurance coverage for them.

The quotes that we have and that we pay are significantly more than you said for a family. It depends where you live and if God forbid one of your employees has a serious health care issue, it increases the cost significantly.

Mr. KELLER. It seems like there is a general consensus that the health care issues are a number one priority. A lot of small business people are concerned about red tape.

Ms. Velazquez questioned what about frivolous lawsuits? Do they belong here? What about the death tax repeal? Do they belong here?

Mr. Coratolo, let me direct a question to you on the death tax to start with. In 2010, the death tax will be zero. In 2011, back to 55 percent.

I am no expert on predicting the future, but as far as I can tell, the only family-owned small business that knows for sure which family members are going to die in 2010 is the Sopranos at this point.

From your polling at the Chamber and talking with members, is the death tax issue a real issue for them and is frivolous lawsuits a real issue that comes up as a top tier issue for small business people?

Mr. CORATOLO. Sir, it is. We find at the Chamber that the numbers that we poll, legal reform is number two for small business, number one for big business.

Health care is always number one for small business. Also tax reform, some permanency. The overhead cost to maintain and try

to forestall the death tax in a sense of paying for the insurance costs so that they can pass this on to their heirs is just horrendous.

It eats up valuable assets so they cannot expand their businesses and grow jobs.

Mr. KELLER. Thank you, sir.

Just to address the frivolous lawsuit issue, I wrote this specifically in a bipartisan way. One of the things obviously John Kerry, John Edwards on the one hand and President Bush and Dick Cheney on the other hand, didn't agree with every legal reform issue. Some supported caps and others didn't, but the one thing they were in complete agreement was cracking down on frivolous lawsuits.

John Edwards wrote a great piece in the Newsweek that said, three strikes and you are out for frivolous suits, because it is not the superstar attorneys like John Edwards who file the frivolous suits, but it is the others who repeatedly do it.

I think there is some bipartisan consensus there. Without me taking up any more time, let me yield now to Ms. Bordallo for five minutes.

Ms. BORDALLO. Thank you very much.

First, I want to thank Congressman Keller for his strong support of small business and of course the co-sponsor, Mr. Ed Case and I also want to thank the members for their testimonies today.

On H.Res.22, I agree that we do need to look at innovative solutions, such as the AHP's and the state high risk pools to improve the availability of health care to our small businesses.

As a member of the Subcommittee on Regulatory Reform and Oversight, I am also very sympathetic to appeals for paperwork reduction and regulatory flexibility for our small businesses.

I have no doubt that this resolution represents the priorities of small businesses. However, we have heard a few different versions of it here, but I am concerned that it is not necessarily representative of the small business priorities nationwide.

Now, for example, in my district I come from the territory of Guam, way out in the Pacific. Small businesses indicate to me that their highest priorities, in addition to health care and regulatory burdens, would be access to federal contracting.

I think Sheila Brooks mentioned this very emphatically. We have large military bases and now they are outsourcing and I want to make sure that the small business gets a part of this piece of pie.

Since there is consensus on the need for small business to have access to health care and for reducing regulations, there are opportunities to make a strong unified statement on small business policy of some of the other issues that I just mentioned, important to small businesses in districts such as mine are included.

My question to you, Mr. McCracken, is in your testimony, you cite access to capital as a priority of National Small Business Association members. You also mentioned the need to allow for parity between simple 401-K plans and traditional defined contributions for large businesses.

Would this Congress, in your opinion, be remiss if we passed a resolution defining the priorities of small businesses without recognizing some of these other issues?

Mr. MCCRACKEN. Well, obviously that depends on how broad the Congress wants to be in drafting a resolution. I think it is pretty clear Mr. Keller was trying to capture the very top tier that affect a broad cross section of the small business community.

As crucial as issues of contract bundling and other access to procurement opportunities are for many of the small business community, the reality is it is still a fraction of the small business community that does or would do any government contracting.

In some places, like Guam, that is obviously quite acute. You would see a very different scenario.

I suppose if you wanted to be more expansive in the nature of the resolution, it would make sense to include those. If you want to talk about those things that only affect a very broad cross section of all businesses, no matter what kind of business they have, probably not.

Ms. BORDALLO. I would like to ask Ms. Brooks, because she really went into this federal contracting. How do you feel about this?

Ms. BROOKS. I just don't believe the bill addresses the critical issues that are facing small businesses. Health care, yes. Mr. Keller, as well as other Committee members, it does.

Prior to 9/11, I offered all of my employees 100 percent medical care. After that, after 9/11 the business climate changed and we had to change things.

But when I take a look at around the issues that are listed here in H.R.22, it just is clear to me that there are more things that we need to be talking about. We need to be talking about access to federal government procurement opportunities.

We know that these federal agencies aren't meeting their goals and yes, I can sit here as an entrepreneur who does 40 percent business with federal government agencies, but it is still not enough and I am only one of the few.

Ms. BORDALLO. Thank you very much.

Thank you, Mr. Chairman.

Mr. KELLER. Thank you. The gentlelady yields back.

We will now recognize Mr. Gohmert for five minutes.

Mr. GOHMERT. Thank you and the witnesses for being here and participating in this process. A couple of quick comments.

I want to address a comment earlier that tax cuts cost the economy 200 billion. I hate for that to go unchallenged, but actually the tax cuts added all that money to the economy and by all rights 9/11 should have sent us in a depression, but fortunately it was a mild recession, from which we continue to recover.

With regard to the Chairman's comment that only the Soprano's know what family members may be expiring, anecdotally I was talking to a constituent in Jefferson last year and he mentioned that he was scared to death. We had to do something about the death tax.

He had a lot of land in agricultural use and he said his family members, all adults, had been to an accountant. They had been

told that the death tax would be reduced each year until 2010 and in 2010 it would go away and he said. They are kind of hinting that if I don't have the decency to expire by December, 2010, they may have to help me along, you have got to do something and I agree with him. I think we do need to make that permanent.

Mr. McCracken, you made an interesting comment that we must introduce new market forces in health care. I agree. The associated health plans, Mr. Pierce, I think those are a great thing. Those will help it.

They seem to me to just be a bandaid. They are not going to help for the long-term. They will help short-term. That is my impression.

Health savings accounts seem to be a way that we could introduce market forces, because there aren't any right now in health care, very little and that is what is allowing the price to continue to go up.

I am wondering about your impression. I don't know how we get past that first year where we are talking about $12,000 a year or $10,000 a year going for somebody's health insurance, but if five or 6,000 of that could go into a health savings account in the next year the deductible is 5,000, the next year 10,000 and before you know it we may have $20,000 deductible and only need catastrophic care, puts all the power back in the individual hands of the patient so they talk directly to the doctor. New market forces. You charge too much, I go to a different health care provider.

It seems that is a solution. I don't know how we get past that first year without costing 1,500 a month or something like that, but it seems to me that may be a way to introduce free market forces, if we can get there. What are your thoughts?

Mr. MCCRACKEN. I agree. I think we move to a system something like HSA's, rather than having a special program.

I mean the tax incentives we have in our current system are totally messed up. I mean if you work for a large company and the employer pays someone else to pay your medical bills, all of that is totally tax free.

If you are in a small business that can only afford to pay half of that or has a much, much more scaled back plan, then you have got to pick up more on your own. If you don't have an HSA, then it is totally after tax dollars and if your employer can't pay for anything, then what you pay either for your health insurance or for your care is totally after tax dollars.

It doesn't make any sense. It is a system that really discriminates against small businesses and their employees. I mean we have already established roughly half of small businesses aren't able to provide health benefits for their employees.

So all those people have no tax incentives whatsoever to have insurance and they get no subsidy through the tax system for what they actually provide, but we can't stop there, because that only talks about utilization of the system at the front end.

We also have to look at what happens to people when they are in the hospital. They have had a heart attack. They have had a big health issue. I mean the way we pay providers through our third party reimbursement systems is insane.

If they don't make people healthier, if they are still in the hospital, they get an infection, guess what? They still get paid and they get paid again to do more care. I mean we need to move to a system for pay for performance where we pay providers, we pay physicians to keep people healthy and keep them out of the hospital, rather than the opposite, which is what we do today.

Mr. GOHMERT. I appreciate that observation. Thank you. I would challenge each of you, I am out of time nearly, but to think about what specifically could we do in a concrete way to help get you to where you are paying less for health care and yet you empower your workers with more power, more money in their hands, their control and then ultimately cost you less.

I would really be interested. That would seem to be a great help. Thank you, Mr. Chairman.

Mr. KELLER. Gentleman yields back.

At this time, we yield five minutes to Mr. Lipinski for questions.

Mr. LIPINSKI. Thank you.

Last week Ms. Kerrigan was here talking about health care and one thing I just wanted to add, I had asked you a question, but I want to thank you for your testimony supporting the fair care for the uninsured bill that I have introduced with Mark Kennedy that would give the refundable tax credit for those people who are not offered insurance through their employer to purchase that.

I know that is something also that others of you have mentioned in your testimony is supporting something like that.

What I wanted to ask a couple of questions about today is the consumption tax and I know Mr. McCracken, in your testimony you talk about this.

I am intrigued by the idea of the consumption tax. There are certainly some things that I find appealing about it, but some things that I think are very problematic.

I just want to ask some questions on that and get your response, Mr. McCracken and anyone else, any of the other witnesses on this.

If we eliminated the income tax or however we did it, let us just say put in a consumption tax, would this put an increased administrative burden on small businesses if we had this? Would that make a difference?

Mr. MCCRACKEN. Well, I think actually it would be dramatically less administrative burden on the small business community, because even though small retailers and large retailers, but retailers have had to collect the taxes, essentially collecting all tax at that point, but they wouldn't be doing anything that they don't do today and they would be doing it at a bigger level, but they would have exactly the same responsibilities, in terms of tax collection that they have right now under state sales tax systems.

The only exception would be those states and there are only a handful that don't have state sales taxes and not only that, but they and every other small business would get from under the oppressive nature of the income tax system that we have right now.

You could also establish a system where you would actually give a very small rebate, essentially compensate the businesses that collect the tax for their trouble and time.

It could be a very small fraction, but essentially enable them to be made whole from their collection efforts.

Mr. LIPINSKI. The other more general question I have, let us talk about the consumption tax, is to increase savings. Do you think there would be any negative impact on consumption when you start taxing consumption? Obviously you would think, believe that consumption would go down. Do you think that it could possibly hurt the economy?

A lot of people promote the consumption tax as helping savings. Well if you are helping savings, you are decreasing consumption. Could this possibly hurt small businesses?

Mr. MCCRACKEN. Well, the economic models that I have seen, I mean there is the old saying that you know whatever you tax you are going to get less of, so if you tax consumption you are going to get less consumption. This is the logic.

However, the studies that I have seen and I would point you to one that was done by Dale Jorgensen who is the chairman of or was the chairman of the Economics Department at Hartford, that basically looked at the long-term impact of the consumption tax on consumption and what you did see, you did see a small decrease in consumption in the initial years, first two to three years as I recall, of the imposition of the tax, but after that you saw that there was either no change in consumption or there began to be increases, because of the economic stimulation effects of changing to that tax system and getting out from under the income tax.

So what you actually saw was a net gain of economic growth that actually wound up increasing consumption. Now if you assume that economic growth is static and that the move to a consumption tax would do absolutely nothing to stimulate additional economic growth or opportunity in the country, then you are right. It would decrease, but that is not what is going to happen.

Mr. LIPINSKI. Does anyone not favor a consumption tax? Universal approval here of moving in that direction then.

Ms. KERRIGAN. As to not upsetting the flat tax people, the position of our organization is the flat tax or the consumption tax, either beats the current system. I agree with everything Todd said with respect to the consumption tax, but certainly the flat tax has its attributes as well.

Mr. CORATOLO. We looked at it and we saw that there would be $7 trillion worth of legacy costs and the transition between one system to another could be very devastating. So that is our concerns and this is from the U.S. Chamber of Commerce.

Mr. LIPINSKI. Could you explain what you mean by legacy costs?

Mr. CORATOLO. Currently there is $7 trillion worth of assets on the books of businesses right now that would have to be written off immediately. These are investments. Actually, tax investments in businesses that need to be addressed and you can't go from one day of having one tax regime to another day of having another, without addressing those legacy costs.

Ms. KERRIGAN. But I think in moving towards any system, the whole issue of the transition rules is very important and that is something that scholars and researchers and folks like that have developed these certain transition rule or transition costs scenarios.

You are not moving from one system to the next the next day. There would be a transition period. How long that is, I don't know, but you know certainly that needs to be taken into account.

Mr. LIPINSKI. Thank you.

Mr. KELLER. Thank you.

Now we will recognize Mr. Poe for five minutes.

Mr. POE. Thank you, Mr. Chairman. I have two questions. One for Mr. Pierce and then one for Mr. McCracken.

Mr. Pierce, you listed four issues that were of concern to you and the NFIB: Red tape, lawsuit reform, tax structure and health care. Is that the order you list them in is that the concern or is that just the four topics?

Mr. PIERCE. No. That would be the order of concern from anybody that I have talked to in small businesses. Clearly, health care issue is number one, death tax and tort reform and then the burden.

Now for me personally, the regulatory burden is far greater, but that is just for me, not for everybody that I know.

Mr. POE. You listed red tape first. So would you give me the order again?

Mr. PIERCE. Okay. I am sorry.

Mr. POE. The other witnesses listed other things first. What is the number one priority and the number two and three and four?

Mr. PIERCE. Health care is absolutely number one. Number two would be the death tax. Three, tort reform. Four, the regulatory aspect.

Mr. POE. It is puzzling to me, as you mentioned why we have more and more rules about the government bureaucracies getting rid of red tape and paperwork and they just ignore the law for some reason. Now we have to pass another law ordering them to follow the law that has already been imposed. Hopefully we can deal with that.

Mr. McCracken, I noticed you mentioned that you were opposed to AHP's. What are your solutions then, since you are opposed to those in the area of health care?

Mr. MCCRACKEN. Well, I went into this in some length. We had moved more of a market based system for health care to address the real underlying costs of health insurance and we have come to the conclusion organizationally that that is going to require to do that meaningfully, to really make a difference, both for small businesses and for consumers across the nation, to address the system in its totality and there are a host of reforms that have to happen to bring equity on a tax basis to the provision of health insurance, try to get consumers more into the game than they are now, to hold providers and health insurers feet to the fire.

In the short-term, while we are waiting for all that to happen down the road, obviously malpractice reform has to happen, not just to reduce the cost of the insurance, but to reduce the amount of care that is going on that is going on that is unnecessary in defense of medicine and all of that. We think it will have a real impact on health care costs.

We would also strongly advocate that the self-employment tax on health insurance costs needs to be changed so that small business owners are not taxed on what they pay for health insurance.

That could easily save a small business owner $2,000 a year or more on his or her own health insurance. I mean real relief.

Mr. POE. Have you followed the tort reform and medical malpractice in Texas? The laws have changed there any?

Mr. MCCRACKEN. A little bit and I couldn't say I have any expertise in it.

Mr. POE. Finally the results are starting to come in and insurance companies are dropping their insurance rates 12 to 25 percent. Shock. Anyway, thank all of you for being here.

Mr. KELLER. Thank the gentleman.

Now we are going to have a second round of questions. You have five minutes, Ms. Velazquez.

Ms. VELAZQUEZ. Thank you, Mr. Chairman.

Ms. Kasoff, I was very pleased to see that you mentioned fairness in procurement in your testimony as an important issue for your members and this is another item that is omitted from H.R.22.

As you know, last year for the fourth year in a row, none of the small business goals were achieved, costing small firms $45 billion in lost opportunities.

Why do you think that the federal government has such a difficult time accomplishing its small business procurement goals?

Ms. KASOFF. Well, it is a difficult question to ask. There doesn't appear to be enough accountability in terms of the agencies to be able to reach out.

There is no question that women business owners and minority business owners are prepared. They have the expertise. They have the size of the business and the capabilities to enter into federal contracts and they are not there.

The interesting statistic that I find is that many will not even attempt to enter into the federal contracting arena. They are concerned that they are not going to be able to make the connection with the buyers. They are concerned about the complexity. They are concerned about the financial resources required.

Ms. VELAZQUEZ. We all know that people are discouraged from trying to even get into investment with the federal government. What I am most concerned is the fact that those who are trying that there is no intention, at least from the federal government, to achieve the goals that have been set by the United States Congress.

In fact, that what they are doing is counting large firms as small firms so that they could claim that they achieved the small business goal. We know that this is not true and it is particularly for women.

Women lost $22 billion in contracting opportunities over the past five years. So my question to you is: What about the women's procurement program that we passed into law?

Ms. KASOFF. That goal has not been reached, as you all know. It is an issue that we work on tirelessly and every single day on behalf of our constituency.

We ask for accountability from the agencies so that we make sure that we have a seat at the table and we have an equal opportunity for those federal contracts.

You are correct. Size standards are not correct. Women business owners are not being given their opportunity. Large companies are getting the contracts and it is a huge problem.

Ms. VELAZQUEZ. Why is it then that I don't see your organization taking the lead to put the pressure on the Small Business Administration to have the women's procurement program up and running?

Ms. KASOFF. I think I beg to differ with that. I think we are there virtually everyday in the SBA, working this issue and working in Congress on this issue. That is an issue that has been on our top priority for a number of years. We have been there for a long time.

Ms. VELAZQUEZ. Apparently SBA is not feeling the pressure or the organization is not having effectiveness, because we look at the fact that the federal marketplace increased by $100 billion last year, 35 percent and yet the women's share of that has increased by less than half of one percent, from 2.47 percent to 2.89 percent.

This represents $22 billion in lost contracting opportunities for women. I would like to see your organization taking a more aggressive role and asking the Small Business Administrator to implement a program that was passed into law by this Congress.

Ms. KASOFF. We have done so. We have letters on record and statements on record to that effect and we will continue to work to have this goal implemented.

Ms. VELAZQUEZ. Thank you, Mr. Chairman.

Mr. KELLER. Gentlelady yields back.

I will just recognize myself and not take the full five minutes, but there seems to be a consensus by a lot of folks here that these are four major issues that come up with small business people and then there are a few folks who say, hey what about this issue or that issue? Why wasn't that included?

Let me just close by addressing that head-on. I don't pretend to know everything about small business. I probably know a lot less than everybody testifying. Probably a lot less than people like Ms. Velazquez, who has been on this Committee a long time.

I am a lawyer by training and so when I sit down with 20 small business people, I didn't tell them, isn't this the answer? I said, you tell me what your top issues are and not having any preconceived ideas and those were the four issues that came up over and over again. Skyrocketing health insurance, death tax, concern about frivolous lawsuits and red tape relief.

In fairness, other issues came up, some that I didn't include. For example, I had a guy named Bruce O'Donahue, who has a small business that installs traffic control lights and he said the biggest problem for me is when I contract with the government. They jerk me around and don't pay me for five or six months. That is a big deal for me. I have got 40 or $50,000 of work and I don't get paid.

I think it is probably the biggest deal in the world to him. Probably more than AHP's. Probably more than death tax. I don't discount that. I don't discount the fact that some groups believe they need access to capital and they are not getting it.

What I am saying is, I didn't include it because it didn't come up across the board. There are some people that feel way, but these are the four issues that across the board came up and there is pretty much a bipartisan consensus that something needed to be done to deal with those issues.

Ms. VELAZQUEZ. Mr. Chairman?

Mr. KELLER. Yes?

Ms. VELAZQUEZ. If I may?

Mr. KELLER. Yes.

Ms. VELAZQUEZ. I guess one vehicle that we have to perfect the bill is having the mark up so that other issues that have clearly been exposed here, such as energy and access to capital, as well as procurement practices, are included in this bill. We look forward to having mark up in the Committee.

Mr. KELLER. We certainly will, after this hearing, have a mark up and discuss those further, but those are the four issues that

came up directly over and over with small business people and it is interesting as I hear from both representatives from the NFIB and the Chamber of Commerce today the same four issues come across to them, almost in that order.

I appreciate and I know Congresswoman Velazquez does and other Members here today, thanks so much you all taking time out of your busy lives to come here today and let us listen and learn from you.

The hearing is adjourned.

[Whereupon, at 4:39 p.m., the Committee was adjourned.]

DONALD A. MANZULLO, ILLINOIS
CHAIRMAN

NYDIA M. VELÁZQUEZ, NEW YORK

Congress of the United States
House of Representatives
109th Congress
Committee on Small Business
2361 Rayburn House Office Building
Washington, DC 20515-6315

OPENING STATEMENT OF CHAIRMAN DONALD A. MANZULLO

"SMALL BUSINESS PRIORITIES OF THE 109TH CONGRESS (H.Res. 22)"

Tuesday, March 8, 2005 3:00PM in Room 311 Cannon HOB

Today, the Committee examines the small business priorities for this Congress. Representative Ric Keller has authored a great resolution, based on input he has received from his small business constituents, which expresses the sense of the House of Representatives that the top challenges facing small businesses are: staggering health care costs; a high tax, regulatory and paperwork burden; and frivolous lawsuits. Surveys of small businesses continually show similar priorities. These priorities should be the focus of Congressional action to improve the climate for small businesses. I am pleased that one of Mr. Keller's constituents has taken the time out of his busy schedule to be with us today.

On many fronts, Congress is making progress addressing these issues. Last month, we were finally able to break the logjam in the Senate on class-action litigation reform and it is now the law of the land. This Committee held two hearings on health care in recent weeks and I am optimistic that we can build on the success in the previous Congress that established Health Savings Accounts to break the impasse in the Senate on Association Health Plans and medical liability reform. I am pleased that the President's Fiscal Year 2006 budget request includes making the tax cuts we already passed into law permanent, including the all important estate or "death" tax repeal so that small businesses can be passed on to the next generation. Next week we'll most likely see a budget resolution adopted by the House to make the tax cuts permanent, which helps about 85 percent of all small businesses that pay their taxes on an individual – not corporate – basis. And, finally, I am going to work very hard this Congress to see meaningful reform of the Regulatory Flexibility Act and the Equal Access to Justice Act to insure that no federal agency bypasses the concerns of small business in the regulatory process. As a first step, the Committee plans a hearing on legislation to improve the RFA next week.

I look forward to learning of the priorities of the small business groups here before us today based on input from their membership. I now yield for an opening statement from the distinguished Ranking Democrat Member from the great state of New York, Representative Velázquez.

DONALD A. MANZULLO, ILLINOIS
CHAIRMAN

NYDIA M. VELÁZQUEZ, NEW YORK

Congress of the United States
House of Representatives
108th Congress
Committee on Small Business
2361 Rayburn House Office Building
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STATEMENT
of the
Honorable Nydia M. Velázquez, Ranking Democratic Member
House Committee on Small Business
109th Congress Priorities for Small Business
March 8, 2005

Thank you Mr. Chairman.

As the economic engines of this country – small businesses play a vital role in job creation and economic growth.

As the main job creators – creating three out of every four new jobs – small businesses make up nearly 99 percent of all employers. This sector is responsible for making up over half of the gross domestic product (GDP). Despite their overwhelming impact on our economy, small businesses unfortunately continue to face a myriad of challenges.

The number one challenge facing small business today is their ability to access affordable health care. These costs have only continued to sky rocket over the past few years – increasing by double digits. Every one out of six uninsured Americans are in families headed by the self-employed or a small business employee. This is simply unacceptable. However, it is important to recognize that there is no one size fits all solution to this health care crisis facing our nation's entrepreneurs.

In addition, this nation's small businesses continue to be overburdened by regulations and paperwork. In fact, the Bush administration holds the record for the largest increase in paperwork burdens in a single year in history. According to OMB, Americans spend 720 million MORE hours a year on federal paperwork then they did before President Bush took office.

Also a serious concern for many aspiring entrepreneurs is their ability to access affordable capital. Whether it is bank lending, seed capital or venture capital – small businesses rely on this capital to start, and grow their enterprises. However, they are often times unable to qualify for traditional bank loans and depend on help from the federal government to access affordable capital.

Another way for small businesses to increase their capital is by doing business with the federal government. Unfortunately, the $285 billion federal marketplace has not been open to small firms. For the fourth year in a row –the federal government missed their small business contracting goal, costing small businesses $45 billion in lost contracting opportunities over the past four years.

In addition, we need to ensure that SBA and its programs will be modernized and adequately funded, so small businesses have a vibrant and strong agency at their disposal. Over 50 vital small business programs have been slated for cuts and eliminations in the President's latest budget request. We must ensure that small businesses have access to all of the tools they need in order to succeed.

Small businesses also face obstacles in regard to their pension plans. Right now they simply do not have the same types of options as their larger counterparts. Only a quarter of workers at firms with fewer than 25 employees participated in an employer-sponsored retirement plan in 2003. This is compared to nearly 70 percent of workers at firms with 100 or more employees.

The priorities of our nation's small businesses have been pushed aside for far too long in favor of measures like the dividend tax cut which cost nearly $200 billion but did nothing to help small firms. Entrepreneurs are in need of permanent targeted tax relief.

In order for small businesses to drive our economy, these challenges need to be overcome. Today we will be examining H. Res. 22 that intends to put this Congress on the record as to what the real priorities should be for this vital sector.

A few of these challenges are addressed in the resolution, but many are not. There are also some questionable priorities listed, such frivolous lawsuits, where it is not clear if is truly a top concern for small business.

I look forward to hearing the testimony of all of the witnesses today, and to hearing what truly are the top priorities for small businesses. This committee and Congress need to truly champion all of the top priorities for small businesses if we want to see them continue to do what they do best – create jobs and spur economic growth.

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TESTIMONY BEFORE THE UNITED STATES CONGRESS
ON BEHALF OF THE

NATIONAL FEDERATION OF INDEPENDENT BUSINESS

NFIB
The Voice of Small Business.®

Testimony of

Jerry Pierce

before the

Committee on Small Business

on the date of

March 8, 2005

on the subject of

House Resolution 22: Small Business Bill of Rights

Good afternoon Mr. Chairman and Members of the Committee. Thank you for inviting me to speak on House Resolution 22, the Small Business Bill of Rights, sponsored by Congressmen Ric Keller and Bud Cramer. I am pleased to be here on behalf of the National Federation of Independent Business (NFIB) and to represent their 600,000 members in expressing our support of small businesses having (1) the right to join together to purchase affordable health insurance, (2) the right to tax laws that allow family-owned small businesses to survive over several generations and offer them incentives to grow, (3) the right to be free from frivolous lawsuits, and (4) the right to be free of unnecessary, restrictive regulations and paperwork.

My name is Jerry Pierce and I own and operate Restaurant Equipment World, headquartered in Orlando, Florida. I founded the company in 1976 in Cleveland, Ohio selling restaurant equipment to small delicatessens and restaurants. We eventually began furnishing equipment and services to theme parks such as Sea World and Cypress Gardens, and later to chain restaurants such as Applebee's and Denny's and many others. In 1983, I moved my family and company to Orlando, Florida and expanded into a cash and carry business and about six years ago into the electronic commerce business with 22,000 customers across the country and with sales to people in 45 foreign countries. Although we are a small company with 32 employees, we have been able to become the leading marketer of restaurant equipment in electronic commerce. We offer a full range of employee benefits, including health insurance.

Small Business Health Plans

The small-business community is struggling each year to afford the cost of increasing health insurance premiums. According to the NFIB Research Foundation, the cost of health insurance is the top concern for small-business owners across the country.

It is for this reason that I support the creation of Small-Business Health Plans, formerly known as Association Health Plans. These plans would allow small-business owners to band together across state lines to purchase health insurance as part of a large group, thus ensuring greater bargaining power, lower administrative costs and freedom from the costs of complying with 50 different sets of state insurance mandates. Fortune 500 companies and labor unions already have this ability. These plans will simply level the playing field and give small employers the same privileges as their counterparts in labor and big business. In addition, Small-Business Health Plans will introduce into the marketplace much needed competition and diversity. Without the ability to shop for more affordable options, we are left with the choice to shift costs or drop coverage. Small Business Health Plans would end the nightmare of health care purchasing for small businesses.

Due to the current structure of the health care industry, too many small-business owners and their employees do not have access to affordable health insurance. The problem of uninsured individuals in our country is largely a problem of small-business owners and their employees. Of the 45 million uninsured Americans, over 51% are either self-employed or working in a firm with fewer than 100 employees. In addition, most small businesses that provide health benefits can only afford to offer a single coverage option and continually operate under the threat of having to drop coverage altogether. It is critical that small employers have the ability to offer health insurance to their employees. Competition for skilled workers is keen. Medium to large companies attract those employees because the companies can offer insurance and other benefits. When compared with large corporations, small businesses face dramatic disparities in the health care marketplace. For instance, my own daughter does not participate in our

company health care plan because she can be included in her husband's large corporation plan for only $40 per month. If, however, her husband lost his job, it would cost $428.51 per month to be added to our company plan. Small businesses are major job creators, but have trouble attracting good people when competitive health care plans cannot be offered. Besides not being able to offer a competitive health care plan to our employees, we continue to have back-to-back increases in premiums that far exceed the inflation rate. From 2003 to 2004, our premiums per employee increased 13.1%, and from 2004 to 2005 the premiums increased another 12.3% for a compounded increase of 27.1% for that two-year period. Small-Business Health Plans would allow small businesses to band together to negotiate better rates as a result of cost efficiencies associated with volume purchasing of health care.

Death Tax Repeal

Running a family business is hard work. In fact, the likelihood of a small business passing from the first generation to the next is about 3 in 10, and to pass this same business to the third generation is about 1 in 10. The death tax threatens the livelihood of small businesses and their employees. In addition, the death tax unfairly taxes the same assets twice. Annually, small-business owners pay income taxes, employment taxes, property taxes, local taxes, social security taxes, and excise taxes, just to name a few. After they pay all of these taxes, they make a choice to invest these after tax dollars back into their business. The death tax endangers family businesses and their employees' jobs because small businesses have much of their assets tied up in equipment, inventory and other assets necessary to run a company. These businesses do not have cash available to pay the death tax, and many times they are forced to sell

critical parts of their businesses or the entire business outright in order to cover the tax liabilities.

It is often cited that only 2% of American taxpayers actually pay this tax. I can assure you that more than 2% of Americans do pay this tax—not to the federal government, but to lawyers, accountants and life insurance agents. Family firms taking steps to survive death-tax liabilities spend an average of nearly $125,000 per company on attorney/consultant fees, life insurance premiums, etc. (Impact of the Federal Estate Tax on Family Business Employment Levels in Upstate New York, Travis Research Associates, June 22, 1999). Business owners have to get involved in estate planning, because if we don't, all that we have worked for will be eliminated. I remember when my father-in-law was in his seventies and stated that it was time close his businesses and liquidate assets so that his family would have money to pay the death tax. This not only hurt the family, but it also destroyed a life's work of building a tool and die business. Jobs were also lost and the people who lost those jobs were not named Warren Buffet or Bill Gates. In my case, I have wasted money setting up a trust and by encouraging my children to purchase "second to die" insurance on my wife and myself, in addition to other strategies. The existence of the death tax affects my decisions to expand my business and make investments. To ignore the death tax statute is suicide for a family business. The money spent for planning for the death tax is money that is *not* spent on growing our business or on providing better employee benefits, like health care, dental plans or 401(K) plans. These are products that small-business owners want to offer to employees in order to maintain a quality work force.

In 2001, the President signed into law the Economic Growth and Tax Reconciliation Act, which repealed the death tax. However, unless those tax cuts are

made permanent, the death tax will resurface in 2011 bringing back all the problems currently faced by family business owners. The death tax discourages savings and investments, reduces wages and job creation, and is the leading cause of dissolution for thousands of family-run businesses.

Legal Reform

With a dramatic rise in the cost of lawsuits, it is not surprising that many small-business owners fear getting sued, even if a suit is not filed. That possibility – the fear of lawsuits – is supported by a recent NFIB Research Foundation National Small Business Poll, which found that about half of small-business owners surveyed either were "very concerned" or "somewhat concerned" about the possibility of being sued.

The escalating numbers of lawsuits (threatened or filed) are having a negative impact on small-business owners. Small-business owners spend countless hours and sometimes significant sums of money to settle, defend, or work to prevent a lawsuit.

For the small-business owner with five employees or less, the problem is the $5,000 and $10,000 settlements, not the million dollar verdicts. When you consider that many of these small businesses only net $40,000 - $60,000 a year, $5,000 paid to settle a case immediately eliminates about 10% of a business' annual profit. Small-business owners also are troubled by the fact that they often are forced to settle a case at the urging of their insurer. In most cases, if there is any dispute of fact, the insurer will perform a cost-benefit analysis. If the case can be settled for $5,000 the insurer is likely to agree to the settlement because generally it is less expensive than litigating, even if the small-business owner would ultimately prevail in the suit.

Once the suit is settled, the small-business owner must pay higher business insurance premiums. Typically, it is the fact that a small-business owner settled a

case—for any amount—that drives insurance rates up. It does not matter if the business owner was ultimately held liable after a trial. Many small-business owners understand this dynamic, and as a result, will settle claims without notifying their insurance carriers.

In addition to the financial costs of settling a case are the psychological costs. Small-business owners threatened with lawsuits often would prefer to fight in order to prove their innocence. They do not appreciate the negative image that a settlement bestows on them or on their business.

Regulatory Reform

Simple government regulations, particularly when it comes to the paperwork they generate, can create quite a burden on small business. The less time small-business owners spend with "government overhead," the more they can spend growing their business and employing more people.

Regulatory costs per employee are highest for small firms. A report commissioned by the Small Business Administration's Office of Advocacy estimates that the regulatory compliance costs for firms with fewer than 20 employees is nearly $7,000 per employee, per year. According to the NFIB Research Foundation the best thing for small businesses regarding regulations is simplicity—simplicity in instructions, simplicity in requirements, and an overall reduction in the size of the paperwork and the time necessary to complete forms.

I would like to take this opportunity to thank Chairman Manzullo for his efforts to reduce the burden of regulation on small business, specifically for his bill H.R. 682, the "Regulatory Flexibility Improvements Act."

This bill will help reduce the federal regulatory burden on small businesses by ensuring that federal agencies comply with the letter and the spirit of the Regulatory

Flexibility Act (RFA) as well as provide the Small Business Administration's Office of Advocacy with more authority. H.R. 682 restores the intent of Congress by closing loopholes agencies currently use to avoid compliance and by giving RFA more teeth. Provisions in the bill will ensure that ALL agencies gauge the impact of regulations and research alternative ways of reducing the burden on small business. H.R. 682 will give small business a greater voice in the formulation of federal regulations, which in turn, helps the government produce better laws that would increase compliance and reduce the cost of doing business.

Chairman Manzullo and Ranking Member Velazquez, thank you for the opportunity to submit the views of the National Federation of Independent Business to the committee. It is my hope that together we shall achieve progress toward our shared goal of reducing the negative role that the federal government plays in the lives of the American small business owner.

CORE VALUES

We believe deeply that:

Small business is essential to America.

Free enterprise is essential to the start-up and expansion of small business.

Small business is threatened by government intervention.

An informed, educated, concerned, and involved public is the ultimate safeguard for small business.

Members determine the public policy positions of the organization.

Our employees and members, collectively and individually, determine the success of the NFIB's endeavors, and each person has a valued contribution to make.

Honesty, integrity, and respect for human and spiritual values are important in all aspects of life, and are essential to a sustaining work environment.

NFIB

The Voice of Small Business.

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Statement of the U.S. Chamber of Commerce

ON: **THE MAJOR SMALL BUSINESS PRIORITIES FOR 2005**

TO: **THE HOUSE COMMITTEE ON SMALL BUSINESS**

DATE: **MARCH 8, 2005**

The Chamber's mission is to advance human progress through an economic, political and social system based on individual freedom, incentive, initiative, opportunity and responsibility.

Statement on

THE MAJOR SMALL BUSINESS PRIORITIES FOR 2005
Hearing before the
HOUSE SMALL BUSINESS COMMITTEE
for the
U.S. CHAMBER OF COMMERCE
by
GIOVANNI CORATOLO
March 8, 2005

Chairman Manzullo and Ranking Member Velazquez, members of the Committee, I am Giovanni Coratolo, Director of Small Business Policy for the U.S. Chamber of Commerce. The U.S. Chamber of Commerce is the world's largest business federation, representing more than three million businesses and organizations of every size, sector and region. Over ninety-six percent of the Chamber's members are small businesses with fewer than 100 employees. The Chamber commends the Committee for their interest in having this hearing to discuss the major priorities for 2005 for our nation's small businesses.

America's 24 million small businesses represent more than 99% of all employers, account for more than half of all private sector workers, and generate three out of every four new jobs. Additionally, small firms account for one third of U.S. exports and more than half of our gross domestic product. Consequently, the U.S. Chamber of Commerce is firmly committed to advancing strong small business priorities. A robust and vibrant small business community has proven vital to our nation's long-term prosperity.

American workers and the companies that employ them also need lawmakers to recognize and support pro-growth policies that assist small business owners. The U.S. Chamber of Commerce endorses the principles of a "Small Business Bill of Rights" as outlined in H. Res. 22 and would encourage both Republicans and Democrats to express the sense of the House of Representatives by passing this resolution by unanimous consent. The Chamber's small business members have repeatedly asked their representatives to embrace policies that unleash the job creation potential of U.S. businesses by adopting an agenda that reins in big government, lifts heavy-handed regulation, and ends lawsuit abuse.

H. Res. 22 articulates four basic principles that are the cornerstone for a "Small Business Bill of Rights":

- The right to join together to purchase affordable health insurance for small business employees, who make up a large portion of the millions of Americans without health care coverage.

- The right to tax laws that allow family-owned small businesses to survive over several generations and offer them incentives to grow.

- The right to be free from frivolous lawsuits which harm law-abiding small businesses and prevent them from creating new jobs.

- The right to be free of unnecessary, restrictive regulations and paperwork which waste the time and energy of small businesses while hurting production and preventing job creation.

These four principles are also the centerpiece of the U.S. Chamber's small business agenda and have routinely been rated by our membership and the Chamber's Council on Small Business as the top priorities for small business. Our 2005 priorities include the following:

1. **Health Care** – ***Improve affordable access to quality health care for small business owners and their employees.***

Access to affordable, high-quality health care coverage for small business owners and their employees must be improved, without adding new mandates that require specific coverage. Small business owners have faced five successive years of double-digit increases in health care premiums, which have eroded their ability to attract and keep qualified workers, decreased their international competitiveness, and limited their ability to grow and expand domestically.

> **Benefit costs averaged 39 percent of total payroll costs among employers surveyed, up four percent. The most common benefits offered by employers include health insurance, paid vacation, holiday benefits, and retirement and life insurance benefits. Medical benefits accounted for 11 percent of total gross payout, the largest share of employee benefit costs.**
>
> **U.S. Chamber's Employee Benefits Survey 2003.**

Health coverage is the most sought-after benefit offered by employers. Tax incentives, market stimulation, financial guarantees, and better information all have their place in making more choices available to more people. Reforms to our health care coverage system must adhere to these principles:

- All Americans should have maximum flexibility to select a health plan design that meets their personal values and financial situation.

- Those who pay for health coverage on their own should have the same tax advantages as those who receive it through their employer.

- When health coverage is not affordable, financial assistance must be extended to those in greatest need.

- Employers who voluntarily offer their workers health benefits must retain the flexibility to determine eligibility and benefit offerings.

> **"Offering health coverage is a smart business practice and helps us hire and keep good workers. But the cost is our biggest stumbling block. Small businesses need to be able to pool together to gain more clout and create the economies of scale and bargaining power now enjoyed by big companies and unions."**
>
> **Patty Orzano, 7-11 franchise owner, Massapequa, New York.**

Additionally, the Chamber remains firmly committed to passage of legislation permitting Association Health Plans (AHPs), which would reduce the rate of premium increases and empower small business owners with more choices in their health care coverage. It just makes good sense to provide small business owners with the ability to band together to form larger risk pools similar to the advantage that big businesses already enjoy.

There is also a need for champions for health care cost equity for the self-employed and partnerships. Legislation must be passed that allows the self-employed and partnerships to exclude from their income the value of health care premiums for the purposes of calculating payroll taxes (Social Security and Medicare) which would match an equivalent exclusion from wages subject to payroll taxes that is already enjoyed by owners of subchapter S corporations and C corporations.

And finally, Congress must make changes in workplace health care Flexible Spending Accounts and "use it or lose it rules" to allow workers to hold on to more of their money by rolling over unspent funds or taking an after-tax refund of balances, rather than being forced to embark on spending sprees for unnecessary health care services and supplies.

2. **Tax Relief** – ***Promote a tax policy that allows small business the opportunity to reinvest more money in the growth of their businesses.***

A sound tax policy aimed at broad economic expansion is one that allows small business owners the opportunity to reinvest more money in the growth of their business, maximize investment and create jobs. For small business owners, it is important to have a tax code that encourages investment and savings by eliminating multiple layers of tax on income. The more you tax entrepreneurial activity, the less you get of it.

Small business tax reform must continue to be a top congressional and administration priority. While many small businesses continue to invest in research, build plants, buy equipment, expand their markets, create jobs and develop the workforce, this has happened

against the backdrop of a federal tax code that is becoming more complex and uncertain, and often penalizing savings and investment.

> **"If the government is serious about their commitment to helping small businesses drive economic growth, it should lower the roadblocks and reduce the tax burdens that we face every single day."**
>
> **Eric Blackledge – Blackledge Furniture, Corvallis, Oregon.**

If business – small business in particular – is to continue to lead an economic expansion and create more jobs, additional tax reforms are warranted. Tax reforms already enacted must be made permanent to encourage jobs, savings, and investment. Implementation of the following recommendations will go a long way toward these ends.

First, over the last four years, Congress has passed and the President has signed into law tax reforms that have reduced marginal income tax rates, eliminated the death tax, and increased small business expensing. These reforms must be made permanent, freeing entrepreneurs to make investment decisions based on tax laws that are consistent and predictable from year to year.

Second, many small business owners are finding their decision to invest in plant, machinery, equipment and other assets has subjected them to the alternative minimum tax (AMT), thus undermining many of the capital formation incentives provided for under the "regular" tax system.

> **Assuming the 2001 and 2003 tax cuts are made permanent, the number of taxpayers with increased taxes due to the AMT will increase from 3.3 million in 2004 to 16.2 million in 2005 and to 46.4 million in 2014.**
>
> **U.S. Department of Treasury.**

Small business owners are adversely affected by the AMT's extremely complex and expensive compliance requirements. Even businesses not subject to the AMT must go through the computations to determine whether or not they fall under the tax.

3. **Reduce Red Tape** – ***Fight burdensome federal regulations and paperwork requirements that produce questionable benefits.***

When government burdens small businesses with excessive and time-consuming paperwork requirements, entrepreneurs have less time to do what they do best—create jobs,

grow their businesses, and increase economic prosperity. Four times in the past decade, Congress has enacted legislation designed to decrease the amount of paperwork for small businesses, yet small businesses still face a growing mountain of paperwork. The Office of Management and Budget estimates that the public spends 8.2 billion hours a year filling out federal forms at a cost of $320 billion. Lawmakers must continue to hold agencies accountable for adhering to congressional mandates to reduce the paperwork requirements on small businesses.

In 2002 alone, 4,176 final rules were issued by regulatory agencies. By way of comparison, Congress enacted a total of 269 bills in 2002.

U.S. regulation costs alone are more than either Mexico or Canada's entire gross domestic product.

Cato Institute Study on Regulation.

Small business owners do not have the manpower to navigate and implement the federal regulatory maze. Regulations cost small businesses $6,975 per employee on a yearly basis to administer, 60 percent more than larger corporations, according to the Small Business Administration. The exorbitant cost of regulations, with questionable benefits, does little to promote the public good.

Agencies must make better attempts to take into account the impact of their regulations on small business early in the regulatory process, and then consider less burdensome alternatives.

"It's nearly impossible for any small business owner to stay current with the huge number of federal regulations that come out of Washington every year. Even when regulations are clear cut, the costs of compliance are so high that they take away from my ability to hire workers, add capital and stay competitive."

Jim Wordsworth, J.R. Stockyard, McLean, Virginia.

One example of a rule in which small business considerations were grossly miscalculated, was the Federal Communications Commission's (FCC) 2003 No-Fax Rule. This rule would impose a fine and a right of private cause of action against any company that faxed a business proposal to a potential or existing customer without first having written permission on file. A Chamber study of the impact on small businesses demonstrated that it would cost an average of $5,000 the first year to comply and $3,000 every year afterwards.

In cases such as this, where agencies are unwilling to make changes to lessen the potential, unintended consequences of their regulatory proposals on the small business community, lawmakers must be ready to implement a legislative solution.

4. **Frivolous Lawsuits** – ***Limit outlandish frivolous lawsuits that are crafted to force large settlements regardless of the small businesses' degree of responsibility for the harm done.***

The intent of the civil justice system is straightforward: to establish a fair and equitable framework for resolving conflicts among parties. If the mechanism functions well, it provides a means to compensate legitimately harmed parties and deter undesirable behaviors. On the other hand, a poorly implemented system can result in increased costs; disincentives for innovations that benefit consumers; inducements to file "frivolous" lawsuits; inflated insurance premiums; and—importantly—encumbrances to economic development and job creation.

Tort claims cost the nation about $246 billion in 2003, which is more than double the average cost of other industrialized nations, according to a study by Tillinghast Towers-Perrin. Increasingly, small businesses are caught up in lawsuits filed by predatory lawyers during venue shopping or in litigation crafted to force large settlements regardless of the small businesses' degree of responsibility for the harm. One frivolous lawsuit can put a small business out of business.

> **"Small businesses are the engine driving job growth in this country. As the number of frivolous lawsuits continues to mushroom, they will undermine this growth and the ability of small businesses to invest and hire new workers."**
>
> **Larry Mocha, Air Power Systems, Tulsa, Oklahoma.**

Lawmakers must pass rational, commonsense legislative solutions that will rein in the out-of-control legal system:

Small Business Tort Reform – In civil actions, a small business defendant should only be liable for the amount of non-economic loss allocated in direct proportion to the percentage of responsibility for the harm caused to the plaintiff by that small business.

> **"Small businesses bear 68 percent of business tort liability costs, but take in only 25 percent of business revenue."**
>
> **Institute for Legal Reform Study on Small Business Liability Costs.**

Product Liability Reform – Innocent companies in product distribution chains must be protected in liability suits. Although they are eventually dropped from the proceedings, they are

likely to incur substantial legal and litigation-related costs that are ultimately passed on to the consumer or result in bankruptcy.

Medical Malpractice Reform - Our nation's medical liability system is in crisis. An increase in the number of lawsuits filed and a rise in jury awards against health-care professionals and organizations in the past decade have sent malpractice insurance premiums soaring. This has resulted in a dramatic shortage of qualified professionals available to meet our nation's health care needs.

CONCLUSION

Over the past decade the importance of small businesses to the foundation of economic growth and prosperity has been unprecedented. As economic statistics confirm, maintaining a healthy environment for small businesses to proliferate contributes greatly to raising our standard of living. Small enterprises and startups are the seed corn for our future economic prosperity.

By embracing the principles outlined in H. Res. 22, lawmakers will send a clear message to the small business community that they will make every effort to address these important issues. The Chamber appreciates the opportunity to comment on these important priorities for small business. We especially applaud the Committees' interest in having this hearing and I look forward to answering any questions. Thank you again Mr. Chairman, Ranking Members; and members of the Committee.

Giovanni Coratolo
Director, Small Business Policy
U.S. Chamber of Commerce
Biography

Giovanni Coratolo graduated in 1971 from the University of Maryland with a Bachelor of Science in Electrical Engineering. He has attended the University of Baltimore Law School and George Washington University School of Business. For twenty-five years, Giovanni has started, funded and sold a variety of small business enterprises including restaurants, consulting services and a land development company.

During his tenure as a small business owner, Giovanni was a passionate advocate on Capitol Hill for issues concerning the small business community. He has testified before Congressional Committees on numerous occasions on issues such as Death Tax Repeal and OSHA reform and made frequent trips to Washington DC espousing the legislative concerns of small business to elected officials.

For the past seven years, Giovanni has served as the Director of Small Business Policy for the U.S. Chamber of Commerce. In this capacity, he has implemented outreach efforts for the Chamber's three million small business members, State and Local Chambers of Commerce and other member associations.

Giovanni serves at the Executive Director of the U.S. Chamber's Council on Small Business, the principal standing policy committee and action group representing the issues of concern to small business. In addition to formulating small business policy, the council assists small business members in creating effective grass roots actions and strategies on legislative, regulatory and international initiatives.

Giovanni vigorously pursues the mission of protecting, promoting and advancing the cause of entrepreneurs before Congress, the Administration, and Regulatory Agencies. Among his peers, Giovanni is recognized as an authority on challenges facing small business ownership.

Testimony of
Todd McCracken
President
The National Small Business Association

House Small Business Committee Hearing

"Small Business Priorities for the 109th Congress"

March 8, 2005

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Thank you, Chairman Manzullo and Ranking Member Velazquez for allowing me to express the top legislative priorities of the National Small Business Association for the 109th Congress. My name is Todd McCracken and I serve as president of the NSBA. As you may know, the National Small Business Association is the oldest small business advocacy organization in existence. 150,000 small business owners nationwide drive our pro-small business, non-partisan agenda as well as numerous state and local small business associations.

This hearing is particularly timely for our organization as we just completed our biennial Small Business Congress. Every two years, NSBA members join together to choose our top ten priorities for the newly elected congress. This year our congregation met in Florida and heard excellent testimony and predictions from a variety of informed persons, some of whom work for this committee.

A common theme in our top priorities is the need for fundamental change. Fundamental change in the way our nation collects tax revenues and fundamental change in the way our citizens provide for their health care. We are not unrealistic, however, and realize that serious change is difficult. For that reason our membership also proposes many important fixes to the current body of law that would aid the formation and success of small businesses. This is not to say that fundamental change is impossible; we are very encouraged by the President's exploratory commission on tax reform and the important market action injected into the health care market by Health Savings Accounts. Our members believe that now is the time to press for meaningful, fundamental reform for this and future congresses.

Fundamental Tax Reform

Fundamental tax reform has long been a topic of interest for NSBA's members and the next two years will be no different. In fact, our members choose fundamental tax reform as the organization's top priority for the 109th Congress.

Fundamental tax reform as envisioned by NSBA's members is not a nebulous fix but a concrete plan known as the Fair Tax. Originally approved by our Board in 1998, the Fair Tax would repeal the 16th Amendment along with the entire Internal Revenue Code and replace it with a 23% inclusive national sales tax on the purchase of all new goods and services. Such a change would address small business owners' complaint that the tax code represents the number one source of government paperwork burden and compliance cost.

The Fair Tax would free business owners and wage earners from the regressive and complex payroll tax. Entrepreneurs are confronted in the early days of a business startup with this staggering tax that must be paid regardless of the new venture's profitability. The increased tax burden of hiring new employees acts as a disincentive for new employment. The complexity of complying with estimated and quarterly payments is so daunting and the penalties for mistakes so severe that most small firms outsource the work adding to the cost of business and ultimately consumer cost.

The income tax, not to mention the abominable Alternative Minimum Tax, is complex, time consuming and costly to administer. Self-employed individuals with income from a business or partnership must wade through available deductions for business expenses and complex depreciation schedules. The Fair Tax would eliminate depreciation schedules, uniform inventory capitalization and complex rules on employee benefits.

Furthermore, the current tax code discourages personal savings and investment by taxing capital gains, dividends and interest earned. The Fair Tax would improve the nation's abysmal savings rate while providing more capital for business investment.

Under the Fair Tax, compliance costs will fall; creating enormous net savings that would eventually be incorporated in lower product prices for consumers. The tax will be collected at the point of final sale, taking the tax burden out of the hands of consumers. Already, 45 states have a sales tax system, and the Fair Tax would simply add an additional line on the current sales tax reporting form. Businesses will collect the tax and send it to the state tax collecting authority. All businesses serving as collecting agents will receive a fee for collection, and the states also will receive a collection fee. While the Fair Tax should not be interpreted as a tax cut, the reduction in work required to administer the new tax will certainly be a relief for business owners and consumers alike.

Contrary to opponents' arguments that claim the Fair Tax would harm elderly and low-income individuals, the system would actually place these individuals in great control over how much they actually pay in taxes. The Fair Tax will include a rebate system where all citizens receive a rebate equivalent to the tax paid on essential goods and services. This rebate will be paid in advance, in equal installments each month. The size of this monthly rebate will be determined by the government's poverty level for a particular household (defined as one or more individuals), multiplied by the tax rate.

In one of his first acts after being reelected, President Bush signed an executive order that created a bi-partisan commission to evaluate proposals for fundamental tax reform. NSBA strongly encourages the commission to evaluate the Fair Tax as a replacement for the internal revenue code.

Estate Tax Repeal

As we work towards fundamental tax reform there is still important work to be done on the current code. A full and permanent repeal of the estate tax is important for NSBA's members. As you know, the estate tax will be phased out for one year in 2010 only to revert to pre-2001 levels in 2011. The uncertain nature of the estate tax's future makes planning for business succession especially difficult and costly.

The simple facts are that many a small business owner's death will force the outright sale, or liquidation of a part of their firm to pay estate taxes. The tax forces entrepreneurs to make a difficult decision: either drain capital from the business for expensive estate-planning measures or liquidate the business to pay the estate taxes. Federal estate and gift taxes harm family owned businesses on an ongoing basis, starting long before the death of the owner.

The owner of the business, in preparation for the transfer of ownership of the company, must take various expensive estate planning measures, such as purchasing insurance and/or the creation of trust funds to ensure the future viability of the business. If these steps are not taken, then the recipient of the business will be left to pay the estate tax burden. Either way, a large portion of the business' resources, which could be reinvested into the company, is wasted on these burdensome taxes. Estate taxes impose enormous annual costs on businesses in the form of legal and accounting fees, insurance premiums and appraisal fees. Moreover, estate tax liability considerations frequently affect business decisions about investments and expansions.

To end the destructive nature of the estate tax NSBA supports legislation, H.R. 8, introduced by Rep. Kenny Hulshof and Rep. Bud Cramer that would fully and permanently repeal the estate tax.

Repeal of the Self-employment Tax on Healthcare

Another issue of great concern to NSBA's membership is the fact that many elements of the current Internal Revenue Code act as a disincentive for small business formation and growth. In 2001, NSBA released a report in inequities in the tax code titled, "*The Internal Revenue Code: Unequal Treatment Between Large and Small Firms*." While the report was wide ranging with many suggestions, our members choose three areas where the code most egregiously discriminates against entrepreneurs.

Number one on that list is the elimination of the self-employment tax on health care. At issue is the 15.3 percent tax that self-employed individuals must pay on their healthcare costs to which no one else is subjected. This significant tariff comes in the form of FICA payroll taxes, commonly referred to as payroll or self-employment taxes. The self-employment tax rate on net earnings is the sum of 12.4 percent for Social Security (old-age, survivors, and disability insurance), and 2.9 percent for Medicare (hospital insurance).

Self-employed individuals, unlike large corporations, cannot deduct the cost of their healthcare as a business expense. At issue is the fact that self-employed individuals that file Schedule C do not receive a business deduction for health insurance premiums. The net result is that, while business owners can deduct the cost of healthcare premiums for their income, the money used to purchase that healthcare has been exposed to the self-employment tax. This additional tax, which does not affect C-corporations, adds an additional 15.3 percent tax to the cost of already expensive health care.

The 108th Congress saw excellent leadership on this issue with Chairman Manzullo and Ranking Member Velazquez sponsoring legislation, H.R. 1873, which would have repealed the self-employment tax on health care. We look forward to continuing the efforts to repeal the self-employment tax on healthcare in the 109th Congress.

Small Business Pension Reform

Nondiscrimination rules, "key employee" clauses and plan administration costs drive many small business owners away from pension plans offered by larger firms. As in the case of SIMPLE 401(k) plans, small businesses that cannot shoulder the cost and burden

of heavily-regulated pension plans must settle for plans that allow them to save considerably less for their retirement.

Over the past 20 years, Congress has amended and revised the tax laws governing pension plans at an alarming rate, adding new layers of complexity with every change. Combined with changes in the Employee Retirement Income Security Act (ERISA) in 1974, these changes have contributed significantly to a steep decline in small-business retirement plans.

Having plowed earnings and savings into their enterprises, many small business owners face a particularly hard time saving for retirement. Unfortunately, today's most popular retirement vehicles—defined contribution plans—are saddled with huge overhead costs and administrative burden.

The complex, costly and awkward burdens placed on small businesses wishing to offer retirement plans for the benefit of employees frighten and discourage many businesses from implementing and maintaining plans. Small and mid-sized employers are often discouraged from starting or prohibited from participating in retirement plans by the "top-heavy" rules and regulations that are imposed on qualified retirement plans. These rules are often designed with large businesses in mind, resulting in rules unfairly weighted against small businesses.

In the 104th Congress, legislation was passed to begin the process of easing retirement plan administration for small businesses. Congress created the Savings Incentive Match Plans (often called SIMPLE plans) that eased but did not eliminate complex rules associated with "qualified" tax-advantaged plans. However, these easier-to-administer pension plans came at great cost to participants in the form of lower contribution levels. For example, in 2005 business owners and employees who participate in easier to administer SIMPLE 401(k) plans can save only $10,000 pretax a year compared to the $14,000 allowed under traditional 401(k) plans.

Significant reforms to the current pension system were included in the president's tax relief package that passed Congress in 2001. The legislation increased annual employee contribution limits to defined contribution plans over the next several years. The bill also made an array of other important small business reforms, including modification of top-heavy rules, increasing the limits on "catch-up" contributions by workers older than 50, and increased portability.

Even though these changes are welcome and needed, they simply are not enough. Small business SIMPLE 401(k) plans need to be on equal footing in terms of contribution limits with traditional 401(k) plans. The very enactment of SIMPLE plans is an admission that 401(k) and similar plans were developed without the smallest businesses in mind. Why should employees of larger businesses be able to save $4,000 more per year, tax free, than the employees of our smallest businesses?

A proposal for pension plan reform offered by President Bush is a positive step in the right direction. The president's proposal calls for the creation of Employer Retirement

Savings Accounts (ERSAs)—which would replace 401(k), SIMPLE and other employer-provided defined contribution plans. These ERSAs would have much of the simplicity of SIMPLEs but with the flexibility and contribution levels of a 401(k), exactly the combination that small business seeks.

Congress should take further steps to simplify the current pension system. These reforms should help give small businesses access to a broad range of low-cost pension plans, allowing them greater flexibility in the employee benefits package they offer. Contribution limits for 401(k) plans and SIMPLE plans should be brought to parity.

Business Owner Participation in Fringe Benefit Plans
Tax law prohibits most entrepreneurs from taking advantage of benefits available to most any citizen, like Section 125 "Cafeteria" plans and education-assistance programs. Only the small business owners who sponsor these plans for their employees are prohibited from participating.

These exclusions from eligibility act as a disincentive for entrepreneurship as individuals who wish to strike out on their own are penalized for becoming self-employed. The limitations also serve to slow the adoption of these important tax advantaged programs for employees at small firms as owners are less likely to pay to start and maintain programs that they and their family cannot benefit from.

An additional barrier to business owner participation in fringe benefit plans is complicated non-discrimination rules. These rules and complicated ratios for figuring who can receive qualified benefits act as a disincentive for plan adoption. In worst case scenarios non-discrimination rules written for large firms create impossible ratios for the smallest businesses thus acting in a de facto way to prohibit participation.

NSBA's members believe that both employers and employees will benefit by relaxing non-discrimination rules and owner exclusions on fringe benefit plans. The smallest businesses should not be prohibited from enjoying the plans commonly offered at larger firms.

Fundamental Healthcare Reform
In attempting to create positive health care reform for small businesses, one quickly bumps up against the reality that the small business problems cannot be solved in isolation from the rest of the system. Since small businesses purchase insurance as part of a larger pool with shared costs, the decisions of others directly affect what a small business must pay and the terms on which insurance is available to them. It has become clear to us at NSBA that, to bring meaningful affordability, access, and equity in health care to small businesses and their employees, a broad reform of the health care system is called for. This reform must reduce health care costs while improving quality, bring about a fair sharing of health care costs, and focus on the empowerment and responsibility of individual health care consumers.

The Realities of the Insurance Market

Small employers who purchase insurance face significantly higher premiums from at least two sources that have nothing to do with the underlying cost of health care. The first is the cost of "uncompensated care." These are the expenses health care providers incur for providing care to individuals without coverage; these costs get divided-up and passed on as increased costs to those who have insurance, better known as "cost-shifting." Second is the fact that millions of relatively healthy Americans choose not to purchase insurance (at least until they get older or sicker). Almost four million individuals aged 18-34 making more than $50,000 per year are uninsured. The absence of these individuals from the insurance pool means that premiums are higher for the rest of the pool than they would be otherwise. Moving these two groups of individuals onto the insurance rolls would bring consequential reductions to current small business premiums.

Implicit in the concept of insurance is that those who use it are subsidized by those who do not. In most arenas, voluntary insurance is most efficient since the actions of those outside the insurance pool do not directly affect those within. If the home of someone without fire insurance burns down, those who are insured are not expected to finance a new house. Not so in the health arena. Moreover, individuals' ability to assess their own risk is somewhat unique regarding health insurance. People have a good sense of their own health, and healthier individuals are less likely to purchase insurance until they perceive they need it. As insurance becomes more expensive, this proclivity is further increased (which, of course, further decreases the likelihood of the healthy purchasing insurance).

Individual Responsibility

There is no hope of correcting these inequities until we have something close to universal participation of all individuals in some form of health care coverage. Our plan for ensuring that all Americans have health coverage can be simply summarized: 1) require everyone to have coverage; 2) reform the insurance system so that all have access to coverage and so costs are fairly spread; and 3) institute a system of subsidies, based upon family income, so that everyone can afford coverage.

Of course, the decision to require coverage would mean that there must be some definition of the insurance package that would satisfy this requirement. Such a package must be truly basic. The required basic package would include only necessary benefits and would recognize the need for higher deductibles for those able to afford them. The shape of the package would help return a greater share of health insurance to its role as a financial backstop, rather than a reimbursement mechanism for all expenses. Basic economic principles tell us that more robust consumer behavior will surely follow.

Incumbent on any requirement to obtain coverage is the need to ensure that appropriate coverage is available to all. A coverage requirement would make insurers less risk averse, making broader insurance reform possible. Insurance standards would limit the ability of insurance companies to charge radically different prices to different populations and would eliminate the ability of insurers to deny or price coverage based upon health conditions, in both the group and individual markets. Further, individuals and families would receive federal financial assistance for health premiums, based upon income. The

subsidies would be borne by society at large, rather than in the arbitrary way that cost-shifting currently allocates these expenses.

Finally, it should be clear that coverage could come from any source. Employer-based insurance, individual insurance, or an existing public program would all be acceptable means of demonstrating coverage.

Reshaping Incentives
There currently is an open-ended tax exclusion for employer-provided health coverage for both the employer and employee. This tax status has made health insurance preferable to other forms of compensation, leading many Americans to be "over-insured." This over-insurance leads to a lack of consumer behavior, increased utilization of the system, and significant increases in the aggregate cost of health care. Insurance now frequently covers (on a tax-free basis) non-medically necessary services, which would otherwise be highly responsive to market forces.

The health insurance tax exclusion also creates equity concerns for small employers and their employees. Since larger firms' employees have greater access to health insurance plans than their smaller counterparts, a greater share of their total employee compensation package is exempt from taxation. Further, more small business employees are currently in the individual insurance market, where only those premiums that exceed 7.5% of income are deductible.

For these reasons, the individual tax exclusion for health insurance coverage should be limited to the value of the basic benefits package. But this exclusion (deduction) should also be extended to individuals purchasing insurance on their own. Moreover, the tax status of health insurance premiums and actual health care expenses should be comparable. These changes would bring equity to small employers and their employees, eliminate the federal subsidy for over-insurance, induce much greater consumer behavior, and reduce overall health care expenses.

Reducing Costs by Increasing Quality and Accountability
While the above steps alone would create a much more rational health insurance system, a more fair financing structure, and clear incentives for consumer-based accountability, much more must be done to rein-in the greatest drivers of unnecessary health care costs: waste and inefficiency. Increased consumer behavior can help reduce utilization at the front end, but most health care costs are eaten up in hospitals and by chronic conditions whose individual costs far exceed what any normal deductible level is likely to be.

There is an enormous array of financial pressures and incentives that act upon the health-care provider community. Too often, the incentive for keeping patients healthy is not one of them. Our medical malpractice system is at least partly to blame. While some believe these laws improve health care quality by severely punishing those who make mistakes that harm patients, the reality is that they simply lead to those mistakes—and much else—being hidden.

Is it any wonder that it is practically impossible to obtain useful data on which to make a provider decision? Which physician has the best success-rates for angioplasty procedures? Which hospital has the lowest rate of staph infections? We just don't know, and that lack of knowledge makes consumer-directed improvements in health care quality almost impossible to achieve.

Health care quality is enormously important, not only for its own sake, but because lack of quality adds billions to our annual health care costs. Medical errors, hospital-acquired infections, and other forms of waste and inefficiency cause additional hospital re-admissions, longer recovery times, missed work and compensation, and death. The medical costs alone probably total into the hundreds of billions of dollars.

What financial pressures are we bringing to bear on the provider community to improve quality and reduce waste? Almost none. In fact, we may be doing the opposite, since providers make yet more money from re-admissions and longer-term treatments. It is imperative to reduce costs through improved health care quality. Rather than continuing to pay billions for care that actually hurts people and leads to more costs, we should pay more for quality care and less (or nothing) when egregious mistakes occur.

Two broad reforms are urgent:

> Pay-for-Performance. Insurers should reimburse providers based upon actual health outcomes and standards, rather than procedures. In some pilots, CMS and Medicare have already begun this process. Evidence-based indicators and protocols should be developed to help insurers, employers, and individuals hold providers accountable. These protocols—if followed—could also provide a level of provider defense against malpractice claims.
>
> Electronic Records and Procedures. From digital prescription writing to individual electronic medical records to universal physician IDs, technology can reduce unnecessary procedures, reduce medical errors, increase efficiency, and improve the quality of care. This data can also form the basis for publicly available health information about each health care provider so that patients can make informed choices.

The small business community needs substantial relief from escalating health insurance premiums. This level of relief can only be achieved through a broad reform of the health care system with a goal of universal coverage, focus on individual responsibility and empowerment, the creation of the right market-based incentives, and a relentless focus on improving quality while driving out unnecessary, wasteful, and harmful care.

AHP opposition

With all due respect to this committee and my cohorts here today, I would be remiss in representing our membership if I failed to briefly mention our opposition to Association Health Plans. AHPs would be able to sell insurance across state lines, circumventing existing state rules with practically no federal oversight, no rating rules and no benefit standards. Through benefit manipulation and rating increases, AHPs would lead to a

segmented market leaving the less-healthy population in the state-regulated markets facing increasing premiums, and eventually without insurance altogether as the state markets implode. AHPs fail to address the overall problem with the small business health care market, leading to overall increased costs. NSBA has, and will continue to oppose AHP legislation while seeking alternatives that get at the root of the problem: increasing costs of health care.

Regulatory Reform

Small business interests must be considered when creating federal policy and regulations. A long-standing issue of NSBA, oppressive regulation continues to be a source of trouble for small businesses. When Congress drafts new laws, considerable leeway is given to federal agencies and departments to interpret those laws and enforce them. This open-ended policy is giving agencies free reign over the regulations that govern small business. New agency rules are subject to review by the Office of Management and Budget (OMB), but the relatively-small office responsible for these tasks within the OMB cannot possibly keep up with the flood of regulations.

By their very nature, unnecessary federal regulation and paperwork burdens discriminate against small businesses. Without large staffs of accountants, benefits coordinators, attorneys, or personnel administrators, small businesses are often at a loss to implement or even keep up with the overwhelming paperwork demands of the federal government. Big corporations have already built these staffs into their operations and can often absorb a new requirement that could be very costly and expensive for a small business owner

The Regulatory Flexibility Act of 1980 mandates that government agencies review regulations for their impact on small businesses and consider less burdensome alternatives. While this is an excellent policy, enforcement has been lax. Congress then passed the Small Business Regulatory Enforcement Fairness Act (SBREFA) in 1996 and the Small Business Paperwork Relief Act (SBPRA) in 2002. With all these laws, small businesses were optimistic that things really would change for the better. However, while both SBPRA and SBREFA have made advances in alleviating some paperwork requirements, agency compliance with these laws leaves much to be desired. Agencies have continued to increase the amount of paperwork leading to a seven-year upward trend of the paperwork burden.

Though SBREFA has empowered the SBA Office of Advocacy to take a more active role in preventing regulations that would harm small businesses, there are still agencies that proceed with unfair regulations. SBPRA has also outlined three steps agencies were mandated to take to ensure small business concerns were being represented: a single-point of contact, publishing all compliance assistance, and completing annual reports on small business enforcement actions said agency has taken. Yet, as we can all see, many agencies have not fully complied with this rule.

According to 2003 figures, less than 30 percent of agencies were in full compliance with SBPRA. Eighty percent of agencies have established a single point of contact for the paperwork and regulatory questions of small businesses, only 75 percent have published or made available a list of compliance assistance resources for small businesses, and a

disappointing 28 percent filed their enforcement reports. The mandate on agencies by SBPRA is relatively simple, compiling assistance and enforcement information already that is already collected, and designating one person as the small business contact. If the agencies imposing all this paperwork can't even complete this simple task, it is blatantly obvious that there is too much paperwork, too much regulation and by far too much confusion.

We propose a series of important changes be made to current law that will greatly improve the regulatory climate for small businesses.

Strong Office of Advocacy: Acting as the federal government's primary watch-dog for small businesses, it is imperative that the Office of Advocacy 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, a strong Office of Advocacy is imperative in the quest for small business regulatory parity.

Streamline paperwork: Agencies must seek ways to eliminate duplication of paperwork and coordinate the due-dates. The paperwork requirement for filing mandatory emergency plans is an excellent example. Many agencies require emergency plans, and inevitably, these due dates are all different. This is not uncommon, and it would be a huge relief to simply streamline dates and reduce the number of times one plan must be reported.

Small business assistance: Small business owners are smart, entrepreneurial, creative and quick students. They are not, however, regulation specialists. It is easy for a well-meaning small business to overlook a requirement or a deadline because they don't have dedicated compliance staffs to research the vast federal (not to mention state, city and local) regulatory paperwork quagmire. Easily accessible, plain-language assistance must be made widely available to small businesses.

Cost-benefit analysis: This is common-sense business policy. Federal agencies should be held to no less a standard, and should be required to submit the estimates of the cost as well as the benefit associated with rules and paperwork for each of their programs.

Flexibility and Exemptions: Common-sense exemptions in certain rules are much needed, along with increased flexibility in enforcements for first-time offenders. In addition to the compliance cost and paperwork burden is the process a small business must go through to find out if it is even affected. A perfect example is through the EPA's Toxic Releases Inventory (TRI), which includes 195 pages of instruction on how to complete the two different forms. The time it takes to wade through the forms, read the multiple schedules, exemptions, extras, significantly increases any number of hours proposed by a federal agency. First-time offenders ought to be given compliance assistance rather than costly fines.

Small Business Access to Capital
Small businesses, both start-ups and those dealing with growing pains, need easy access to capital in order to continue on as the catalyst for the U.S. economy. Following a very contentious year for the SBA 7(a) loan guarantee, including loan caps and a complete program shut-down, Congress passed legislation effectively zeroing out all appropriations for the 7(a) program.

The Federal Reserve Board reported that small businesses are having a harder time qualifying for loans due to increased standards, terms and spreads for small firm loans. Even with the more stringent requirements, more small businesses are seeking loans making the competition for capital intense.

Though SBA 7(a) loans continue to be made, the size of those loans are shrinking, and those programs designated for microenterprises have been slated for elimination. For as much as small business was referred to as the backbone of the economy during the 2004 election, there has been tempered financial support of small business programs. We are concerned with what further changes await SBA given that their flagship 7(a) loan guarantee program has been so significantly changed.

Only 39 percent of new businesses are still operating after six years in business. Though this is not a startling statistic, it does suggest that businesses require more funding beyond the initial start-up phase. The 7(a) program, with its guarantee and higher limits can help both start-ups and those looking to expand their business.

NSBA strongly encourages both the Administration and Congress to fully support small businesses as the true growth-centers of our economy. SBA is the largest single provider of long-term loans to small businesses. For every $33,000 lent in the 7(a) program, one job is created or retained; in 2002, 7(a) loans created or retained 370,000 jobs. NSBA is dedicated to working with SBA and Congress to re-engage the 7(a) loan program with appropriations. Funding the 7(a) program will ensure lower borrower fees, wider bank participation, higher loan amounts, greater small business growth and the creation of jobs.

Conclusion
In closing, I'd like to again thank you, Chairman Manzullo and Ranking Member Velazquez for allowing me and the members of NSBA to present our top priority issues to you. We have worked hard on a variety of issues, from much needed tax-reform to regulatory relief, important health care issues to small business access to capital; we appreciate the long-standing relationship we have with this committee. I know that you are fighting on a daily basis for many of these issues and I thank you for your diligence.

Statement of Ms. Barbara Kasoff, COO and Cofounder

On Behalf of
Women Impacting Public Policy

Submitted to
House Small Business Committee

"Small Business Priorities for the 109th Congress"

March 8, 2005

Mr. Chairman and Ranking Member Velazquez, my name is Barbara Kasoff. I am the Co-Founder of Women Impacting Public Policy, (WIPP), a bipartisan organization of 505,000 women in business nationwide. Thank you for allowing me to testify before the Committee today.

The subject of this hearing today is near and dear to my heart—small business priorities for the 109th Congress. This hearing coincides with the upcoming release of WIPP's annual poll. The purpose of the poll is to gain insight and information from WIPP's business owners on a number of economic issues, as well as gives our members the opportunity to evaluate the importance of several policy issues to their businesses. The poll sought information on an array of issues, including health care, tax reform, tort reform, Social Security reform, energy, estate tax and federal contracting. I would like to take a few minutes to share a few results with you prior to a full release to the media and WIPP's stakeholders.

It will come as no surprise to you that 71% of our members identified health care as their top issue. Our members overwhelmingly agree that Association Health Plans (AHPs) would be very helpful to small businesses. Forty two percent said that if Congress took away the deduction for health care coverage, they would be forced to cancel the employer sponsored health care and an equal percentage said they would be forced to decrease the employer paid- portion of the health care coverage they now offer their employees. Eighty four percent of our members believe an overhaul of the health care system is necessary.

The second highest priority identified by our membership was energy policy. Seventy eight percent are in favor of development of alternative energy sources by

providing tax and monetary incentives to manufacturers and users. This has not been mentioned by our members as a priority in previous polls, so we have to think that the price of energy is inhibiting small business growth.

The third highest priority was Social Security reform. Seventy one percent of our members believe the Congress should address social security reform immediately.

The fourth highest priority identified by our members was reform of the tax code. Fifty seven percent believe simplification is the route to tax reform and 48% favored the flat tax. Seventy percent of our members believe that any changes to the tax code must be revenue neutral. A majority of our members identified the federal deficit as a major concern.

Lastly, tort reform was identified by 40% of our members as a priority. Although most respondents have not been sued and 50% were not worried about being subjected to a frivolous lawsuit, our members believe that the legal system should be structured to discourage frivolous lawsuits.

Our members also listed fairness in procurement and repeal of the estate tax as important issues.

Women Impacting Public Policy members are very optimistic about the economy. In fact, 72% expect their revenues to increase in 2005. This is good news for this Committee and for our economy.

As this Committee sets its priorities, we urge you to take a look at what our members have said. Without a doubt, we will all have to work together to make rising health care costs a priority for this Congress. WIPP is pleased that this Committee is working in a bipartisan manner to enact AHPs. In last week's hearing on healthcare,

everyone agreed that affordable and accessible healthcare for small businesses is in dire need of fixing and we urge you to continue to pressure your Colleagues for action.

We urge you to take a second look at energy costs and the impact on small businesses. In addition, the ability of small businesses to create alternative energy solutions should be further explored.

With regard to Social Security and tax reform, no solution is complete without the input of small business. We will continue our efforts to educate our members on the various proposals before the Congress as it deliberates these important policy changes. We believe it is important to have a woman business owner at the table when any of these economic issues are discussed.

H. Res. 22, introduced by Representative Keller, the Small Business Bill of Rights calls for affordable health care for small business employees by pooling, which is embodied in AHPs. The bill calls for fairness in the tax code for small businesses, an end to frivolous lawsuits and reduced paperwork for small businesses. Three of the four priorities were identified by our members in the survey, so we commend Representative Keller for identifying the issues which are important to our small businesses. With regard to reduced paperwork—our members know first hand the overwhelming amount of paperwork required to run a business and we appreciate anything the Congress can do to lighten the paperwork load. One of our members will testify on improvements to the Regulatory Flexibility Act next week, which we believe would aid in reducing the paperwork burden on small businesses.

Thank you for the opportunity to testify. I will be happy to answer any questions.

Prepared Statement of
Karen Kerrigan
President & CEO
Small Business & Entrepreneurship Council

On

Small Business Policy Priorities for the 109th Congress

Before the

Committee on Small Business
U.S. House of Representatives
Donald A. Manzullo, Chairman

March 8, 2005

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Protecting Small Business, Promoting Entrepreneurship

Chairman Manzullo, Ranking Member Velazquez and Members of the House Small Business Committee, thank you for the invitation to participate in today's hearing to examine and discuss policy priorities for the 109th Congress with respect to America's small business and entrepreneurial sector.

The Small Business & Entrepreneurship Council (SBE Council) is a nonpartisan small business advocacy organization with more than 70,000 members nationwide. For more than ten years the SBE Council (formerly the Small Business Survival Committee) has worked to advance policies that protect small business and promote entrepreneurship. My name is Karen Kerrigan and I serve as President & CEO of the SBE Council.

With respect to H.R. 22 -- Congressman Ric Keller's (R-FL) sense of the House of Representatives legislation outlining a "Small Business Bill of Rights" -- the SBE Council believes that the issues presented capture what have been the enduring concerns of our members and the broader small business community. Advancing H.R. 22 will serve to underscore the need for Congress to continue to focus on productive legislation that will help our sector grow, innovate and create jobs.

Affordable health coverage choices, tax system modernization and fairness, regulatory reform and flexibility and controlling frivolous lawsuits are key policy categories that represent the challenges faced by our members, which can be addressed or even alleviated through changes in government policy. Certainly, SBE Council members are also concerned about other issues that impact both the current health of their firms and the long-term outlook for small business growth and entrepreneurship. For example, government spending, entitlement reform (i.e.: social security), attracting and retaining a quality workforce, and trade also concern our membership and impact their competitiveness and growth and therefore remain priorities as well.

Key Priorities for the SBE Council

Tax Code Certainty & Tax System Reform

Tax Relief Permanency. The 2001 and 2003 tax measures have boosted the economy by enhancing incentives for business investment and risk taking. Key measures include reducing personal income tax rates, cutting the capital gains tax, expanding small business expensing, slashing the tax on

dividends, and phasing out the death tax. Under current legislation, these and other tax relief measures would be repealed in coming years.

The SBE Council supports making the 2001 and 2003 tax relief packages permanent as this would help small business owners, and in turn, the economy by eliminating the possibility of counter-productive tax increases in coming years. Permanency would create certainty, which is important to the capital planning and business growth development needs of entrepreneurs.

The tax relief provided in these tax packages has been critical in helping our members upgrade and purchase new equipment and technology, and has provided them with extra resources to hire new staff, expand and maintain or provide health coverage for their employees.

Coincidentally, the U.S. Small Business Administration's Office of Advocacy joined the SBE Council last week for a media briefing to release a new study on the impact of marginal tax rates on entrepreneurial activity. The study, "Taxes and Entrepreneurial Activity: An Empirical Investigation Using Longitudinal Tax Return Data," co-authored by Donald Bruce, Ph.D. and Tami Gurley, found "convincing evidence that marginal tax rates have important effects on decisions to enter or remain in entrepreneurial activity." In sum, they found that the "empirical results suggest that policies aimed at reducing the relative tax rates on entrepreneurs might lead to increases in entrepreneurial activity and better chances of survival." Of course, from our members' perspective the findings make perfect economic common sense. This is an important study that I hope Members of the Committee dissect and review. It is important that policymakers grasp these economic fundamentals as doing so reveals why lowering personal income tax rates was, and is, so important to America's small business sector.

With respect to the death tax, it is critical that Congress act on permanency this year. Small business owners cannot reasonably plan under the current phase out followed by a sudden rebirth of the tax in 2011-- unless, perhaps, they are certain they will die in 2010. Ideally, the death tax should be repealed effective 2005, and at a minimum made permanent under the current phase-out.

Tax System Overhaul. Progress must be made on real tax simplification and fairness. The current tax code is a mess and a drag on the economy. Shifting to a low-rate, flat tax is the preferred option. Eliminating deductions

and loopholes in order to bring tax rates down would fit the President's stated desire for a "simpler, fairer, pro-growth tax system." A properly designed flat tax also would avoid double taxation. That can be accomplished, for example, by eliminating taxation of capital gains and dividends at the individual level.

The SBE Council is pleased to see the creation of the President's Advisory Panel on Federal Tax Reform. Our organization is regularly providing input to the Panel, and its members and staff have been extremely responsive to the issues brought forward by entrepreneurs. At their field hearing today in Tampa, Florida the SBE Council has provided a member-witness who will speak to the tax system's impact on business and entrepreneurship. We are hopeful that the panel's recommendations will get a serious hearing by the Congress, and appropriate action is taken.

More Rapid Progress on Affordable Health Care Initiatives

Costs are still rising. Though health costs have not risen as fast this past year as in previous years, they still continue to have a harmful impact on most small firms. More capital and resources expended on such unmanageable costs, means less available for hiring, wage increases, business investment and expansion. The collective drain of ever-increasing health costs hurts our economy. While progress has been made on the reform front, the pace of other important reforms needs to gather speed and advance to President Bush's desk.

A positive reform that the SBE Council has worked on since our founding was signed into law last year -- making health savings accounts (HSAs) permanent, universal and removing the heavy-handed restrictions that limited their potential in the marketplace. The adoption rate for HSAs has been rather brisk and small business owners who have moved to the accounts are saving significant costs on premiums. Since HSAs were signed into law last year, most of the products have been purchased by small businesses and individuals. In fact, we regularly speak to SBE Council members who have switched to this option or are reviewing the option for future adoption. According to the America's Health Insurance Plans, approximately 30 percent of the HSA purchasers overall previously did not have insurance, with 16 percent of new small business purchasers previously not offering insurance.

President Bush and members of Congress are proposing an array of tax incentives for both individuals and small business to increase access to

HSAs. The SBE Council will work to advance these enhancements and reform state laws that limit HSA availability in certain states.

The SBE Council also supports other key reforms that we believe will offer small business owners and their employees greater access to affordable choices in health insurance. The general principles that underlie the initiatives we support are ones based on fairness and competition -- that is, policies should strive to treat all players, big and small, equitably and where artificial barriers have limited the choices for consumers, they should be reevaluated and modernized to encourage competition.

The SBE Council's support for Association Health Plans (AHPs), individual tax credits, the FICA deduction of health care for the self-employed and a nationwide marketplace for health coverage all support this equitable approach that, we believe, empower small business owners and individuals through greater access and choice, which in the end will lead to a more accountable system for all consumers.

The SBE Council will continue to vigorously support, for example, the "Fair Care for the Uninsured Act", sponsored by Reps. Mark Kennedy (R-MN) and Daniel Lipinski (D-IL). Even with the eventual passage of reforms that aim to help small firms access affordable coverage for their employees, there will generally exist a segment of the workforce that will not be able to access coverage through their employer. The Fair Care bill gives individuals equal tax treatment with employers, thus providing them with financial incentive and assistance to purchase health coverage. Tax credits will empower individuals, create more choices and foster greater competition and accountability in the health care marketplace.

A complimentary approach to individual tax credits is the creation of a nationwide marketplace for health coverage as supported by President Bush and proposed by Rep. John Shadegg's (R-AZ) bill in the last Congress -- the "Health Care Choice Act." The bill would allow consumers to shop in any of the fifty states for their health coverage needs, creating more choices in health plans, and better accountability from the insurance industry and state legislators alike.

Allowing small business owners to join together and leverage their numbers to more adequately bargain for more affordable health insurance also is a practical solution to high costs. Association Health Plans (AHPs) address the issue of state mandates by allowing these small business purchasing plans to

operate under one, uniform set of regulations. Large corporations and labor unions already have access under ERISA, that is they self insure and operate under one set of federal guidelines.

Entrepreneurs will continue to help us find solutions to our nation's most pressing issues and that includes the drive for affordable, quality health care. It's critical, therefore that industry incumbents not hold back progress on the policy reform front because of their concern over competitive issues. We experienced this, for example, with HSAs as most big insurance companies were threatened by their emergence and therefore dismissed them and opposed them as a public policy solution. The same dynamic exists with AHPs where the larger incumbents that have a lock on insurance markets in many states, particularly in the small group market, are fighting against their enactment. Such is the case, also, with "specialty hospitals" – smaller, niche facilities partially owned by physicians. Specialty hospitals are very efficient and consumers really like them, therefore traditional hospitals view them as a threat. So much so, that in the landmark Medicare Prescription Drug legislation signed by President Bush, language was inserted that temporarily halted the development of specialty hospitals. The SBE Council will work to end this moratorium and allow these innovative, entrepreneurial "small players" set new standards for efficient, consumer-friendly and high quality hospital care.

Regulatory Reform and Flexibility

As House Small Business Committee members are well aware, government over-regulation hits small firms hardest. The U.S. Small Business Administration (SBA) has estimated per-employee regulatory costs amount to $7,000 for small firms. While the SBA Office of Advocacy has been effective at educating regulatory agencies about the their responsibilities to the small business community in drafting and proposing new rules, and has saved small business billions in costs, still, much more can be done on the regulatory modernization front.

Outdated and costly regulations, of course, need to be addressed on a case-by-case basis. For example, simplification is needed regarding independent contractor rules, as well as the rules governing the home office tax deduction. With respect to increasing workplace flexibility to provide employers and their workforce with more scheduling choices, the outdated Fair Labor Standards Act (FSLA) should be reformed to reflect demographic

changes and the flexible scheduling needs of employees and employers. Modernizing the FSLA is long overdue.

Measures focusing on paperwork reduction and OSHA reform passed the U.S. House in 2004 and are certainly worth advancing through both Houses in the 109th Congress. Of course, the SBE Council will make sure the Congress stays away from passing new burdens (like starting wage increases, for example) that increase costs and eat away at the competitiveness of our businesses in the global arena.

Limiting the life-span of regulations is a productive and needed step. In a world where change is occurring at a rapid pace it only makes sense that Congress rigorously review regulations on the books to determine their effectiveness and necessity. Another regulatory reform initiative, billed as "no regulation without representation," would require that Congress vote on agencies' final rules before they are binding on the public. That's meaningful, sound regulatory reform that would make a real difference to entrepreneurs, investors, businesses and their employees, and consumers.

When reforms meant for the "big guys" hurt small businesses.
Sarbanes-Oxley: The unintended consequences of several high-profile regulatory initiatives are hurting, or will eventually impact, the growth and competitiveness of small firms. The Sarbanes-Oxley Act, for example, is one such piece of legislation whose unintended consequences are taking a painful toll on small public companies that will ultimately hurt our economy. Costly compliance measures are burying small public companies, encouraging some to return to the private market while also presenting formidable barriers and disincentives for others desiring to go public. In addition, SBE Council members tell us that the downstream impact of Sarbanes-Oxley is affecting their small private companies if they regularly conduct audits. Accountants and auditors are simply absorbing new standards required by Sarbanes-Oxley and are applying them, to one degree or another, on all companies – this means more accounting/auditing fees for small business. The Security and Exchange Commission (SEC) has organized an advisory committee to review the legislation's impact on small companies, and the SBE Council will ensure that meaningful action is taken to scale back its impact. Already we have heard back from the SEC that they are considering our proposal to extend the filing period for the full year the advisory committee studies, and then makes recommendations, on Sarbanes-Oxley.

Stock Options Preservation. Small companies have been up in arms about a forthcoming Financial Accounting Standards Board (FASB) rule that would mandate the expensing of stock options. For small businesses, including our members, that use stock options as a way to attract skilled talent, FASB's move is widely viewed as a measure that would not only eviscerate this tool but also make small firms less competitive and profitable.

A House bill passed in the 108th exempts small companies from the new rule; would require expensing for only the top five executives in larger firms; provides small companies with a three-year transition period following an initial public offering before being required to expense; and prohibits the Securities and Exchange Commission from recognizing the rule until a comprehensive government study on stock options is completed. FASB has extended its expensing rule by six months, and while businesses are resigned to their intransigence (by designing new stock plans, etc.) and passage of legislation remains an uphill battle in the Senate, the SBE Council will continue to press on to preserve employee stock options.

Stopping frivolous lawsuits

The U.S. tort system is quite costly – by some estimates eating up more than 2% of GDP annually, for example – and serves to reduce investment, slow economic growth and limit job creation. Again, small firms are harmed the greatest when hit with a frivolous suit.

A particularly costly area has been asbestos litigation, which has forced many businesses into bankruptcy and is dragging more small businesses into its dysfunctional web. The truly sick need to be justly compensated, while "peripheral players" -- like small business owners -- need protection.

As for broader liability reforms, various common-sense suggestions have been offered. These include (1) limiting attorneys' fees to a reasonable percentage of damages and costs of plaintiffs; imposing mandatory sanctions on lawyers bringing frivolous class action lawsuits; (2) placing dollar limits on non-economic damages; (3) regarding product liability cases, establishing clear conditions under which manufacturers or retailers are liable, and mandating proof that the product was defective and the defect caused the harm; (4) requiring that punitive damages can be awarded only in cases where "clear and convincing evidence" point to "actual malice;" and (5) making sure that liability be proportional. The SBE Council will support and pursue such initiatives.

Other Key Issues for Small Business Growth and Survival

Energy Policy. The ebb and flow of energy prices is yet another external cost issue where uncertainty has an impact on small firms' ability to plan. The SBE Council will continue to support a national energy strategy that helps us maintain an affordable supply of energy while allowing our nation to be more self-reliant for our growing energy needs. In addition, we will continue to warn the Congress about initiatives that aim to regulate CO2 emissions – either domestically or internationally. The costs for mandating caps on or reductions in CO2 emissions would be crippling for the economy, while offering no environmental benefits.

Opening Global Markets. Trade reduces costs and expands choices for consumers; it enhances competition and opens new markets and opportunities for U.S. goods and services, which thousands of small businesses are rigorously pursuing. The U.S. needs to stay away from all protectionist flirtations, which emerge from political rather than economic calculations, and push forward with bilateral and multilateral free trade accords, including for example, passage of the Central American Free Trade Agreement (CAFTA) – covering Guatemala, El Salvador, Honduras, Nicaragua, and Costa Rica – and continued negotiations toward a Free Trade Area of the Americas.

Social Security Reform. Social Security needs to be fixed. The weaknesses of the current system are clear, including budgetary instability, the lack of ownership in the system and dismal rates of return. Raising payroll taxes is not the answer. That would only raise costs for employers, hurt workers and threaten the future of entrepreneurship. Allowing younger individuals to take part of their Social Security taxes and deposit that money in a savings/investment account makes practical and sound financial sense. Individuals would own those assets (for example, being able to pass them on to children at death) and would experience a much better return. The economy also would benefit, as those resources would be shifted into the productive private sector.

Immigration Reform. National security aspects of immigration should be obvious in this post-9/11 world. However, the economic importance of immigration too often is missed. Immigrants are not an economic drain; they are an economic plus. They fill needs for both skilled and unskilled workers, often become entrepreneurs, and add to the number of consumers. It must be

recognized that these two aspects of immigration are intertwined and cannot be separated. Legal channels must be created for both permanent and temporary immigration that respond to U.S. labor market demands, and a path must be set up to allow undocumented workers in the U.S. to apply for legal status. The President's 2004 plan called for opening the door to legalization for the estimated 8 million to 12 million undocumented immigrants in the nation. They would be able to apply for legal status in a temporary worker program if employed in the U.S. The program also would be open to people in foreign nations who have a job offer here. Temporary workers would be able to apply for citizenship through the normal process, not gaining any unfair advantage. Just as critical, the President acknowledged the need for raising legal immigration levels.

Government Spending Restraint. One of the glaring policy failures in recent years has been the dramatic increase in government spending. Large increases in government spending drain resources away from the private sector, whether through borrowing or taxing, which means that resources are used far less efficiently. In addition, large increases in spending have contributed to larger budget deficits. These deficits threaten to derail further tax relief or even stoke the fires for higher taxes down the road. Serious efforts at restraining and preferably reducing government spending must be undertaken. Also, fundamental budget reforms should be instituted.

Conclusion

Again, we thank you Chairman Manzullo for hosting this important hearing today. As the 109th Congress gets busy on an array of issues important to both our national and economic security, it is essential that they are reminded to focus on America's small business and entrepreneurial sector. Congressman Keller's "Small Business Bill of Rights" would serve as a helpful reminder and tool that keeping the focus on small business is central to our nation's economic security and future.

I look forward to our dialog and your questions.

TELEVISION VIDEO STREAMING MEDIA ADVERTISING MARKETING PUBLIC RELATIONS

Testimony before the U.S. House of Representatives
Committee on Small Business

Presented by Sheila Brooks
Founder, President and CEO, *SRB Productions Inc.*
March 8, 2005

Mr. Chairman Donald Manzullo ... Congresswoman Nydia Velazquez ... and other Committee members. Thank you for opportunity to testify before the U.S. House of Representative Committee on Small Business.

I'm Sheila Brooks ... Founder, President and CEO of ***SRB Productions Inc.,*** a full service communications firm that offers the highest quality television and video productions, an in-house post-production facility, streaming and interactive media, and advertising, marketing and public relations services.

I am truly proud to be one of the 10.6 million women-owned firms in this country doing business in our nation's capital. Today, I am sincerely humbled to share with you my success as a minority business leader.

My vision for my business is rooted in my mission for myself.

My purpose or mission in life is "to be the best that I can be." And it links to my sense of "self-satisfaction" and "self-empowerment."

Testimony before the U.S. House of Representatives
Committee on Small Business • March 8, 2005

I found the media, specifically television and broadcasting, an environment in which I can thrive. After working for nearly 13 years in television news as a reporter, anchor, news director and documentary producer – I decided to start my own business and have created a vision for "creating a firm that has a longstanding reputation for delivering the "highest quality services and products."

In order to fulfill this mission, I surround myself with people who are willing to commit themselves to quality work and go with me as I take risks.

As you know, nearly half of all privately-held U.S. firms are woman-owned, according to the Center for Women's Business Research. Women-owned firms are growing faster than the national average.

SRB Productions has experienced significant business expansion and the full-service communications firm is looking to continue in a high growth mode in 2005.

This year we celebrate 15 years of communications excellence ... maintaining a record of outstanding performance ... in large part, thanks to our longstanding Board of Advisors and our talented team of professional employees. Our employees listen to the needs of our customers and develop effective messages, ideas, strategies and tactics to effectively achieve our business objectives.

Testimony before the U.S. House of Representatives
Committee on Small Business • March 8, 2005

In an effort to sustain superb customer service, quality business practices and thwart the competition in a weakened economy, we are steadfast in our plans to become the nationally recognized communications leader ... ensuring customers achieve superior value in the digital economy.

We are sincerely proud of our accomplishments in 2004. We constructed and moved into a half-million dollar post-production facility in the heart of Washington, DC's business district. The state-of-the-art facility features three nonlinear digital editing suites, a studio soundstage, an audio sweetening system, and a narration record booth and graphics station.

In June, we won one of our largest contracts ever – being noted as the "agency of record" for Pepco Holdings, Inc., the largest utility company in this region. Our work in the advertising and marketing area has now expanded to several corporations and nonprofit organizations, and one federal government agency – the U.S. Department of Justice.

As a former 8(a) federal government contractor who graduated from the program two years ago, we continue to service U.S. AID with video production services, and the U.S. Department of Housing and Urban Development with streaming media, "live" and "on demand" on their website.

We are proud to be a federal government contractor for the past 14 years, and look forward to many years to come. However, we realize that in order to achieve the goal to increase federal government contracting, it is important to form strategic alliances with companies that offer products and services in areas that complement our core competencies and offer opportunities for growth. We're doing that, too.

As we move forward in 2005, the overall strategy to position ***SRB Productions*** is unwavering – we will grow our sales and build our competitive position with further expansion of the lines of communications products and services we can offer existing and potential customers.

The business will continue to pursue increasing formal strategic alliances with companies that complement our core competencies and offer continued opportunities for growth. All operations and processes will be planned and aligned in a manner that maximizes quality and value to the customer while minimizing costs and inefficiencies.

Our major focus will be to maintain and improve operating margins. Additional emphasis will also be placed on cash and working capital management.

We will focus on creative strengths, key customers, and the underlying values the company needs as it leverages further business expansion in key service areas:

producing and creating original programming, streaming and interactive media, and marketing communications campaigns.

But with every accomplishment come ... continuing challenges. Critical issues face women business owners on a regular basis. Access to capital, cash flow, attracting and retaining employees, and for my company and so many more ... the opportunity to win federal government contracts.

What I know ... is that determination, perseverance and faith ... ultimately prevail.

But I also know that it was programs like the 8(a) program that contributed to my company's success. And that first loan from the U.S. Small Business Administration that we received five years after we were in business that allowed us to purchase equipment for our first editing suite.

WRAP IT UP

Terry Neese
Cofounder, President and CEO

Barbara Kasoff
Cofounder, Chief Operating Officer

Coalition Partners

American Women in Radio and Television

Association for Women in Communications

Association of Women's Business Centers

Black Women Enterprises

Boardroom Bound

Business Women's Network

Enterprising Women

Euro-American Women's Council Europe – Greece

Hispanics Impacting Public Policy

Kansas City Council of Women Business Owners

National Associations for Female Executives

National Association of Small and Disadvantaged Businesses

National Association of Women Business Owners

National Business Association

National Indian Business Association

National Women Business Owners Corporation

Native American Women's Business Council

New Jersey Association of Women Business Owners

San Francisco Small Business Network

Small Business & Entrepreneurship Council

UNIFEM / USA

Women Construction Owners & Executives

Women Entrepreneurs, Inc.

Women Impacting Public Policy Florida

Women Impacting Public Policy Pennsylvania

Women in Technology International

Women Presidents' Organization

Women's Business Enterprise National Council

WIPP

February 3, 2003

President George W. Bush
The White House
1600 Pennsylvania Avenue, NW
Washington, DC. 20500

Dear Mr. President,

On behalf of WIPP's membership of 330,000 women and minority business owners nationwide, we are writing to inform you about the importance of the implementation of the "Women's Equity In Contracting Act" for women-owned small businesses.

This Act, P.L. 106-554, which was signed into law on December 21, 2000, authorizes federal government agencies to set aside five percent of its contracts for women owned businesses providing that: (1) such businesses are owned by women who are economically disadvantaged; (2) the contracting officer believes that two or more such businesses will compete for the contract; and (3) the contract does not exceed certain monetary limits.

The law requires the Small Business Administration to conduct a study to "identify industries in which small business concerns owned and controlled by women are underrepresented with respect to Federal procurement contracting." The SBA finally completed this study in late 2001, only for Administration officials to declare the study indefensible. To date, a new study has not been completed, and thus, the regulations accompanying the law have not been promulgated.

Mr. President, women owned businesses in the United States who want to participate in federal contracting have waited long enough. It is estimated by the Congressional Budget Office that failure to implement this law is costing women-owned businesses up to $10 billion in contracting dollars. WIPP members are asking us--demanding--to know why this Administration is not moving this Act forward.

We applaud your recently released economic stimulus package and your initiatives on contract unbundling. Ninety Four percent of our members are capable and ready to bid on contracts, and have overwhelmingly told us that contract unbundling and implementation of P.L. 106-554 is the key to helping their businesses grow. Unfortunately, more than 90% are so discouraged with the process and results-that many will not even attempt to bid on federal contracts. We urge you to work with us to ensure that women and minority businesses can compete in the federal contracting arena and this economic climate.

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We have enclosed our recent survey for your review and the National Women's Business Council press release, which mirrors WIPP's survey. We hope to hear from you soon on this important matter.

Sincerely,

Terry Neese
President

Barbara Kasoff
Vice President

Cc: Karl Rove, Sr. Advisor to the President
Hector Barreto, Administrator SBA
Angela Styles, Administrator OFPP
Cynthia Williams, Office of Public Liaison

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FOR IMMEDIATE RELEASE
May 20, 2003

Media Contact: Brenda Jones, APR
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WIPP URGES U.S. COMMERCE SECRETARY FOR CONTRACT UNBUNDLING AND FEDERAL CONTRACT COMPLIANCE AS KEY TO ECONOMIC GROWTH

Iraq Rebuilding Contracts to Women Businesses Top of Discussion

WASHINGTON, DC -- Women Impacting Public Policy (WIPP) President Terry Neese recommended today to U.S. Secretary of Commerce Don Evans that an immediate enforcement of contract unbundling and federal contract mandates for minority and women-owned businesses would help grow the economy. Neese was joined by Iraqi woman business owner Neeran Saraf, of Saraf Solutions, to urge women-owned businesses receive a fair share in federal contracts geared toward rebuilding Iraq.

"The President and Congress have called for a level playing field for minority and women-owned businesses to access federal contracts. The government must be held accountable in compliance," said Neese. "This is the quickest means to get real cash flow into companies that are leading the economy in growth and jobs creation."

In 2000, Congress established the Contracting Assistance for Women Business Owner Office at the Small Business Administration that mandated 5 percent of federal contracts be set aside for women-owned businesses. No more than 2.4 percent has yet been achieved. President Bush unveiled his small business plan last year at the Women's 21st Century Summit and called for creating an environment where entrepreneurs can flourish and making sure entrepreneurs have access to government contracting.

WIPP is developing business training and mentoring programs for women in various countries including Iraq and Afghanistan who want to start a business or grow an existing company. Services include helping women entrepreneurs secure financing, develop detailed business plans, and become more self sufficient and understanding economic freedoms.

-- more –

"With 38 percent of all U.S. companies owned by women, we should play a significant role in moving these war-torn countries toward a stable, free-trade economy," said Neese.

Four additional WIPP leaders joined Neese and Saraf to discuss with Secretary Evans economic growth, current investment climate and the importance of strong corporate leadership. The other WIPP participants were Kathleen Diamond, President of Language Learning Institute, Karen Kerrigan, President and Chief Executive Officer of Women Entrepreneurs, Lisa Mauer, President and Chief Executive Officer of Toolservice Corp. and Suzanne Pease, President of Ampersand Graphics. Also attending was Rosa Sugranes, President of Iberia Tiles.

WIPP has targeted federal procurement as a true business growth initiative and launched this spring two training and mentoring federal contracting programs for women-owned companies.

Get in the Game – Increase Your Bottom Line! is designed for business owners to cut through hours of chasing down contacts and paper trails in Washington. WIPP will arrange a day-long agenda for the business owner to meet key contacts on Capitol Hill and in Federal agencies that can provide information and access to program and contract officers.

The second program, *Fast Track on GSA Schedule*, is a one-day session for a business owner to actually work through and prepare the paperwork necessary to get her company on the GSA Schedule and expedite the approval process for contract awards. Completing the paperwork and getting on the Schedule can be an extremely complex and costly process. With this program, WIPP is continuing its commitment to women business owners to make obtaining contract awards a reality rather than a dream.

"These procurement mentoring programs combined with strong enforcement of the 5% set-aside mandate and contract unbundling are the most effective incentives for growing women-owned and small businesses that are driving today's economy," said Neese.

WIPP is a national bi-partisan non-profit representing 430,000 diverse businesswomen and women-business owners nationwide in Washington, DC. WIPP has members in all 50 states and all Congressional districts.

# # #

Terry Neese
Cofounder, President and CEO

Barbara Kasoff
Cofounder, Chief Operating Officer

Coalition Partners

American Women in Radio and Television

Association for Women in Communications

Association of Women's Business Centers

Black Women Enterprises

Boardroom Bound

Business Women's Network

Enterprising Women

Euro-American Women's Council Europe – Greece

Hispanics Impacting Public Policy

Kansas City Council of Women Business Owners

National Associations for Female Executives

National Association of Small and Disadvantaged Businesses

National Association of Women Business Owners

National Business Association

National Indian Business Association

National Women Business Owners Corporation

Native American Women's Business Council

New Jersey Association of Women Business Owners

San Francisco Small Business Network

Small Business Survival Committee

UNIFEM / USA

Women Construction Owners & Executives

Women Entrepreneurs, Inc.

Women in Technology International

Women Presidents' Organization

Women's Business Enterprise National Council

Women Impacting Public Policy Florida

Women Impacting Public Policy Pennsylvania

WorldWIT

March 28, 2005

Chairman Donald Manzullo
House Small Business Committee
U.S. House of Representatives
2361 Rayburn House Office Building
Washington, DC 20515

Dear Chairman Manzullo:

We are responding to a charge made by Representative Nydia Velazquez, during the hearing on March 8, 2005 titled "Small Business Priorities in the 109th Congress", that Women Impacting Public Policy (WIPP) has not actively pursued implementation of the women's procurement program as embodied in P.L.106-554. WIPP is requesting that our letter and attachments be included in the official hearing record.

During the questioning, Rep. Velasquez questioned Women Impacting Public Policy (WIPP)'s dedication and efforts made toward getting the women's procurement program at the Small Business Administration (SBA) implemented. We feel compelled to respond to that charge, since for four years we have been at the forefront of trying to get the law, P.L. 106-554, implemented and have responded frequently, quickly, and officially, to the public, to the press and to Congress on numerous occasions. We have not only always been at the table, but have frequently assumed a lead role in working with other business associations and Congress on this critical issue to our constituency. With over half a million women business owner members, we have always addressed this issue as a priority issue. WIPP has attached, for the record, its official statements and correspondence.

The House and Senate Small Business Committees have been in constant contact with us about ways to force the Administration to implement this important program. In addition, in speeches all over the country, WIPP's cofounders and Legislative Consultant have cited Rep. Velasquez's scorecard and her important commitment to the program. In fact, we worked with Rep. Velazquez's staff to ensure that the SBA Reauthorization of 2004 contained language which would have given contracting officers the authority to designate bidding on contracts restricted to women owned companies.

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We advocated for a change to the Senate's version of the Reauthorization bill, which included a request for a GAO report on the stumbling blocks to implementation of the women's procurement program. Furthermore, it suggested legislative fixes to speed implementation of the program. To our dismay, the Congress did not include either language in the final version of the bill. It has always been our position to work with and assist Congress in every possible way to keep the door open for solutions and to press for implementation.

We are saddened that Representative Velazquez would attack our organization as being ineffective when we have been the program's strongest advocates. We will continue to ask the Congress to find a solution to implement the women's procurement program.

Sincerely,

Terry Neese
President & Cofounder

Barbara Kasoff
COO & Cofounder

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FOR IMMEDIATE RELEASE
May 12, 2004

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HOUSE COMMITTEE TOLD FEDERAL CONTRACTING REGULATIONS ENDANGER GROWTH OF SMALL AMMO MANUFACTURER AND MEDICARE SERVICES TO ISOLATED AREAS

WIPP Advises Congress On Successes, Challenges Faced by Women Entrepreneurs

WASHINGTON, DC -- Two national founding partners of America's largest women's bipartisan group, Women Impacting Public Policy (WIPP), today alerted the House Small Business Committee that federal contracting regulations endanger the growth of a munitions manufacturing company and Medicare services to patients in isolated areas.

The president of the nation's only woman-owned munitions design company, Norma Byron of The Ashlawn Group in Alexandria, Virginia, testified the company has patented and is capable of manufacturing fuel cells for weapons to replace the standard batteries that are underperforming in the harsh Iraqi climate.

"Our newest fuel cells initiative will ensure weapons function in conflict and will create new manufacturing jobs, pending Congressional approval for funds. However, small businesses like mine are at the mercy of federal contracting policy decisions that can be disastrous," said Byron. The major contract regulations she cited that prevent small businesses from winning more government contracts are open competition with large companies, contract bundling and lack of subcontracting enforcement.

The second WIPP representative to testify before the committee hearing on "Women's Entrepreneurship: Successes and Challenges" founded a respiratory equipment and services company in Baltimore, Maryland. In three short years, CEO Maria Welch has grown Respira Medical, Inc. to 24 employees caring for 4500 patients in D.C., Delaware, Maryland, Pennsylvania and Virginia with $1.4 million in revenues.

"The new Medicare law encourages a dollar-driven system that will discourage serving patients in isolated areas and close the doors of small businesses like Respira," said Welch. The new law requires national competitive bidding for durable medical equipment that Welch says favors large, well-capitalized companies. "It is a mistake to assume that size and capitalization assures appropriate, timely and legitimate services."

WIPP has urged all federal agencies to comply with President Bush's call to action for contract unbundling and to implement Public Law 106-554 that mandates a five percent designation of all federal contracts for women-owned businesses. Currently, women-owned businesses receive about 2.9 percent of federal contracts while half of all privately held businesses are owned by women.

"The President and Congress have mandated that women and small businesses gain a fair share of federal contracts. It is time for department Secretaries and contracting officers to enforce the law. Their lack of enforcement is hindering jobs growth and economic development," said WIPP President Terry Neese. Women-owned businesses are growing one-in-a-half times faster than other companies and employ one in seven working Americans.

Neese added, "Women businesses are growing so fast, imagine what we could with some help from the federal government!"

WIPP is a national bipartisan public policy organization with 500,000 diverse businesswomen and women business owners nationwide. WIPP strengthens members' sphere of influence in the legislative process of our nation, creates economic opportunities for members and builds alliances with other small business organizations. Visit www.wipp.org.

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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.

FOR IMMEDIATE RELEASE
July 25, 2003

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WIPP APPLAUDS HOUSE COMMITTEE BIPARTISAN VOTE TO ADVANCE FEDERAL CONTRACTING PROGRAM FOR WOMEN-OWNED BUSINESSES

WASHINGTON, DC -- The U.S. House Small Business Committee passed yesterday a two-year reauthorization of small business programs administered by the Small Business Administration that will self-activate the Women's Procurement Program passed in 2000, but yet to be implemented.

"This is a victory for women owned businesses who have been pressing for implementation of the Women's Equity in Contracting law which was passed three years ago," said Terry Neese, President of Women Impacting Public Policy (WIPP).

WIPP has been actively working with both the U.S. House and U.S. Senate Committees to ensure implementation of the Women's Equity in Contracting law (P.L. 106-554), giving women-owned businesses contract designations of up to five percent and strengthening the ability of small businesses to contract with the federal government.

"To borrow a phrase from a Nike commercial, 'Just Do It' sums up the action taken by the Committee today. We are pleased to be a part of this effort," said Neese.

Committee Chairman Don Manzullo (R-IL) and Ranking Member Nydia Velázquez (D-NY) said the Small Business Reauthorization and Manufacturing Revitalization Act (H.R. 2802) would immediately implement the procurement law by giving federal contracting officers the ability to designate federal contracts to women-owned companies. The bill would also double the number of SBA Procurement Center Representatives, who help small businesses win government contracts.

Neese added that Chairman Manzullo and Congresswoman Velázquez are truly champions of small business.

"The other issue WIPP has been very active in is contract unbundling. This bill goes a long way toward reversing the trend that has created a downward spiral in the number of small businesses that do business with the federal government", said Neese.

In addition, H.R. 2802 refocuses SBA Women's Business Centers to provide assistance to low-income and minority women, while increased funding will help states without a Women's Business Center to establish one.

WIPP is a national bi-partisan public policy organization advocating on behalf of 430,000 businesswomen and women business owners. WIPP strengthens members' sphere of influence in the legislative process of our nation, creates economic opportunities for members and builds alliances with other small business organizations.

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FOR IMMEDIATE RELEASE
December 2, 2003

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WOMEN ENTREPRENEURS CALL ON CONGRESS TO FINISH THEIR WORK THIS YEAR

WASHINGTON, D.C. -- The largest U.S. bipartisan women's business group Women Impacting Public Policy (WIPP) responded today with great concern regarding the U.S. House decision to brush-off our nation's largest and fastest growing business sectors by delaying approval for small business and women-owned business programs until next year.

"Women and small business owners will be working through the holidays, and Congress should finish their work too," said Terry Neese, President of WIPP. The Senate passed its bill (S. 1375) in September for these SBA programs, but the House has not. "They delayed all year, and now say to the only business sector employing more Americans this year than last, 'wait till next year.'"

Neese added that because Congress is not completing their work on time, they are merely extending the funding through March at current levels. Thus, many important contracting changes that directly affect the way women business owners work with the federal government will not take effect. "There is no excuse for Congress to let this legislation slide. Maintaining 'status quo' is just not acceptable."

The legislation, Small Business Administration Reauthorization Act (H.R. 2802), safeguards federal contracts for small and women-owned businesses, ensures fair treatment of small business subcontractors and sustains Women Business Centers. The bill was delayed after talks between the House Government Reform and Small Business Committees collapsed last week. In the interim, these programs will remain at current funding levels until March 15, 2004.

"The holidays won't be so bright for women and small business owners, employees and their families while these programs and contract awards are at risk. Congress should go back to work between Thanksgiving and the New Year to give these hard-working Americans something to look forward to for the New Year," Neese.

Small businesses are losing as much as $26 billion annually in federal contracts to big business. Neese stated that for every $100 awarded on bundled contracts, small businesses lose $33. The SBA reauthorization bill includes significant changes to the $79 billion procurement industry that would strengthen the ability of small businesses to contract with the federal government, require large government contractors to pay small business subcontractors on time and double the number of SBA procurement representatives to help small businesses win government contracts.

Women-owned businesses lose $5.5 billion annual in federal contracts due to the failure by Congress to implement the women's procurement program passed in 2000. The bill would self-activate this long overdue, three-year-old program that mandates five percent of federal contracts be set aside for women-owned businesses. Today, women-owned businesses receive only 2.9 percent of all federal contracts while nearly half (46%) of all privately-held companies are women-owned firms.

The future of Women's Business Centers, which served 86,000 women last year, are at risk without Congressional reauthorization. The bill also provides funding to help states without a Women's Business Center to establish one.

According to the Center for Women's Business Research, from 1997-2000, women-owned firms with 100+ employees grew 68 percent faster than other comparable-size companies. SBA reports that small businesses account for almost 98 percent of all businesses in the country.

Women Impacting Public Policy is a national bipartisan group comprising over 460,000 diverse Women in Business. WIPP strengthens members' sphere of influence in the legislative process, creates economic opportunities for members and builds alliances with other small business organizations. For more information, call 1-888-368-5759 or visit www.wipp.org.

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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 exists 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 inkind (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 undoubtably 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 has 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.

Testimony Before

U.S. Senate Committee on Small Business and Entrepreneurship

On

"Contract Bundling"

March 18, 2003

Carol Kuc

National Founding Partner
Women Impacting Public Policy
www.WIPP.org

Madame Chairman, my name is Carol Kuc. My business, Complete Conference Coordinators, Inc., is located in Naperville, Illinois. I am testifying today on behalf of Women Impacting Public Policy (WIPP), which represents 430,000 women and minorities in business nationwide. I serve as WIPP's procurement chair and am pleased to appear before the Committee on this very important issue.

We commend the Committee for holding this hearing because our WIPP members have told us that federal contracting is a top priority. A recent survey we conducted 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. The online survey was conducted in January 2003.

While women-owned businesses represent 38% of all U.S. businesses and employ more people than the Fortune 500 companies worldwide, it is disparaging to this dynamic and growing community that the federal woman-owned goal of 5% has never been met.

Contracts awarded to women-owned enterprises have only minimally increased from a 1992 benchmark of 1.3% while women-owned companies have grown 14% (compared to 7% nationwide) between 1997-2002, according to the Center for Women's Business Research. In light of the tremendous growth of women-owned firms, under-

representation of this community in the Federal procurement arena is simply unacceptable.

In the year 2000, Public Law 106-554 authorized federal agencies to designate contracts for women-owned businesses. This law was designed to assist agencies in reaching the 5% goal of awarding federal contracts to women-owned businesses. To date, that law has not been implemented. Our 430,000 members are still waiting.

WIPP's survey also found that 98% of our members believe Federal contract unbundling would encourage women-owned business to compete for contracts. President Bush has called the Federal agencies to task on contract unbundling and to make sure small business owners have a level playing field for bidding on government contracts.

We applaud the President's initiative and the hard work that folks like Angela Styles, Director of the Office of Federal Procurement Policy, have initiated to get federal contracts in the hands of small businesses.

But the President's efforts are thwarted on a daily basis by the culture in the federal government contracting of "doing business as usual" – which is to say, think big -- or in the case of the Air Force-- think "bundling".

WIPP membership has run head into a new way of bundling by the Air Force by its e-procurement site, AFWay. This is a good example of the problems small businesses incur when trying to compete for federal business.

On March 1, 2002, the Air Force announced a new "web-based" method of computer procurement called AFWay. The proposed change was made to facilitate a requirement to report computer spending amounts. Prior to that time, Air Force purchases for Information Technology "IT" goods and services were made through various contract

vehicles or open requests to vendors. AFWay sought to streamline the purchasing process, reporting requirements and offer the best possible prices, by combining all participating vendors into a common website. The Air Force Chief Information Officer said, "The Air Force has made a commitment to current Air Force IT vendors that the initial fielding of AFWay will not decrease their business opportunities…" "The Air Force is working with current Air Force vendors (including those who supply to individual major commands and bases) to include them as suppliers in AFWay..."

The Air Force has not followed through on its commitment to offer fair participation in the AFWay program. In short, it is a Catch –22. If you want to do business with the Air Force, you have to be on the AFWay system as a vendor. But, the Air Force has to choose you as a vendor. In order to be chosen as a vendor, you had to have a previous contract with the Air Force- and, there is no mechanism by which you can apply to get on the AFWay system.

I know you will be surprised to find that in the case of computer systems, such as Desktop, Laptop and Servers, the vendors chosen by AFWay are: CDWG, Dell, Gateway, GTSI, MicronPC—all large businesses. Local bases are already issuing directives that require IT purchases be submitted through AFWay, further excluding small, local businesses from working with the Air Force.

AFWay program personnel state that interested small businesses must win an "AFWay qualifying" open-ended competitive contract. But there are no such "open-ended competitive AFWay contracts" in existence to even bid on. Although small businesses have been promised that they would have an opportunity to participate in the program before it became mandatory, there is simply no avenue.

Regional Small Business Contracting offices have attempted to sponsor their local businesses but no procedure has been established by the AFWay program headquarters for the sponsorship.

. Can AFWay be fixed? Of course, it can. The Air Force could decide to designate a portion of its business as women-owned, SDB, 8(a) certified, etc. The Air Force could decide to require substantial subcontracting to those same groups from its Primes. Local bases can be given reasonable guidelines for submitting sponsored small businesses and a mechanism by which small businesses can become vendors on AFWay can be adopted.

Another story we would like to share with you from one of our members addresses a culture among contracting officers within agencies that even unbundling cannot fix.

As the Committee knows, a company, if not awarded the winning contract, is entitled to an inquiry. Through this process, the company who bid but was not awarded the contract, can find out from the agency the winning price and design of the winning bid. When our woman owned company asked for the information, the contracting officer said, "If you challenge this, you will never see another RFP come your way."

We would be remiss if we did not share with you a story from an information technology company with regard to working with a prime contractor. This, unfortunately is not an isolated case, and must be addressed with increased oversight.

A very large prime contractor solicited a women-owned company to be a subcontractor on a sizable contract with the federal government. However, to be an eligible subcontractor, the company needed to secure a security clearance for an employee. This subcontractor was told that a contract was waiting for the subcontractor

when the security clearance was obtained. As the Committee knows, securing a security clearance is not a short and easy process. This small company of 15 employees, spent considerable time planning for implementation of the contract such as budget and resources and employee time and resources were spent obtaining the security clearance. When the security clearance came through, the subcontractor called the prime – ready for work.

But there was silence on the other end. The prime will not even return the subcontractor's call. We suspect that if the subcontracting plan was checked on this particular contract, our company whom the prime never had any intention of actually awarding work, would be listed as a "small business" and a "women-owned business." In this case, the prime got two checks for working with this sub.

We offer the above examples and there are many more to highlight the fact that reform is long overdue. WIPP has made a number of recommendations to our policy makers with regard to federal contracting and offer them to the Committee for its consideration.

- We urge the Office of Federal Procurement Policy to publish a monthly scorecard on the small businesses percentages each agency awards to small businesses with a breakdown of small business groups within the small business category, such as women-owned, Hub zone, veterans, etc.

- Put some teeth into the Subcontracting Plan (Part 1). Reward Prime Contractors who use small businesses. Incorporate incentives to prime contractors to implement the subcontracting plan they submit as part of the

award. Currently, there is no incentive for a prime contractor to encourage its second tier subcontractors to strive for "maximum opportunity" with women and minority businesses. WIPP would be pleased to host a forum with contractors from across the country to encourage incentives.

- Put some teeth into the Subcontracting Plan (Part 2). The SBA and the OSDBUs have been relegated to "making recommendations" on contracting plans. Let's give them the authority and the resources they need to turn them into the advocates for small business. Why bother having them review plans if no one has to incorporate their suggestions?

- We suggest creation of an "influence credit" for prime contractors who actively influence their lower tier subcontractors to pursue small business subcontracting (women and minority). Our subs can easily tell the contracting officer to what extent they have been utilized in the contract.

- Clean up the small business database. Are the businesses listed on Pro-Net and the GSA schedule really small businesses? We believe an independent group (be it a federal working group or private group) should do an audit of those databases to ensure those claiming to be small businesses are who they say they are. We suggest that all contracts over $100,000 for small business participation be subject to review.

- Time+Money=Certification. Small women and minority businesses spend $7,000 to $10,000 to duplicate their certifications to local and state governments, since there is not one federal certification that establishes a woman or minority owned status. If a federal certification was created and accepted by states and localities, our small businesses would save significant time and money.

In closing, we want to commend Chairwoman Snowe for holding this Hearing, and the Administration's leadership on this critical issue. WIPP also commends the leadership of Senator Kerry who has consistently introduced legislation to make agencies more accountable and increase the federal small business goals. An example of such legislation, was a bill introduced by Senator Kerry, S. 2466, in the 107th Congress and passed out of Committee unanimously. It sought to create a uniform government policy that eliminates the harmful practice of contract bundling, to change the term "bundled contract" to "consolidated contract", and to strengthen the definition of the term to close the current loopholes which exist today, where Federal agencies circumvent statutory safeguards intended to ensure that separate contracts are consolidated only after the conscious consideration of economic impact. It is our understanding that bundling was initiated to save money and to be more efficient. The cost has been too high for small businesses who are leading this country

during these economic times. Women-owned businesses are the fastest growing segment of all small business.

It is clear, Madame Chairman that contract bundling must be eliminated and changes made to the current way federal agencies treat multiple award contracts.

This government must be held accountable to the people it serves. I would be pleased to answer any questions.

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