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CREATING JOBS AND GROWING THE ECONOMY: LEGISLATIVE PROPOSALS TO STRENGTHEN THE ENTREPRENEURIAL ECOSYSTEM

HEARING

BEFORE THE

COMMITTEE ON SMALL BUSINESS AND ENTREPRENEURSHIP UNITED STATES SENATE

ONE HUNDRED TWELFTH CONGRESS

SECOND SESSION

NOVEMBER 29, 2012

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C O N T E N T S

OPENING STATEMENTS

	Page
Landrieu, Hon. Mary L., Chair, and a U.S. Senator from Louisiana	1
Snowe, Hon. Olympia J., Ranking Member, and a U.S. Senator from Maine	6
Moran, Hon. Jerry, a U.S. Senator from Kansas	10

WITNESSES

Panel I

Greene, Sean, Associate Administrator for Investment and Senior Advisor for Innovation Policy, U.S. Small Business Administration	13
Chodos, Michael, Associate Administrator for Entrepreneurial Development, U.S. Small Business Administration	21

Panel II

Gardiner, Scott, Executive Vice President, Granite State Economic Development Corporation	39
Lindfors New, Fonda, Chief Executive Officer, Quaternary Resource Investigations, LLC	46
Etemadi, Joshua A., Sales Manager, Construction Bonds, Inc., a Division of Murray Securus, and Chair, Small and Emerging Business Committee, National Association of Surety Bond Producers	53
Clough, David R., State Director, Maine Chapter, National Federation of Independent Business	61
Furchtgott-Roth, Diana, Senior Fellow, Manhattan Institute for Policy Research	70
Weeks, Julie R., President and Chief Executive Officer, Womenable, and Chair, Association of Women's Business Centers	83

ALPHABETICAL LISTING AND APPENDIX MATERIAL SUBMITTED

Association for Enterprise Opportunity	
Prepared statement	166
Beutler, Brian	
Talking Points Memo	162
Chodos, Michael	
Testimony	21
Prepared statement	23
Clough, David R.	
Testimony	61
Prepared statement	63
Etemadi, Joshua A.	
Testimony	53
Prepared statement	55
Furchtgott-Roth, Diana	
Testimony	70
Prepared statement	72
Gardiner, Scott	
Tesimony	39
Prepared statement	42
Greene, Sean	
Testimony	13
Prepared statement	16

Page

Landrieu, Hon. Mary L.
Opening statement 1
Responses to post-hearing questions from:
Sean Greene 100
Michael Chodos 104
Fonda Lindfors New 113
Joshua A. Etemadi 116
David R. Clough 120
LeClair, Lawrence E.
Letter dated December 5, 2012, transmitting response to Senator Shaheen's question 140
Levin, Hon. Carl
Responses to post-hearing questions from the Small Business Administration 142
Lindfors New, Fonda
Testimony 46
Prepared statement 48
Moran, Hon. Jerry
Opening statement 10
Mid-Tier Advocacy
Prepared statement 172
National Women's Business Council
Letter dated December 7, 2012, to Chair Landrieu 164
Snowe, Olympia J.
Opening statement 6
Responses to post-hearing questions from:
Sean Greene 121
Michael Chodos 124
Fonda Lindfors New 135
David R. Clough 139
Weeks, Julie R.
Testimony 83
Prepared statement 85
Weiss, Robert F. and Laura
Paper titled "The Innovation Network" 149
Women Impacting Public Policy
Prepared statement 176

CREATING JOBS AND GROWING THE ECONOMY: LEGISLATIVE PROPOSALS TO STRENGTHEN THE ENTREPRENEURIAL ECOSYSTEM

THURSDAY, NOVEMBER 29, 2012

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

The Committee met, pursuant to notice, at 10:03 a.m., in Room SR–428A, Russell Senate Office Building, Hon. Mary L. Landrieu, Chair of the Committee, presiding.

Present: Senators Landrieu, Shaheen, Snowe, Risch, Rubio, Ayotte, and Moran.

OPENING STATEMENT OF HON. MARY L. LANDRIEU, CHAIR, AND A U.S. SENATOR FROM LOUISIANA

Chair LANDRIEU. Good morning, and I thank everyone for joining us for this hearing this morning at our Small Business Committee, Creating Jobs and Growing the Economy: Legislative Proposals to Strengthen our Entrepreneurial Ecosystem in the United States.

I apologize for being a few minutes late. We were taking some, what I hope and think will be, historic photographs in the back with my so able and wonderful Ranking Member and our staff, because this is a very special meeting for Senator Snowe. Welcome, Senator Shaheen. Thank you for joining us.

So I want to say good morning to everyone and I would like to thank our witnesses for being here. We are looking forward to your testimony before our Small Business Committee this morning.

But before we begin to talk about what is on the agenda today, I want to take a point of personal privilege, and let me acknowledge that this is our Ranking Member, Olympia Snowe of Maine, who is attending her final Small Business Committee hearing. We did not add up how many Small Business Committee hearings she has attended. That would be extremely difficult. It has got to be over the 100s, both here, on Commerce, and in Finance, and she has served for literally decades here in the Senate, some years in the House, and as a legislator in Maine. So we did not even attempt, but trust me, it will be hundreds if not thousands of hearings.

Let me say it has been a privilege, Senator, to lead this committee with you. In 2009, we made history by becoming the first two female lawmakers to ever be Chair and Ranking Member of

any standing committee in Congress and we are really very proud of that milestone. We hope there will be many more to follow. But it is something that the two of us have been very proud of, and our close working relationship, as well. During the four years leading this committee together, there were many tough battles, but more than not, they resulted in important victories on behalf of small businesses in Maine, in Louisiana, and throughout this country.

For nearly four decades, Senator Snowe has proved time and time again to be a hard working, dedicated public servant and a role model for men and women alike, and she has demonstrated time and time again the art of political compromise, a skill, I might say, that is required in any democratic form of government.

In 1978, at the age of 31, she was elected to represent Maine's Second Congressional District, making her the youngest Republican woman ever elected to Congress. In 1994, she won her first Senate election and became only the second woman to represent Maine in the Senate, following ably in the large footsteps of Margaret Chase Smith. During her 18 years in the Senate, she has earned a reputation as an extremely intelligent, well informed, and able legislator who knows how to tackle the toughest issues and get the job done. In 2006, we will remember that Time Magazine named her as one of the top ten United States Senators, quite an accomplishment.

Aside from the important work, Senator, that you have done both as Chair and Ranking Member of this committee—and your contribution has been enormous—you have been a leader on so many important national issues, from national defense, to tax policy, to education, to women's health, welfare reform, and campaign finance reform, just to name a few. But your true strength as a legislator comes from how hard you fought for your State of Maine and how you have used your experiences in Maine as a legislator, as a person who knows your State well, to extrapolate their experiences and the struggles of the small businesses in Maine to bring that experience to the nation.

A great example was in 2005, when you led a successful fight to overturn the Pentagon's decision to close Portsmouth Naval Shipyard and the Defense Finance and Accounting Service Center in Limestone. You also fought to ensure Maine got Federal assistance needed after disasters of the ice storms in 1998 and the 2006 flood that struck the Southern part of your State. So you are not unfamiliar with those kinds of local challenges and you have stepped up.

The void left by your departure in the Senate will not be easily filled. American small businesses are losing a strong champion in the United States Senate. The people of Maine are losing a tireless advocate. And Congress is losing yet another voice of reason and moderation, a voice willing to speak to those on the other side of the aisle and to work for what is in the best interest of the American public.

So I want to just say, Senator, what a privilege it has been to serve with you, how much our committee and the Senate is going to miss you, and we so appreciate your service to our nation. And can we give a standing ovation.

[Applause.]

Senator SNOWE. Thank you.

Chair LANDRIEU. And if any of the other members want to add just a comment now, it would be appropriate, and then we will go into some opening statements. Senator Moran.

Senator MORAN. Madam Chairman, thank you very much, and I join you in your tribute to my colleague from Maine and thank her for her public service, exemplary public service. I regret that my time in the Senate with you overlapped only two years. I regret that you will not be my senior colleague much longer. I wish you well in the next step of your life. Know that only care and concern will continue for the people of Maine and the people of this country, and thank you for being a role model for how the Senate can and should operate.

Thank you, Madam Chairman.

Chair LANDRIEU. Senator Shaheen.

Senator SHAHEEN. Thank you, Senator Landrieu.

I want to echo Chair Landrieu's remarks about what a privilege it has been to serve with you, Senator Snowe. You are not only a colleague, but you are a neighbor, and I know how much the people of Maine and the people of New Hampshire will miss your service here.

As Senator Landrieu pointed out, when Portsmouth Naval Shipyard was under a BRAC closing announcement, you were one of the people who helped make sure the shipyard is still there and we will miss that advocacy. And for small businesses, not only in Maine but throughout New England, in particular, your loud voice here to make sure that concerns of small businesses have been addressed will really be missed.

And on a personal level, I just want to say how much I appreciated your willingness to come over to New Hampshire to listen. The hearings that we did together in Maine and New Hampshire were really important to me and to the small businesses in my State. So we will all miss you and especially miss your ability to work with people of all ideologies here in the Senate and to forge a compromise. There is not enough of that, as has been said already. So I hope as you leave, the example that you have set will be one that all of us can follow.

Chair LANDRIEU. Thank you.

Let me go into my opening statement, and then, Senator, we will have a response from you.

When I took over as Chair of this committee in January of 2009, our country was facing the worst economic recession since the Great Depression. The U.S. economy had lost 818,000 jobs in that month alone. From September 2008 through the end of 2009, the Great Recession wiped out seven million American jobs. In the face of tightening credit markets, insufficient resources to assist small businesses, small businesses were struggling to keep their doors open, and the primary agency responsible for assisting them, the Small Business Administration, was itself struggling to keep up with the demand after laboring under significant budget cuts that had happened in the previous years.

At the time, this committee faced the enormous challenge of increasing the Federal Government's capacity to assist small businesses and ensuring they maintain their historic role as key job

creators and innovators, spurring our economy, and we had to do this without substantially adding to our nation's increasing debt. It was an enormous challenge, but not an impossible one, and one that I think that we have met through an aggressive legislative agenda, and we are continuing to meet that today.

After passing the 2009 American Recovery and Reinvestment Act, in which this committee was actively involved, we continue with one of the most substantial pieces of small business legislation, the Small Business Job Act. This bill was a prime example of the role this committee played and continues to play in ensuring the future economic success of America's small business. This bill added billions of dollars of lending and investment to America's entrepreneurs and provided $12 billion in tax relief to small businesses from coast to coast at a time when they need it the most, and, of course, in conjunction with our Finance Committee.

In addition, recognizing that less than one percent of small businesses export, this bill expanded trade and export opportunities to provide real and timely assistance for them to find new markets when the markets at home were diminishing.

Finally, the bill increased small business access to Federal contracts, expanded counseling and technical assistance programs by partnering with hundreds of nonprofits throughout the country, thus leveraging our muscle without having to add millions of dollars to undergird that.

Since the passage of SBJA, the Small Business Administration supported approximately $60 billion in lending over the last two years, which were two of the highest SBA lending years on record. It has financed almost 2,424 small business commercial mortgages totaling more than $2.3 billion in the commercial mortgage refinancing program. And I might say, Senator Snowe was one of the leading voices on this provision. This helped contribute to the highest 504 lending year of all time, which supported over $15 billion in lending to small and medium businesses.

SBA successfully rolled out its first round of State Trade and Export Promotion, STEP grants, in 2011 to 47 States, four territories, totaling $30 million. STEP grants maximize the Federal-State-local resources to help small businesses export. In Louisiana, we received an $85,000 grant, one of the largest, and our Governor, of course, who is a Republican, and his team have praised that effort and say it is one of the most important grants that our State has received to help them in their efforts to support small businesses in Louisiana.

The SBA has 20 new micro lenders on board to participate in the Intermediary Lending Program championed by Senator Levin. The ILP created in this bill is a three-year pilot project to provide direct loans to eligible nonprofit intermediaries for the purpose of making small business loans up to $200,000 for start-ups and growing small businesses. What a need there is for this in the country. We see it every day in small businesses with four or five employees that are having just a heck of a time getting that next $30,000 or $50,000 or $150,000 to expand, to buy the equipment necessary to hire that next one or two persons. We are going to work on that.

The U.S. Department of Treasury has approved $1.4 billion for State Small Business Credit Initiatives under the SSBC programs

and under the State Small Business Credit Initiatives, again promoted by members of this committee. Treasury distributed $4.2 billion in the Small Business Lending Fund for community banks. We have now almost doubled, Senator Snowe, the number of banks using the SBA programs since a low of several years ago, and you have really been a leader in that effort, along with me.

One of the major accomplishments, and again, this was with Senator Snowe's great help and support, was an eight-year—not two-year, not four-year, but an eight-year—reauthorization of the Small Business Research Innovation Program, SBIR and STTR, two of the most effective small business research programs in the nation that support our small businesses, collaborate with our universities, and get new, emerging ideas, technology, services, and goods to the marketplace.

The SUCCESS Act, which is pending now, received 57 votes before we left. It paints a picture of how far we have come in the last several years. The results of these recommendations in the SUCCESS Act, which is Success Ultimately Comes from Capital, Contracting, Education, Strategic Partnerships, and Smart Regulations bill, the SUCCESS Act of 2012 received 57 votes on July 12 as part of Senate Amendment 2521 to the Small Business Jobs and Tax Relief Act of 2012. Five Republicans, including the Ranking Member Snowe and Senator Vitter, supported this Act on the floor. It is pending now before the Senate. We want to continue to work on this to move it forward.

I am just going to mention a few things in closing. In that bill, which hopefully will be under consideration, Senator, in whatever grand bargain there may be, it extends 100 percent capital gains tax relief on qualifying investment for small business stocks, doubles the existing deduction for start-up costs for entrepreneurs, temporarily reduces the S Corporation is required to hold its assets after converting from a C Corporation which effectively frees up capital for these businesses. It allows small businesses to carry back business credits, which helps them, and extend the availability of enhanced Section 179, all very familiar to Senator Snowe. She has promoted these on the Finance Committee and we have put them forward as the best things we can do in the tax code to help small businesses continue to advance.

Let me just say, one key provision that is attached or an addendum, potentially, to the SUCCESS Act is Expanding Access to Capital for Entrepreneurial Leaders that we introduced earlier this year, Senator Snowe and I. The EXCEL Act would modify the Small Business Investment Company program to raise the amount of SBIC debt the Small Business Administration can guarantee from $3 billion to $4 billion. The President has called on us to do this. It would also increase from $225 million to $350 million the amount of SBA guaranteed debt. Another key part of the SUCCESS Act would extend for one year a provision allowing small business owners to use the 504 loans, et cetera, et cetera.

And in addition, the TEAM Act is pending, and the only thing I will say about this Act is it stands for Today's Entrepreneurs are America's Mentors, that entrepreneurship is not just about capital. It is not just about access to capital or loans or equity. It is also about receiving the right technical assistance. So the business

owner may know their product well. They may know their service well, Senator. But they do not really have the knowledge or technical ability to move their company from an eight-person employer to 16 or to 24, and mentorship. Now, does the government have to do that completely on their own? Absolutely not. But our government needs to be supporting the nonprofit mentors that are out there, and there are hundreds of thousands at universities, at our Small Business Entrepreneurship Centers, at the Women's Centers that you have championed and literally been—I mean, we should name that program after you, which is a good idea. You have championed it so strongly. But, you know, entrepreneurs need cash and money and they also need advice, mentorship, and technical assistance.

So those are just some of the things that are pending before our committee today. I wanted to start with that because today's hearing is about the ideas that are pending, other ideas that members of this committee have that can continue to support the entrepreneurship drive that is helping to revive our economy today in the United States and to see what our committee can do to continue to pass legislation when it is in our jurisdiction, and if not, at least to use this committee as a platform to promote good ideas in hopes that other committees will pick up those ideas and march forward.

So let me recognize Senator Snowe for opening remarks and then we will get right into the testimony this morning.

OPENING STATEMENT OF HON. OLYMPIA J. SNOWE, RANKING MEMBER, AND A U.S. SENATOR FROM MAINE

Senator SNOWE. Well, thank you, Chair Landrieu, most of all for those very kind, gracious, and generous words. It is hard to believe that this is my final Small Business Committee hearing. It has certainly been a tremendous privilege to work with you and to have made history, as you said, as the first women to serve simultaneously both as Chair and Ranking Member of any standing committee in both the U.S. House of Representatives and the United States Senate.

I have immensely enjoyed our partnership and working on issues. No one has been more devoted to championing small businesses than Chair Landrieu. And so it has been a special pleasure to be able to work with you and alongside you on so many of the critical issues facing our nation's small businesses. You have been an exceptional partner and I want to express my enormous gratitude to you for creating that collegiality and the collaborative environment in which we have been able to develop so many significant initiatives that benefit small businesses, certainly in my State of Maine, your State of Louisiana, and all across the country, because without small businesses, we truly cannot have a recovery.

So I just want to let you know that I will never forget the opportunity to work with you and to have had this special time in working on these issues that have been certainly important to me and to my State throughout my tenure of, I hesitate to say, 34 years in both the House and Senate.

And I also want to express my gratitude to the fellow committee members, Senator Shaheen, which we do have a special partnership. We are neighboring States. We share Kittery-Portsmouth

Naval Shipyard. I call it Kittery-Portsmouth Naval Shipyard. It is in Kittery, but that is a matter of dispute.

[Laughter.]

On their side. We know where it is.

[Laughter.]

But it has been a joy to work with Senator Shaheen because I know how much she cares about small businesses and has been totally devoted to this issue.

And to my colleagues on the Republican side, thank you for giving me the opportunity to serve as both Chair and Ranking Member of this committee for the last decade when I assumed the Chairmanship from then-Senator Kit Bond from the State of Missouri, and I want to thank you for your kind remarks, Senator Moran. I have enjoyed getting to know you, as well. I know you are committed to small businesses and you are devoted to doing the things that are so important to making them the engine that drives this economy, and for working with you overall and collaborating. So I really appreciate that.

And to Senator Rubio, it is great to have this great team on our side and working on these issues that matter to our respective States, and so I want to thank you, as well, for giving me this opportunity.

And I also want to recognize two committee members who will no longer be serving here, as well, because they are retiring, Senator Brown from Massachusetts. He has been a very active member of this committee and was instrumental in providing the leadership to addressing the issue of the withholding requirement of three percent from government contractors that became law, which was certainly essential.

And also to Senator Lieberman, with whom I have worked on manufacturing issues—in fact, we co-chaired the Manufacturing Task Force—and worked on so many issues on a bipartisan basis, including the Chair, I might add, because we co-chaired the Common Ground Coalition, as well, to build that bipartisan consensus that is so critical.

As my final term draws to a close, I want to say how proud I am of the work that we have accomplished over the years. When I was Chair following Hurricane Katrina and the government's failure to respond to its devastation in the Gulf, and in particular in the Chair's home State of Louisiana, we worked hand in glove to reform the SBA's disaster programs and fought to assist the individuals and small businesses recovering.

And in reaction to the credit crisis of 2008 and beyond, again, we worked mightily and vigorously to collaborate to enact measures that were credited for helping the SBA support over $30 billion in lending in 2011, which was the highest mark in the agency's history.

The Small Business Jobs Act of 2010 included numerous measures that we worked alongside and drafted together to make sure that this legislation would get enacted, and including provisions to provide vital tax relief to small firms, comprehensive export provisions to assist small businesses in reaching foreign customers, and crucial limitations on contract bundling so small businesses have greater access to Federal contracts.

And late last year, as the Chair mentioned, we passed legislation, and thanks to the leadership of the Chair, we authorized the Small Business Innovative Research Program and the STTR for an additional six years so small firms would continue to receive the valuable Federal research dollars for years to come.

Looking back at my own service on the Small Business Committee, and the Chair mentioned it would be very difficult to add up the number of hearings that I attended in Small Business Committees, and I think it would be very difficult since I have served on the Small Business Committee since my very first days in the U.S. Congress starting in 1979, and, in fact, several of my senior staff were kind enough to inform me that that was before they were even born.

[Laughter.]

Hard to imagine that, is it not? But I cannot think of any higher priority than being a megaphone for the 150,000 small businesses in my State of Maine and, of course, the more than 30 million small businesses nationwide.

As we all know, small businesses are willing to take risks that others will not. They have their fingers on the pulse of their local communities. And that is one of the reasons I have made Main Street tours across Maine a hallmark of my tenure in public office. I have often said, I do not need a survey to understand what is going on on Main Streets and what is happening that they do not like in Washington. And the fact is, I always could understand it almost immediately when I was on Main Street doing those small business tours because I would hear exactly what was going on in a particular community.

That is why, along with Senator Landrieu, we urged the President to restore the SBA Administrator to cabinet level status, where it rightfully belongs, and we are fortunate in our State of Maine to have Maine's own Karen Mills now having a seat at the President's cabinet table because America's prime job generator should have a voice at the highest levels of decision making. I was pleased to recommend Administrator Mills to head the SBA, where she has proven to be a superlative leader for small businesses within the administration. And I hope in the months ahead, the President will continue to rely on her wide ranging expertise and knowledge, hands-on knowledge, on how to create jobs, because they are desperately needed, as we all well know.

In speaking of Maine, the small businesses in my home State have another staunch advocate who is here today, the Maine Director of the National Federation of Independent Businesses, David Clough, who has been a longstanding friend, as well. I think David has been head of the NFIB as long as I have been in the United States Congress—almost. I have had the immense privilege to serve with David over the years and I want to thank him most especially not only for testifying here today on the second panel, but also for his longstanding dedication and devotion to small businesses across the State of Maine.

I also want to express my appreciation to the other panelists that will be on both the first and second panel, and most especially Ms. Julie Weeks, with whom I have worked for the last 20 years on

issues that are important to women-owned businesses. So I want to thank her, as well, for being here.

As these witnesses can all attest, small businesses are the embodiment of the American dream, and indisputably the fight for their well-being is integral to the future success of our nation. Small businesses consistently identify access to affordable capital among their top priorities, and this committee has worked unceasingly to increase SBA lending. The provisions Chair Landrieu and I championed in response to the credit card system in both 2008 and 2009 were recognized as increasing SBA lending across the country 90 percent, and in my own State of Maine, 236 percent. And the Small Business Innovation Research program, the Women's Business Center program, HUBZone program, the women's contracting program, are advancements that remain some of my signature accomplishments in this Congress in working with the Chair of this committee and the members of this committee.

Finally in all of the initiatives I have undertaken as a legislator and as an advocate is the remarkable work of my staff, without whom I could not have possibly done the job on so many of these issues over the years. They have moved heaven and earth on a daily basis to make things happen for small businesses because they truly care about America's entrepreneurs as much as I do, and they are truly the best.

So I want to thank them, behind me, which is where they have always been, my Staff Director, Wally Hsueh, my Deputy Staff Director, Matt Walker, Meredith West, Adam Reece, Scott McCandless, Shelley New, James Gelfand, Tara Crumb, Jake Triolo, and Con Efstathiou. I want to thank each and every one of them from the bottom of my heart for all they do——

[Applause.]

And also, I want to thank the Chair's staff, as well, Don Cravins, the Staff Director, who has been great to work with over the years, and Brian Van Hook and Robert Sawicki. We thank you very much for all the work that you have done to make it work here on the committee.

And finally, I would just say, I know there are a number of issues that are going to be important going forward and I will not restate them here today. Suffice it to say that, obviously, in order to seek the accomplishments that are so important to small businesses, whether it is a regulatory reform, a tax reform, opening the doors for entrepreneurs that we are going to hear about today, what will make the most effective approaches to eliminating those barriers to entrepreneurship, and also to meeting the statutory goals under the contracting program within the Federal Government. There are so many issues out there that can make a profound difference for the health and well-being of small businesses. But none of these goals can be accomplished without compromise and without bipartisanship. And I truly have been gratified in serving on this committee to have been blessed with the ability to work across the political aisle with the leadership of the Chair. That has been the signature, frankly, of this committee. It has been a bipartisan committee from start to finish and I have truly appreciated that, because public service has to be about problem solving and that is what this committee has been all about.

So I wish you all well in the future. I know you will continue to do extraordinary work on behalf of those that are going to be so instrumental for our nation's recovery.

So, Madam Chair, thank you for this opportunity and thank you for the ability to work with you over the years, and to all the committee members, on these key issues that all of us care so much about.

Chair LANDRIEU. Thank you, Senator Snowe, for that eloquent opening statement. And again, we will miss you, your voice on this committee. But I am sure that you will land somewhere where we can continue to hear that loud megaphone.

Senator Moran wanted to make a brief opening statement, and I would ask the other members if you would like to say a word or two, we will go right into our comments.

OPENING STATEMENT OF HON. JERRY MORAN, A U.S. SENATOR FROM KANSAS

Senator MORAN. Madam Chairman, thank you for that courtesy. Several of us on this committee, including Senator Rubio, asked that we have a hearing on entrepreneurship. Thank you very much for agreeing to that. I know this is something that you care a great deal about. You have introduced legislation dealing with entrepreneurs and start-ups.

We are actively engaged in an attempt to recognize the role that entrepreneurs and start-up companies play in our economy. History shows this is where jobs are created. Unfortunately, the statistics now show that that is declining. Start-ups in the United States are less. The number of jobs they create are fewer. In a global survey, the United States is no longer in the top two or three countries in the world in which we are rated to be the place to start a business. Those things are very disturbing. As we want to work to grow the economy, which really means put Americans to work, it is entrepreneurs and start-ups that deserve significant attention.

In a bipartisan way, as the Senator from Maine suggested is the only way to get anything done around here, Senator Rubio and I, along with Senator Warner from Virginia and Senator Coons from Delaware, have introduced legislation, Start-Up Act 2.0, that we will continue to pursue in a serious effort to address these issues. It comes about from academic research done by the Kaufman Foundation with policy recommendations dealing with taxes and regulations, with Federal research and how to commercialize that research, and perhaps most importantly, the issue of the global battle for talent—our ability to attract and retain individuals who have educated themselves in ways that are so advantageous to our economy, as well as individuals who have entrepreneurial skills and desires who happen to be foreign born but have the ability to create jobs in the United States.

And so in this brief moment of an opening statement, we look forward to working with you and our colleagues across the Senate to make certain that we do the things necessary to grow the economy and put Americans to work. And there is something special about small business, about entrepreneurs, that makes America what it is. And it is that sense of independence and the ability to survive and struggle and succeed, and we want to be helpful to you

and to our colleagues to see that those goals are met and the American Dream is lived.

Thank you very much.

Chair LANDRIEU. Thank you very much, Senator. I really appreciate you and Senator Rubio joining us in a longstanding effort to highlight the importance of entrepreneurship in our country. In the last two years, we have had a half-dozen roundtables where this room has been packed with experts from the Kaufman Foundation that have testified before our committee. I mean, I can recall at least two times, if not three, just recently, about some of the principles that you have outlined, and we have had some of the leading experts from universities and think tanks, from a broad variety. We have had some of our extraordinary partners from the banking community, from the regulatory. So we really appreciate your willingness to join that effort.

Secondly, the bill, which we have reviewed, as you know—unfortunately, our committee doesn't have jurisdiction over the majority of the issues in that bill. However, our committee can continue to be a platform to talk about some of the significant pieces in that bill, which I personally, as you know, support. So any opportunity we have to be able to talk about some of those, but immigration is under Judiciary. Your finance issues are under the Finance Committee. And so the things that relate to the Small Business Administration will be under the jurisdiction of this committee. But we really appreciate your championing that.

Anybody else? Senator Shaheen and then Senator Rubio and then we will get right into our testimony.

Senator SHAHEEN. I am not going to make an opening statement, but I just want to recognize some New Hampshire folks who are here: Scott Gardiner, who is from the Granite State Development Corporation who is going to be testifying on our second panel, and with him are William Donoghan [phonetic], who is a New Hampshire businessman and he has taken advantage of some of the lending programs through the SBA, and David Schwartz [phonetic], who has probably been working on the 504 refinancing programs longer than anybody I know of in New Hampshire. We are delighted that all of you are able to join us today. Thanks.

Chair LANDRIEU. Senator Rubio.

Senator RUBIO. Just briefly. Actually, just a comment to the Chair on a comment that you made. I am new here, so I know how much—but I have already picked up on how jealous committees are about their jurisdiction. I would just say, and I do not know what we can do about it as you went through the different scenarios, we will hear a lot of testimony today about all kinds of things that affect small businesses, but we cannot do anything about it in here, and these other committees are considering it in the vacuum of a legal issue or a big company issue, and yet these are critical to what we are trying to accomplish.

So I know jurisdictions are a hard thing to change around here, but I just hope there is more of a role for us to play in this committee. This is the logical place for——

Chair LANDRIEU. Yes. Do not take what I said as this committee does not have influence. We have been a major influence, not only passing legislation, but influencing the outcome of some serious

legislation. But we do not write the tax code in this committee. We do not oversee the immigration laws in this committee. So we have to do that in conjunction with the Chairs and Ranking Members of the other committees, which we have done on many occasions through either legislation or by letters that we all sign together, sending them to the committees saying, your bill will not get very far unless you include X, Y, and Z. So this committee remains, I think, the largest, strongest voice for small business on the Hill and thank you. We are going to continue to do that.

Senator RUBIO. I guess I just was expressing the view that if they just let us handle all——

Chair LANDRIEU. Well——

Senator RUBIO [continuing]. It might get taken care of before they would.

Chair LANDRIEU. Why do you not bring that up with your leadership and see what they think about that?

[Laughter.]

I will let you try it with your leadership first, and then I will go talk to Harry Reid.

[Laughter.]

But anyway, let me introduce our panel this morning, and they are going to limit their opening statements to five minutes because we do have four very active members here and they want to ask you questions about what we are doing today, what is working and not working.

First, Sean Greene is the Associate Administrator for Investment and Special Advisor for Innovation at the SBA. In his role, he is responsible for both the Small Business Investment Company, SBIC, program, as well as the Innovation Research program. He also leads the SBA's efforts on promoting high-growth entrepreneurship, particularly as part of the President's Start-Up America Initiative.

We have Michael Chodos, Associate Administrator for the Office of Entrepreneurial Development. He is responsible for overseeing the agency's counseling, mentoring, and training programs, which, as you know, I think, is extremely important and does that with partners all over the country.

So, again, we are focused on start-ups. We are focused on gazelles and fast-growing companies. But I want to say, also, Senator Moran, that I am very focused on lifestyle businesses and family businesses that do not want to be the next Microsoft, but they just want to feed their family, contribute to their community, and they have a right to be heard, as well. So it is a combination of promoting the fast-growth potential start-ups and also the lifestyle businesses, which many people, of course, in your State and my State, choose to be entrepreneurs as a lifestyle, and I think we need to honor that, as well. So that is what we are doing, trying to find that balance.

So, I do not know, Mr. Greene, do you want to start, please.

STATEMENT OF SEAN GREENE, ASSOCIATE ADMINISTRATOR FOR INVESTMENT AND SENIOR ADVISOR FOR INNOVATION POLICY, U.S. SMALL BUSINESS ADMINISTRATION

Mr. GREENE. Sure. Chair Landrieu, Ranking Member Snowe, members of the committee, I am pleased to testify before you today and I want to thank you for calling this hearing and for your strong support of not only SBA, but promoting more effective and creative new ways to serve entrepreneurs all around the country.

So one of my primary focuses at SBA is on high-growth entrepreneurship, and as you know, high-growth small businesses create the vast majority of net new jobs in our economy. But we also know that they have different needs, and to address those needs, the administration launched the Start-Up America Initiative, a major initiative focusing on what we can do to help how we serve high-growth companies and entrepreneurship.

Now, one of the first things that we did within Start-Up America was to get out and say, we have to listen to our customers. And so we traveled the country. We talked to over 1,000 entrepreneurs, investors, and other stakeholders in the entrepreneurial ecosystem. And what we heard was these companies that are facing significant challenges, ranging from access to capital to securing the right human capital to support their companies. And there are many opportunities for the public and private sectors to work together to address those challenges.

Based on the feedback that we heard, we have acted. And one of the primary focuses has been improving our core programs to support high-growth entrepreneurship, and at the heart of those improvements is focusing on ways that we can streamline, simplify, and strengthen those core programs.

One of the programs in which we have made great strides and where legislative changes that this committee is both supporting and sponsoring will allow us to do even more is with the Small Business Investment Company program, the SBIC program. As many here today know, the SBICs are part of a unique program at SBA to put long-term patient investment capital into America's small businesses, allowing them to grow and to create jobs. Today, the SBIC program serves as a model for successful public-private partnerships, and the program, which has been around since 1958, is completely market-driven. We do not make the investment decisions. The private investment fund managers do.

Today, the program is more than 300 SBA licensed funds which invest in a wide variety of small businesses, such as JSI Store Fixtures in Milo, Maine, which after receiving an investment from an SBIC more than doubled the number of employees, from 80 to 200. The company was just recognized by the Small Business Investor Alliance as the SBIC Portfolio Company of the Year.

In fiscal year 2012, I am proud to report we have had the third consecutive record-breaking year for the program. And so for our venture program, we have reached all-time highs in the 50-plus years of the venture program in terms of how many funds we license, the amount of private capital we attracted to the program, SBA commitments of leverage into these funds, and most importantly, how many investment financings go out to small businesses themselves. Importantly, in executing that, we took the average

time for a new fund to come into the program from an average of 15 months to just over five months, and that streamlining was a critical part of the success they were able to accomplish.

Now, we believe that two legislative changes that are before the committee and have been embedded into the SUCCESS Act, the RESTART Act, and other initiatives can help us do even more to help those high-growth small businesses. The first change is an increase in the annual authorization for the program from $3 billion to $4 billion. We have not hit that limit now, but if you look at the growth trajectory that we are on, we are likely to hit that soon, and getting ahead of that growth trajectory, we think is important.

And then, secondly, is a change in the family of funds limit from $225 million to $350 million. What we see right now is some of our most successful funds in the program are hitting that cap, and we believe by changing that cap, it creates a great way to continue to grow the program while at the same time doing it at very little risk to taxpayers. Critically importantly, this program runs at zero subsidy and we want to continue that growth while maintaining its zero subsidy status.

Now, another set of programs that is critical is the SBIR and STTR program, and we would like to thank the committee for its efforts to reauthorize the program. Since the reauthorization at the end of last year, we have been incredibly busy with the rulemaking. We are close to finishing that rulemaking. I am also pleased to say that we have put into effect two new policy directives for SBIR and STTR. In the prior reauthorization, it took two years to get the new policy directives in place. This time around, we have done it in seven months. So we feel good about the program, but there is still a lot more work to do in implementing the reauthorization at the participating agencies, but we are staying on top of it and we are committed to working with you and keeping you informed of our progress.

In addition to these two programs, though, SBA——

Chair LANDRIEU. In one minute, if you would.

Mr. GREENE [continuing]. Looks to continue its role as advocate for small business and entrepreneurs across the Federal Government. The administration has instituted a Presidential Innovation Fellows Program to bring entrepreneurs from the private sector into the government to help develop—to address key problems with more innovative solutions. And I know the committee is looking at legislation to address similar kinds of issues.

We have also been working with other agency partners on everything, on ideas around immigration, to supporting accelerators and mentorship programs all around the country. So that advocacy role, working with agency partners, are critically important, as well.

And so in conclusion, Chair Landrieu, I once shared with you my favorite definition of entrepreneur, which is someone who does more than anyone thought possible with less than what everyone thought necessary. And so as a former entrepreneur in the private sector, it is this entrepreneurial spirit that we are bringing to SBA, to generate more entrepreneurial approaches and to continue to do more than anyone thinks possible in service of our nation's entrepreneurs.

So we look forward to working with you to implement those kind of actions and thank you for taking the time and I look forward to questions.

[The prepared statement of Mr. Greene follows:]

TESTIMONY OF
SEAN GREENE
ASSOCIATE ADMINISTRATOR FOR INVESTMENT
AND SENIOR ADVISOR FOR INNOVATION POLICY
U.S. SMALL BUSINESS ADMINISTRATION
BEFORE THE U.S. SENATE COMMITTEE ON SMALL BUSINESS
AND ENTREPRENEURSHIP
NOVEMBER 29, 2012

Chair Landrieu, Ranking Member Snowe and members of the Committee. I'm pleased to testify before you.

I want to thank you for calling this hearing, and for your strong support of SBA and your commitment to reaching entrepreneurs in new, creative and more effective ways.
One of my main focuses at SBA is specifically on high-growth entrepreneurship. As you know, high growth small businesses create the vast majority of net new jobs in our economy, but we know they have different needs in order to grow and succeed.

To address the needs of these businesses, the Administration created Start-up America, a major initiative focused on high-growth companies and entrepreneurship.

And one of the first things we did as part of Start-Up America is we went around the country and we listened to our "customers." In total, we met with more than 1,000 entrepreneurs, investors and other key stakeholders.

What we heard was that there are many challenges, ranging from access to capital to difficulty attracting the right human capital. And that there are many opportunities for the public and private sectors to work together to address these challenges.

And based on the feedback we heard, we acted. We worked to make significant improvements to our core programs that support high growth entrepreneurship. At the heart of these improvements have been efforts to streamline, simplify and strengthen our programs.

One of the programs where we have made great strides – and where legislative changes that this committee has sponsored and supported could allow us to do even more – is with the Small Business Investment Company (SBIC) program.

As many here today know, the SBICs are part of a unique program at SBA that puts long-term patient investment capital into America's small businesses, allowing them to grow and create jobs. Today, the SBIC program serves as a model of a successful public-private partnership.
The program, which has been around since 1958, is totally market-driven. We don't make investment decisions; experienced private fund managers do.

Today, the program oversees more than 300 SBA-licensed funds, which invest in a wide array of small businesses, such as JSI Store Fixtures in Milo, Maine, which has more than doubled its workforce from 80 to 200 employees since receiving SBIC investment in 2006. The Company recently won an award from the Small Business Investor Alliance as the SBIC portfolio company of the year.

In Fiscal Year 2012 (FY 2012), I am proud to tell you that the SBIC debenture program and its stakeholders had their third consecutive record-breaking year. The program reached record levels in terms of number of SBICs licensed, the amount of commitments of both private capital and SBA-guaranteed leverage and, most importantly, the amount of financing provided to America's small businesses. We have also streamlined the application process over the past four years. It used to take almost 15 months to get a new SBIC fund licensed. We have gotten that down to a little more than 5 months.

And we believe that two legislative changes that have been offered in the SUCCESS Act, the RESTART Act, and other pieces of legislation would allow this program to reach even more high growth small businesses.

One change would increase the SBIC Debenture program authorization from $3 billion to $4 billion. While SBA has never hit our $3 billion annual authorization limit, we have grown the program significantly in recent years.

The second change that the Administration supports increases the amount of leverage by licensees under common control from $225 million to $350 million, with appropriate safeguards. Some of our best performing fund managers have multiple funds, but many are capped out at the current limit.

We believe these modest changes will allow the program to continue to grow without any significant additional risk to the taxpayer, allowing us to keep this program at zero subsidy.

Another set of programs that is essential to our innovative small businesses are our Small Business Innovation Research (SBIR) and Small Business Technology Transfer (STTR) programs. Since Congress's passing of the comprehensive reauthorization of the two programs last year, we have been working hard on the rule makings, and we are in the final stages of the process. We also have a new Policy Directive implementing the legislation in effect and have taken public comment on that. In the previous Reauthorization, implementation of a new Policy Directives took 2 years; this time we got it done in 7 months. While there is lots of work in the actual implementation of the law across the participating agencies, SBA has been staying on top of it and feels good about the progress that has been made. Most importantly, small businesses have a new sense of confidence knowing that there is a long-term authorization in place. And I want to specifically thank the committee for their work in making that all possible.

In addition to these programs, SBA is looking to continue its role as advocates for small businesses and startups. We've been listening, and we've been taking action as a result. The Administration has instituted a Presidential Innovation Fellows program to bring entrepreneurs into the government to help solve problems and implement innovative approaches. I know there is legislation before this committee that would expand on this very idea, and we look forward to working with you on that.

We have been working with other agency partners on everything from ideas around immigration reform to reducing the regulatory burden on small businesses, to supporting accelerator and mentorship programs around the country ... and will continue to partner as we address these difficult issues.

In closing, Chair Landrieu, I once shared with you my favorite definition of an entrepreneur – "one who does more than anyone thought possible, with less than everyone thought necessary." As a former entrepreneur in the private sector, it is exactly this spirit that we are bringing to SBA. Taking more entrepreneurial approaches, and doing more than anyone thought possible, to help our nations entrepreneurs.

I look forward in working with you on policies that will help us achieve this goal. Thank you and I am happy to answer any questions.

Sean Greene

Associate Administrator for Investment and Special Advisor for Innovation
U.S. Small Business Administration

Biography:

Sean Greene is the Associate Administrator for Investment and Special Advisor for Innovation at the U.S. Small Business Administration (SBA). He is responsible for both the Small Business Investment Company (SBIC) program, a growth capital program with approximately $16 billion of assets under management, as well as the Small Business Investment Research (SBIR) program, one of the government's largest innovation programs, which provides over $2 billion of R&D funding to small businesses each year. He also leads SBA's efforts focused on stimulating high-growth entrepreneurship and has been one of the leaders in the Administration's Startup America initiative. Greene holds an AB from Princeton University, an MBA from Yale's School of Management, and was a Fulbright Scholar at the National University of Singapore. He has 20 years of experience as an entrepreneur, investor and business strategist.

Chair LANDRIEU. Thank you, Sean. Your leadership has really been visible and you have made a market change and we really appreciate that.

Mr. Chodos.

STATEMENT OF MICHAEL CHODOS, ASSOCIATE ADMINISTRATOR FOR ENTREPRENEURIAL DEVELOPMENT, U.S. SMALL BUSINESS ADMINISTRATION

Mr. CHODOS. Chair Landrieu, Ranking Member Snowe, and members of the committee, thank you for the opportunity to testify here today before the committee.

Before I start, I know that both Sean and I would like to say how much Administrator Mills would like to echo all of the comments that were made here this morning about the long and tireless and extremely important service and to express gratitude for all the service that Ranking Member Snowe has provided over these many years in this committee and on behalf of small business. So thank you on Administrator Mills's behalf as we start today.

We at the SBA, of course, generally support your strong support of the agency, as well as your continued leadership on all the issues impacting America's small businesses.

SBA's entrepreneurial development programs, of which I am in charge, and all of our partners, are deeply embedded in local and regional economic development ecosystems across America. We support over one million clients annually as they start and grow their small businesses. We have more than 14,000 business counselors, mentors, and trainers available through over 1,000 Small Business Development Centers, 106 Women's Business Centers, and over 350 SCORE chapters. Since 2009, we have also provided intensive entrepreneurship training to over 1,300 small businesses in 27 cities across America through our groundbreaking e200/Emerging Leaders Program. This past year alone, the clients we assisted started almost 16,000 new businesses and accessed over $4 billion in new capital.

But we and our partners do not just support innovation. We practice it. That is why for this past year we have made collaboration and coordination a key goal and objective across all our resource partner and cluster networks. In addition, in direct coordination with our resource partners, we are working on better ways to measure and report out comparative performance metrics across the entire network. We believe that transparency leads to ongoing self-reflection, innovation, and improvement, and we look forward to great progress on this front in the coming year.

In addition to in-person training and counseling, the SBA continues to expand its online engagement with small business. Since 2009, more than 2.5 million people have accessed the courses, assessments, and tools available on SBA.gov on topics as diverse as business planning, market and competitive analysis, use of social media, and navigating the Federal contracting landscape.

One of SBA's top priorities is making sure tools are in place for helping small businesses receive Federal contracts. We strongly support permanently increasing the size of the SBA surety bond guarantee from $2 million to $5 million, as has been called for by this committee in various pieces of legislation.

Another important change which is part of the SUCCESS Act and the RESTART Act is the women-owned contracting provision, which would remove caps on contract awards under the Women-Owned Small Business Program. We believe this will allow more Federal contracts to flow to women-owned small businesses.

Over the past four years, SBA has developed new partnerships and programs that expand the agency's reach to more small business owners in more communities across the country. For example, we know that veterans over-index in entrepreneurship. So, working with the Departments of Defense, Veterans Affairs, and Labor, we recently launched Boots to Business in pilot locations at selected military facilities across the country. When fully rolled out, Boots to Business will provide an introduction to the opportunities and realities of small business ownership and entrepreneurship as an optional track for the 250,000 service members transitioning each year through TAP.

In addition, we are working with AARP to train and counsel more than 100,000 encore entrepreneurs this coming year on opportunities to use their experience and skills to start and grow businesses. We are also working with the Department of Labor to pilot Start Young, an entrepreneurship training program for young people at 13 Job Corps sites across the country. And we have engaged with Historically Black Colleges and Universities and other minority-serving institutions to help traditionally underserved young entrepreneurs access life-long entrepreneurship training and support in our network.

Increasing small business exports is a major focus of the SBA, and thanks to the exporting provisions of the Small Business Jobs Act of 2010, the agency has had new resources and tools to put towards this priority. We are working with agencies across the administration to build on our recent successes in this area and look forward to continuing to work with the committee on these efforts.

Finally, our Regional Innovation Clusters drive economic growth by connecting small business innovators with targeted technical support in our network as well as investment and funding partners in procurement and supply chain opportunities.

I have reviewed the SUCCESS Act, the TEAM UP Act, the RESTART Act, and the other pieces of legislation that are before this committee. We share a common commitment to providing small businesses with the tools they need to start, grow, and create jobs. Our resource partner and clusters network has an extraordinarily diverse range of experts in every part of the small business ecosystem and we look forward to working together in order to support them.

Of course, I am happy to answer any questions.

[The prepared statement of Mr. Chodos follows:]

TESTIMONY OF
MICHAEL CHODOS
ASSOCIATE ADMINISTRATOR FOR ENTREPRENEURIAL DEVELOPMENT
U.S. SMALL BUSINESS ADMINISTRATION
BEFORE THE U.S. SENATE COMMITTEE ON SMALL BUSINESS AND ENTREPRENEURSHIP
NOVEMBER 29, 2012

Chair Landrieu, Ranking Member Snowe and members of the Committee. Thank you for the opportunity to testify before this Committee today.

We at the SBA appreciate your strong support of the Agency as well as your continued leadership on issues impacting America's small businesses.

As Associate Administrator for Entrepreneurial Development, I've led my office's focus on three key areas: First, we've strengthened SBA's entrepreneurial education, counseling, mentoring and training resources to better support America's small businesses. Second, we've developed new and effective ways to connect our entrepreneurship resources with service members and veterans, women-owned businesses, and young, "encore" and underserved entrepreneurs. Third, building on Administrator Mills' pioneering work in this area, we've worked with state and local governments and over 16 other federal agencies to support and develop 43 regional innovation clusters.

SBA's Entrepreneurial Development programs and partners are deeply embedded in local and regional economic development eco-systems across America. We support over 1 million clients annually as they start and grow their small businesses. From underserved, urban and rural communities to mainstream and high growth small businesses, and in all regions and industries, we provide the path to growth. We have more than 14,000 business counselors, mentors and trainers available through over 1000 Small Business Development Centers, 106 Women's Business Centers, and over 350 SCORE chapters. Since 2009, we've also provided intensive entrepreneurship training to over 1,300 small businesses in 27 cities across America through our groundbreaking e200/Emerging Leaders program.

As this Committee knows well, SBA-supported counseling, training and mentoring makes a difference: Those who receive our entrepreneurship support are more likely to start businesses, their businesses are more likely to survive, and they are better prepared to obtain financing and to plan effectively for future business growth. This past year alone, the clients we assisted started almost 16,000 new businesses and accessed over $4 billion in new capital.

But we and our partners don't just support innovation, we practice it. That's why for this past year we've made collaboration and coordination a key goal and objective across all our Resource Partner and cluster networks. We're the Front Door to success -- and also to the federal government -- for over 1 million small businesses a year. We want to make sure we maximize the benefit our small business customers receive from all the different experts within our Network, while also getting the best bang for

the buck with taxpayers' money. In addition, in direct coordination with our Resource Partners, we are working on better ways to measure and report out comparative performance metrics across the entire Network. We believe that transparency leads to ongoing self-reflection, innovation and improvement, and we look forward to great progress on this front in the coming year.

In addition to in-person training and counseling, the SBA continues to expand its online engagement with small businesses. Since 2009, more than 2.5 million people have accessed the courses, assessments and tools available on SBA.gov on topics as diverse as business planning, market and competitive analysis, use of social media, and navigating the federal contracting landscape.

One of SBA's top priorities is making sure tools are in place for helping small businesses receive federal contracts. We strongly support permanently increasing the size of the SBA surety bond guarantee from $2 million to $5 million, as has been called for by this Committee in various pieces of legislation. Another important contracting change, which is part of the SUCCESS Act and the RESTART Act, is the women-owned contracting provision, which would remove caps on contract awards under the women-owned small business program. We believe this will allow more federal contracts to flow to women-owned small businesses.

Over the past four years, SBA has developed new partnerships and programs that expand the Agency's reach to more small business owners in more communities across the country. For example, we know that veterans over-index in entrepreneurship. So, working with the Departments of Defense, Veterans' Affairs and Labor, we recently launched Boots to Business in pilot locations at selected military facilities across the country. When fully rolled out, Boots to Business will provide an introduction to the opportunities and realities of small business ownership and entrepreneurship as an optional track for the 250,000 service members transitioning each year through TAP.

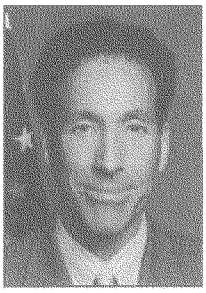
In addition, we're working with AARP to train and counsel more than 100,000 "encore entrepreneurs" this coming year on opportunities to use their experience and skills to start and grow businesses. We're also working with the Department of Labor to pilot Start Young, an entrepreneurship training program for young people, at 13 Job Corps sites across the country. We've engaged with Historically Black Colleges and Universities and other Minority Serving Institutions to help traditionally underserved young entrepreneurs access life-long entrepreneurship training and support in our Network. And working with the Department of State, we're developing increased expertise across our SBDC network to bring thousands of new small businesses into exporting.

Increasing exports among small businesses is a major focus of the SBA, and thanks to the exporting provisions of the Small Business Jobs Act of 2010, the Agency has had new resources and tools to put towards this priority. We are working with agencies across the Administration to build on our recent successes in this area, and look forward to continuing to work with this Committee on these efforts.

Finally, our regional clusters drive economic growth by connecting small business innovators with targeted technical support in our Network as well as with investment and funding partners and procurement and supply chain opportunities. After Year One of taxpayer investment, we saw positive

impacts on small businesses in payroll increases, access to capital, and revenue growth. We have also focused intensively on data collection and rigorous analysis of our clusters' impact.

I have reviewed the SUCCESS Act, the TEAM UP Act, the RESTART Act, and the other pieces of legislation that are before this Committee. We share a common commitment to providing small businesses with the tools they need to start, grow and create jobs. Our Resource Partner and Clusters network has an extraordinarily diverse range of experts in every part of the small business eco-system, and I look forward to working with this Committee in the months ahead on the proposed legislation and other efforts to help improve and increase the ways in which we help small business grow and prosper. Thank you again for the opportunity to testify and I am happy to answer any questions you might have.



Michael Chodos

Associate Administrator for the Office of Entrepreneurial Development
U.S. Small Business Administration

Biography:

Michael Chodos is the Associate Administrator for the Office of Entrepreneurial Development, He is responsible for overseeing the agency's counseling and training resources and programs for America's entrepreneurs.

Previously, Mr. Chodos served as the Small Business Administration's Deputy General Counsel. In that role, he coordinated with Agency and Administration senior leadership to develop and implement critical Agency strategy and policies involving the Recovery Act, the Small Business Jobs Act, Capital Access, and Contracting programs and fraud prevention. He also helped form and implement key collaborations with other federal agencies and the private sector.

Before joining the Agency, Mr. Chodos was the principal of a law practice which represented a diverse range of small business entrepreneurs, private equity investors, technology developers and content creators. For these clients, Mr. Chodos focused on core issues of growth including strategic partnerships and joint ventures, intellectual property development and litigation-avoidance. In addition, Mr. Chodos specialized in trial practice in entertainment, fiduciary duty, partnership and contract matters, and developed a special expertise in settlement of the intractable dispute.

Mr. Chodos received his J.D. from Stanford Law School and his B.A. from Swarthmore College.

Chair LANDRIEU. Thank you very much.

Senator Risch has joined us. Welcome, Senator, and thank you for your active support of the work of this committee.

Let me begin by asking both of you this question, and we will do a five-minute round. We realize that government cannot do it all, and I have been a very big supporter of partnerships with nonprofits and the private sector to accomplish goals. Can you both take 30 seconds or 45 seconds and be very specific about how this small agency, which is only $1 billion—I mean, it is dwarfed by Education, Health, Defense, Commerce, et cetera—how you are leveraging partnerships either with banks, governments, nonprofits, et cetera, and why you think that is so important, and how successful are we in leveraging the power of others, because we obviously are not a big enough agency to do this all alone.

Let me start with you, Mr. Greene.

Mr. GREENE. Sure, and let me talk about that on the capital side and then on the broader side. On the capital side, again, I think the SBIC program is the embodiment of a smart——

Chair LANDRIEU. Speak closer into your microphone, if you would.

Mr. GREENE. I am sorry. The SBIC program is the embodiment of a smart public-private partnership in which we say we are not going to make the investment decisions. Let us let investment professionals do that. The incentive, the economic incentives are aligned to do that. And we have had a significant focus on not only attracting more high-quality fund managers into the program, but reaching out to the investors who invest in those funds and increasing transparency and information about the program to make them want to come to the program, as well. So on the capital side, that is critically important.

But it is also critically important on the broader side, as well. So one of the primary focuses that we have had on supporting mentorship, et cetera, is in and around something that we call accelerators, and these are organizations that come in many shapes and sizes that are all over the country, and they are doing great work, not only to help more companies start, but to accelerate the growth of those companies.

And as one example, I would point to people like Idea Village in Louisiana, who are not just helping companies one at a time, but are doing great work to say, how do we strengthen the entrepreneurial ecosystem in Louisiana? And there are examples of that literally in every State of the country.

And so what we have to be doing is saying, how can we help accelerate these accelerators? And we are looking at a range of different things to do that. We feel good about the progress, but there is much more work to do.

Chair LANDRIEU. Thank you.

Mr. Chodos.

Mr. CHODOS. Chair Landrieu, thank you for the question. I think there are two things that we would like to focus on as part of the ways in which the agency leverages taxpayer dollars in order to engage and support with small business.

First and foremost, all of our key, core grant partnerships with our SCORE network, with our Small Business Development Cen-

ters, and with our Women's Business Centers involve match requirements that create at the very foundation a partnership between the Federal Government, research institutions, and local resources, including foundations and local contributors, in order to make a connected-based approach to supporting small business.

But in addition, we work with partners in all of our outreach and mentoring activities. I mentioned our recent partnership with AARP in order to support encore entrepreneurs all over the country. Our cluster networks all across the country act as convening and networking entities to bring together small business innovators with local commercial and supply chain opportunities, along with the local investment community, as well as large defense contractors or other prime contractors in order to knit together the different pieces of the economic community.

We believe economic development and small business support is a ground game. It requires us to work one business at a time with all of the pieces they need to succeed. That is what we do and what we build into the program right from the very——

Chair LANDRIEU. Thank you very much.

Let me ask you about the 504 program, because this is a very important program that has expired. There are literally seven pieces of legislation, at least, that have the extension of this 504 provision. In 2011, through this program, we leveraged $4.8 billion in capital. In 2012, it was $6.7 billion. What are the consequences, in your mind, Mr. Greene, of not extending the benefits of this program? I mean, what will happen to the commercial refinancing, I guess, sector in this country for small business?

Mr. GREENE. So, Senator Landrieu, we agreed this was a critically important program. In 2012, we get $2.2 billion for the 504 refi. Over 2,700 small businesses benefitted from this. So we know there is strong demand from small businesses as well as from CECs as intermediaries looking for this product.

So the administration is taking a hard look to evaluate whether to support this specific proposal. Critically important will be maintaining the zero subsidy nature of the program and making it—continuing to make it an attractive vehicle, both for the small businesses and the lenders. Of course, if Congress decides to reauthorize, we will be there to make sure that we efficiently and effectively implement the changes that you legislate.

Chair LANDRIEU. Okay, and I want to underscore this. It is a little point of contention. I realize that it would be ideal to run every program at absolutely no cost to the government. I mean, that would be ideal if we could figure out ways and we continue to press that agenda. But a modest subsidy or a planned-for moderate subsidy is still quite valuable if it is leveraging billions of dollars that are otherwise completely unavailable to small businesses in the conventional lending that is either going on or not going on in this country.

So while philosophically people argue for zero-subsidy programs, I urge our committee members to be open to weigh the benefits of the subsidy that is being provided for the benefit that is occurring. And, obviously, it needs to be a large net benefit.

Senator Snowe.

Senator SNOWE. Thank you, and I want to thank both of you today for the contributions you are making to these vital programs because I think start-ups, obviously, are crucial to generating economic growth in this country and we are reliant on those starting new firms.

What do you think, when entrepreneurs are thinking about starting a new firm, what are the issues that are the most significant in making those decisions, in your estimation?

Mr. CHODOS. Thank you, Senator Snowe. I speak to small businesses all the time and they talk a lot about the things that they are concerned about when they start their businesses. I think, first and foremost, every small business wants to know where are they going to get the money to pay for the first few months of payroll, the first set of equipment and machinery, and the first set of inventory or raw materials. So access to capital in the early stages of the business is always top of mind.

But I also speak to small businesses all the time who come into business with a particular area of expertise. For example, they know manufacturing. They are a mechanic. They know how to do something in terms of marketing or consulting or that sort of thing. But they need help learning about the other parts of business with which they are not familiar. They do not know how to read a financial statement. They do not know how to put together a balance sheet.

What I find is that businesses say, we need the kind of help that we need to answer the questions we do not yet know how to answer and we want it to be available in our communities or available online so that it is straightforward and accessible. That is what I hear regularly.

Senator SNOWE. And do you find that the existing programs—and I think that what the Chair is discussing about sort of formalizing a mentorship program, because I think that is crucial—would be beneficial at the very outset?

Mr. CHODOS. Yes. Let me say this—oh, I am sorry.

Senator SNOWE. No, go ahead.

Mr. CHODOS. Yes. We find that our mentors act—really, at the end of the day, there are those questions that small businesses know that they have when they start, and almost as important are all the things they do not yet know they do not know about what they need to learn in order to start and grow their businesses. Having a mentor, whether it is in a high-growth business or whether it is in a Main Street business, is critical to not making the mistakes that somebody else has already made so that you can actually deploy your resources to creating that next job or getting that next product out the door. We find that mentorship, once accessed by a small business, becomes a critical pillar of their success.

Senator SNOWE. And given the current uncertainty with respect to both taxes and regulations and the overall environment and what is going to happen regarding the fiscal cliff and going forward, to what degree is that suppressing entrepreneurship at this point?

Mr. CHODOS. Well, Administrator Mills and the President met with small businesses just a couple of days ago at the White House and heard, I think, one message again and again and again, that

small businesses want certainty, they want to know what the situation is going to be, they want to make sure that their customers are going to have money to spend on their products and services, and they want to have resolution.

Senator SNOWE. Do you think it is possible to draw a line, the cutoff on $250,000? I know it is much debated, in terms of what effects it has on small businesses, where we could draw that line, whether it is on an income tax return and deducting small business income, because, as you know, the preponderance of small businesses file individual tax returns, or through a dollar figure. But I do think that that happens to be a major issue that we have to address, as well, to make sure that we do not create unintended consequences.

Mr. CHODOS. Well, I do know that the level at which any particular terms of a deal might be reached are under very, very focused discussion at the moment, and I do know that the small businesses with whom we speak simply say that, at this point, what they are most interested in is the spirit of compromise and of problem solving and of resolution that has really been the hallmark of this committee and that is so important in order for them to work well with their customers and to plan for the future.

Senator SNOWE. One of the programs, and the President, I think, referred to it last year in his State of the Union Address, was the Early Stage Innovation Fund under the SBIC. Exactly where does that stand today and how effective has that been, because I do think it is a great approach in helping early-stage companies to get established.

Mr. GREENE. So we launched this program last year. When we saw the data—not only do we hear from small business about the difficulty of raising early patient capital, but the numbers spoke for themselves, where venture capital as a whole has decreased significantly, particularly at the early stages, and there was a massive unequal distribution of where that capital goes so that 70 percent of early-stage financings only happened in three States. On the other hand, all the data shows that there are companies with high-growth potential all across the country, not just located in those three States.

So we need to make some regulatory changes within the SBIC program to launch that. We executed that last year. We identified a process by which the funds would apply. We had over 30 funds applying and we gave green light letters to six funds who are now completing their private capital raised and will come back to us.

So we are off to a good start. We expect to license about four to five funds per year over a five-year period. So we are off to a good start.

Senator SNOWE. Thank you.

Chair LANDRIEU. Thank you.

Senator Shaheen.

Senator SHAHEEN. Thank you. Thank you both for your testimony and for being here today and for all the work that the SBA is doing. Ninety-five percent of New Hampshire workers work for what the SBA technically calls a small business. So, obviously, your work and the importance of small businesses are significant in New Hampshire.

One of the things that I did was to ask some of the folks in New Hampshire who work with small businesses what questions they would like to see asked at the hearing today, and this one comes from someone who has an incubator, but I would think she could also be described as an accelerator, as well. And she points out that one of the components of the SUCCESS Act is a provision to require SBA to coordinate and make consistent data collection and outcome metrics for entrepreneurial development. She is concerned that the metrics change from year to year, which makes sense, but how are the metrics formulated and are they truly given a chance to work before they change? Are we picking the right metrics? And then are we putting the resources behind them and really giving them a chance to work before we make changes in them? And I do not know which one of you would like to answer that.

Mr. CHODOS. Perhaps I can, Senator. In our department, in the Office of Entrepreneurial Development, we maintain the core database and surveying systems for all of our entrepreneurial activities across the country. So we have our EDMIS system, which is essentially the Entrepreneurial Development, Management, and Information System, as well as an ongoing annual survey of the recipients of the counseling services across our network in order to identify the outputs from our program, the demographics of those who access our program, and, essentially, the outcomes they achieve by virtue of having access to our program.

I will say that the question of making sure that we measure the right things, that we measure them consistently, and that we report out promptly and effectively is—it has always been our goal, but it is an opportunity, I think, constantly, for improvement. We are very focused in the Office of Entrepreneurial Development and across the agency at having a performance metrics analysis framework in our core programs, the WBCs, the SBDCs, and SCORE, as well as in our cluster network, and as well across our other programs, which is consistent and which actually measures those things that the agency, that Congress, and that our stakeholders care most about.

So we have implemented this year two things. First of all, we have listened to our resource partners. We have listened to stakeholders across the country. And we are currently engaged in an upgrade of the EDMIS system in order to make it more effective, more reliable, and more accessible for those who use it, and we are talking to all of our resource partners to find out what is the right way in order to collate and actually align all of the different measures we use, because everybody here knows that different people come to Congress on a regular basis, and to us, and say, I have my set of metrics, and somebody else has their set of metrics, and you never really get a sense of how they all compare to each other.

We think it is critically important—it is both an obligation and it is an opportunity—to be able to actually compare and cross-correlate and actually coordinate and align everybody's metrics, so we ask the same questions and find out how we are all doing compared to each other and against those goals we think are most important.

Senator SHAHEEN. Thank you.

Mr. Greene, you talked about the work to streamline programs and make them more effective. One of the provisions in the SUCCESS Act improves small business access by reducing paperwork and red tape. And again, this is a question from New Hampshire. The concern is that we should reduce paperwork for all kinds of small business contracting opportunities, grants, et cetera, and simplify the process based on the size of the grant or the award so that we are not asking for the same amount of paperwork for something that is going to offer $20,000 versus something that is going to offer $200,000. So can you talk about what the effort is there to look at that difference and see how to address that?

Mr. GREENE. Absolutely. So, first of all, on the streamlining, I think it is critically important, back to the measurement point, that we measure and so that we look at turn-around times, et cetera.

Secondly, it is important that we be transparent and we publish the information about how we perform so that everyone can know, both to hold ourselves accountable and also so that small businesses can have predictability when they know that they are interacting with us.

Now, more specifically on the issue of one size does not fit all, you know, that is a critical component that we are looking in many, many different areas. But one specific place that we are looking at this is on the contracting side. So I mentioned earlier a Presidential Innovation Fellows effort to bring entrepreneurs into the Federal Government to tackle tough problems. This is a tough problem, to say, how do you customize.

And so a specific project that SBA is leading is an effort we are calling RFP–EZ, and the notion is just like 1040–EZ, is a simpler form for taxes——

Senator SHAHEEN. Terrific. Love it.

Mr. GREENE. Let us do the same thing for government contracting. And we are starting small. We are going to do it as a pilot. We are going to focus on information technology, where costs have come down by 10X in the private sector but not necessarily on the government side. But by reducing the transaction costs of doing business with the government, we think that we can bring more innovative technology companies into Federal procurement, lower costs for taxpayers, and, by the way, get more dollars to the companies who create jobs, not just on their balance sheet, but on their P&L.

Senator SHAHEEN. Well, I hope, Madam Chair, that we can maybe get more——

Chair LANDRIEU. Detail.

Senator SHAHEEN [continuing]. Detail, yes, expansion on this proposal for the committee. Thank you.

Chair LANDRIEU. Well, thank you. We will. And Senator Shaheen, you have been a real advocate for efficiency, streamlining, transparency, and let us continue to work on it. But that is very good, promising news for that launch of that pilot.

Senator Moran.

Senator MORAN. Madam Chair, thank you.

I appreciate your testimony. It has generally been focused on SBA programs and I appreciate their value. I want to take the

soapbox opportunity that we have described for our committee and for the SBA to advocate on behalf of businesses, entrepreneurs, start-ups, and indicate, first of all, I think there are, as I indicated briefly in my opening comments, there are some troubling trends in regard to start-ups and entrepreneurship in the United States. Our economy obviously has slowed down. There are fewer entrepreneurs starting businesses. And those new businesses are hiring fewer workers.

The number of new businesses started in the United States has declined every year since 2006. In 2010, there were approximately 394,000 new businesses started in our country, and we are glad for that, but that is the lowest number of start-up businesses per year since 1977. These new businesses created more than 2.3 million jobs in 2010, but that is the third fewest number of jobs created by new businesses in more than 30 years.

Secondly, there are external indicators showing that the United States is becoming less friendly to entrepreneurs. The World Bank has an annual report called "Doing Business." It ranked the United States as the fourth easiest place in the world to start a business in 2007, but four years later, we dropped to 13th in that measure and we remained there again this year.

Since starting on this—paying attention to this entrepreneurial start-up issue, one of the things that stands out to me—I have only been a member of the United States Senate for a little less than two years now, but in that two years, seven other countries have adopted legislation, things that we have not done, pursuing entrepreneurial start-up policies that create greater opportunities in those countries.

Chile stands out as an example of where they are doing many things to increase the opportunities for businesses to start up in their country. They have an initiative called Start-Up Chile that provides entrepreneurs with capital to develop their business, free office space, and temporary visas. These incentives are attracting entrepreneurs from around the world to Chile, including from the United States, and that is the part I wanted to emphasize. And, in fact, 20 percent of the grant recipients, or the recipients of those incentives, came from the United States. So one-fifth of the businesses that received those incentives were U.S. businesses.

There is this global battle for start-ups, for entrepreneurship, and we are falling behind. The United States is falling behind. And if we lose entrepreneurs, we lose the jobs they create.

I remember being in California talking to a business who was waiting on the decision on an H–1B visa for 68 potential new employees at their company. They did not make it in the competition. At the appropriate time, they were unable to get the visas. So the story to me was, we hired those folks anyway, but we hired them in Canada. And so 68 jobs lost because we have a visa program that did not work, does not work. And while 68 jobs is a significant loss, what troubles me even more is my guess is that some of those 68 people hired in Canada will start the next entrepreneurial business that may result in significant job creation that could have been in the United States but will now occur in another country.

And so I want to use the megaphone of the committee and of the SBA to highlight the immediacy, the need to act more quickly than

this Congress and this administration are doing. We have a lot to lose, and we are going to work our way through legislative proposals, but we also ought to recognize that we do not have much time, that every day, every week, every year that goes by, others are moving in a direction that we are not.

Of the provisions in Start-Up Act 2.0, some deal with the regulatory environment, some deal with the tax code, as I said, some deal with the ability to take Federal dollars used in research and more rapidly commercialize that research. The most contentious or controversial deals with visas for STEM, foreign-born, U.S.-educated individuals with talents and intellect that we, in my view, desperately need. It deals with entrepreneurs staying in the United States.

And I know that the House today is taking up a STEM jobs bill. The President yesterday at the White House indicated that that bill, they supported, but would not sign the bill because it is not all-encompassing.

I just want to highlight that we do not have—if Congress's history is any indication of how long it takes to get immigration completed in a comprehensive form, we are going to be at a much greater disadvantage if we cannot—and here is my concern, if you can help when Administrator Mills talks to the White House and as I talk to my colleagues. I am concerned that there is a growing approach to this issue of STEM and entrepreneurial visas. I think 80-plus percent of my colleagues agree with the provisions of our legislation. We have to be careful that we do not take the approach that says, if we cannot do everything, we cannot do anything. This perhaps is more of a message to my colleagues, but it is certainly a message, I think, that is valuable for the White House based upon the President or the White House's statement yesterday in regard to legislation pending today in the House of Representatives.

My time has expired. I did not realize that I was on my soapbox as long as I was, but I would appreciate any advocacy for the immediacy of solving, addressing the issues that we face and to make sure that entrepreneurial skills and talent, as well as the environment in which they operate, is changed now, not sometime down the road.

Thank you, Chair.

Chair LANDRIEU. Thank you, and I will take a moment to respond to that. I would simply say, yes, we cannot wait to do everything while we fail to do some things right before us. But we also cannot just continue to do the easy things on immigration without doing the hard things, because in a democracy, you need the leverage to get the whole thing done. So we do not have to get into that argument now, but that is the resistance that you are feeling, and there is some resistance because we cannot just keep doing the easy things until we get some of the tougher things done that really affect the economy.

And let me just add this, too, Senator Moran. To this morning, in terms of growth rate, the real domestic product rose this morning announced at 2.7 percent in the third quarter, which is the highest since the end of last year, and went over projections. It was projected to be, I think—it rose by 1.3 percent in the second quar-

ter of this year, two percent in the first. They are going to uptick it to 2.8. They had estimated it, I think, to be two.

So I realize that there are still some challenges, but as I stated in my opening remarks, we have lost seven million jobs in America, and because most of the jobs are with small business, you are right. We have lost a lot of small business jobs and we need to continue to work to improve that.

Senator Rubio.

Senator RUBIO. Thank you. One of the things I enjoy about being on this committee and talking about small business is that I think it is really the cornerstone of middle class, and middle class is what distinguishes us from the world. Every country has rich people. Unfortunately, every country has poor people. But what has really distinguished America and one of the things that makes us exceptional is this vibrant, broad-based middle class, of which I think small business is such a critical part of it.

So a couple things I wanted to talk about that I have heard. In fact, as we were here—I do not know how they are watching us, maybe on C–SPAN or on the Internet—but a small business in South Florida texted me a question in real time. Here are two things they wanted me to mention.

The first is, and I think some of it was referenced, Mr. Greene, in your opening comments—you wrote something about attracting the right human capital. There is this real concern that even if we have an economy that is creating a lot of small business and the jobs, if people do not have the skills to do those jobs, it is for naught. So what can we do, or what are we thinking about in terms of bridging that, for example, partnerships between our education system and our small businesses and our business community in general to ensure that we are equipping people with the skills they need for the new 21st century middle class jobs. You know, one of the things that I think we made a mistake in this country of doing, and I know some States are getting it right now, is we stigmatized career education and vocational education, and I think community colleges can play a tremendous part in turning the corner on that.

So that is something that I hope you will address, in terms of what you are hearing from small businesses with regards to that, to the skills gap, in essence. You know, some people are saying there are jobs out there that cannot be filled because we do not have people with the skills to do them. What can we do to close that gap quicker?

Mr. GREENE. So, a number of points, and if I may respond to both Senators in my comments. I think, first of all, in terms of the passion for start-ups and doing everything that we can to help entrepreneurship, I clearly share the passion of the committee members.

I do want to suggest, Senator Landrieu, that to the question of high-growth entrepreneurs versus lifestyle entrepreneurs, in the economic environment we are in, it is not either/or. We need to do everything that we can to help all kinds of entrepreneurs. And it may be the case that different policies are needed to serve these different kinds of entrepreneurs, but we need an "all of the above" approach.

I think, secondly, similar to the comments that you talked about in terms of jurisdiction of different committees, it is critically important for us that many of the issues that we are talking about are not necessarily SBA issues, but that we have to be advocates in working with all the other agencies, whether it is USCIS or Labor or whatever the case may be, and that has to be a fundamental part of our role, and that is something that we take very, very seriously.

On the specific issue of talent, we hear this over and over again from entrepreneurs, that this is critically important, both on the immigration side as well as on the skills side. And I think, critically importantly, while on the immigration side, legislative change is critical, and the President has obviously supported changes in high-skilled immigration as part of overall comprehensive immigration reform, but also there are things that we can do administratively.

So one example of that is a little-known program called the OPT program that allows for graduates, Ph.D. graduates in STEM fields to stay after they get their Ph.D. for an additional year and a half. Well, what we found was the number of fields that were included in that program were limited. So we more than doubled the number of fields to include things like computer science, nanotechnology, math, to allow more people to stay. Now, it is a step. It is not the broad. But we need to be doing that on the urgency.

Now, more broadly on skills, again, a critical issue, and we are seeing similar data to say there is massive mismatch. So a fundamental commitment to doing more on STEM education, at a minimum, is something incredibly important, something that the administration is focused on.

And the one last point I would make on STEM is let us add an "E" to STEM. Let us talk about entrepreneurship education as part of something we more fundamentally need to change.

Senator RUBIO. And just the specific case that I am talking about is this is actually the epitome of a small business. It is a guy who used to work at a body shop who went out and opened his own body shop and he cannot find guys and gals that know how to do the work and he cannot afford to train them. So he has got to hire people with the skills to do that, but he does not have people who are trained to do it, and he cannot afford to train them, and there is nowhere for him to send them to be trained.

So I am not saying you have the answer. I know it is a difficult thing we have got to accomplish. But I think that is one of the things we have to really concentrate on, is why are we not graduating kids from high school with an industry certification in a field, in a career? And we have got to figure out a way, what role the Federal Government can play in incentivizing that, because there are a lot of small businesses out there, and these are not poor-paying jobs. I mean, a BMW technician in South Florida, 18-year-old who graduated high school with that skill, is making in the mid-$30,000s to start, at 18, and can increase from there as they get more certifications. These are middle-class jobs.

So I hope we will have a conversation about that component of it, because I am hearing a lot of that.

Chair LANDRIEU. Thank you.

Senator Risch.

Senator RISCH. Thank you, Madam Chair.

First of all, let me thank Senator Snowe for her service to this committee and to America, which we sincerely appreciate.

Gentlemen, I doubt there is any argument amongst Americans or Congress or anyone else that small business is certainly one of the cornerstones of the American economy. It does not get the play that it should get. When the CEO of a large corporation stands up and says something, it gets a lot of play. When a CEO of a small business who arguably is as important says something, it does not get the play, and that is very unfortunate. But I think most people understand how important it is.

Once you drill down and you understand small business and how important it is, then the next item you look at is, well, what is it that makes small business work? And I think that, again, most everyone would agree that it is capital. If you do not have capital, you cannot operate a small business. You cannot go forward. It is the limiting factor, in my experience, in almost all small businesses as they try to expand, as they to operate their businesses.

Well, today, as you know, there is a great debate going on here in Washington, D.C., over tax structure, and people who have an open mind on this are interested in facts. They want information. The question I have for you is, being advocates for small business, have you—has someone at the Small Business Administration sat down, taken the President's proposal, and determined exactly how much cash, how much capital that that proposal will extract from the small businesses in America? Has anybody done that?

Mr. GREENE. We are working with the White House on the broader range of implications for small business as part of tax reform. As you suggest, it is critically important and there are many individual components embedded in much of the legislation that this committee has endorsed in the broader, but we are working hand-in-hand to understand the implications of any changes on small businesses.

Senator RISCH. Well, with all due respect, that is not good enough. I am looking for some numbers. We are constantly told that if the President's proposal is enacted, it will greatly hurt a lot of small businesses in America, and I would like to know how many. I would like to know how much. I would like to know—so that people know when they are voting on this what kind of capital are they taking out of the hands of small businesses and placing in the hands of, in my judgment, probably the least effective entity in America, namely the Federal Government. People need to know this. I mean, this is money that creates jobs. It is—people whip around the rich people in this country, but the fact is, that is money that is going to employ middle-class Americans and we need to know how much. We need to know what the effect is going to be. And we need to know what the snowball effect of that is, how taking that money out of the hands of small businesses is going to affect us as we go down the road.

So I hope you will take that question for the record. I hope you will get back to me on that. And I think that it will be important as people make a decision as to whether they should vote for this

proposal or perhaps use it as they negotiate forward to get us out of this horrible mess that we are in.

Thank you, Madam Chairman.

Chair LANDRIEU. Thank you, and maybe this will help, and I am going to submit this for the record—to you, Senator, and for the record of this committee. Prior to the Bush tax cuts that were put into effect, the average annual small business job growth was 2.3 percent. After the Bush tax cuts, it was 1.0 percent. Now, there could be a different view of the material—a different analysis of the material that I am going to present for the committee, and I am looking at it for the first time, but I want to submit that.

Also, the research that has been done by Tax Policy Center, U.S. Treasury Department, Center for Budget Priorities, and Congressional Research Service all have concluded that less than three percent of small businesses are even subject to the top two marginal tax rates. Now, that is not answering your whole question, because you have got capital gains, you have got dividends that are being debated, you have some other potential, I guess, benefits in the tax code that may no longer be there that could affect small business, but let us build a record on that because I think it is a very important question that the Senator has raised, and I would like to submit that for the record, but let us continue to get that information out as we debate this important subject.

Senator RISCH. Madam Chairman, I am told that Treasury has said that at least eight percent of small businesses are subject to the two tax rates that we are arguing about——

Chair LANDRIEU. Okay. Well——

Senator RISCH [continuing] And that these businesses earn 72 percent of all small business income and pay 82 percent of the income taxes paid by small business.

Chair LANDRIEU. I am going to ask the staff to reconcile these so that we can have one set of facts that actually——

Senator RISCH. I think that is——

Chair LANDRIEU [continuing]. That we can really get to the nub of this, because I think this is a very important issue before the Congress right now. So I am going to ask both staffs to get together and report back to us on what they have found.

All right. Thank you all so very much. We are going to have to go to the second panel now.

[Pause.]

We have got a large second panel, so I am going to go ahead and get started as people are taking their places and just introduce everyone briefly and ask you all to limit your comments to four—three-and-a-half to four minutes.

Mr. Scott Gardiner is Executive Vice President of Granite State Economic Development Corporation, a regionally certified development company serving New Hampshire, Massachusetts, Maine, and Vermont.

Fonda Lindfors New is founder and Chief Executive Officer of QRI, an LLC which is a multi-faceted environmental consulting company based in Baton Rouge, Louisiana, that specializes in geophysical assessments, drilling, and remediation. She is a successful small business entrepreneur.

Joshua Etemadi, Chairman of the Small and Emerging Contractor Committee through the National Association of Surety Bond Producers, serves on the Government Relations and Automation and Technology Committee. He is going to be testifying about his firsthand knowledge of the contracting surety bond situation.

Senator Snowe has invited Mr. David Clough, Maine State Director for the National Federation of Independent Businesses, that will have a lot of comments about some of the issues we have discussed.

Diana Furchtgott-Roth is a Senior Fellow at the Manhattan Institute for Policy Research in New York. From 2003 to 2005, she was Chief Economist at the Department of Labor. She brings a tremendous amount of expertise and leadership to this issue.

And lastly, we have Julie Weeks, President and CEO of Womenable, a nonprofit social enterprise that works to enable women entrepreneurship worldwide. She is Executive Director of the National Women's Business Council and has testified before our committee on several occasions. Welcome back, Julie.

Let us start with you, Scott, if we could, Mr. Gardiner. Thank you for being with us. And let us set it at four minutes, please, because we really do want to get through everybody's comments and get to our questions.

STATEMENT OF SCOTT GARDINER, EXECUTIVE VICE PRESIDENT, GRANITE STATE ECONOMIC DEVELOPMENT CORPORATION

Mr. GARDINER. Thank you, Madam Chair, Ranking Member, Senator Shaheen, and members of the Small Business Committee. Thank you for inviting me here today to provide my testimony regarding the SBA 504 program and specifically the SBA 504 refinancing program on small business companies.

My name is Scott Gardiner. I have been involved with the SBA 504 loan program since 1988. Over the last 24 years, I have been active in the management, marketing, loan structuring, and credit underwriting. I am the Executive Vice President of Granite State Economic Development Corporation, established in 1982, doing business in New Hampshire, Vermont, Maine, and Massachusetts. We are the leading 504 lender in the region and currently we are the number four CDC in the country.

In February 2001, under the Small Business Jobs Act of 2010, the SBA implemented a temporary program allowing small businesses to refinance eligible fixed assets in its 504 program. Additional fees were charged to the borrower to cover the cost of this refinancing program, and as a result, no subsidy to the 504 program was needed. SBA continued to perform the full review of the loan applications in Sacramento in the Loan Processing Center.

A key feature of this new program was that it did not require an expansion of the business in order to qualify. Borrowers were able to refinance up to 90 percent of the current appraised property value and use the funds to pay off business-related debt or other eligible business expenses. In today's reality of more stringent banking regulations, many performing loans continue to be declined for financing. This is not because these borrowers are missing payments or need a bailout. It is simply caused by the drop in

commercial real estate values and the negative impact that drop has had on the banks' policies.

In the end, the availability to offer the 504 loan program to these performing borrowers was often the only option available to these businesses. The SBA 504 refinancing program created a unique and time-driven opportunity to refinance owner-occupied commercial real estate and capital requirement with long-term fixed-rate financing.

The SBA began accepting applications in February of 2011. The initial utilization of this program was relatively insignificant nationwide given the restrictive regulations that were initially set forth by the SBA. As a result, only 307 SBA 504 refinance loans totaling $255 million were made nationwide during the first year of this program, and that is offset against an appropriation of $7.5 billion, and $7.5 billion for each year. So there was $15 billion allocated, and in the first year, only $255 million was used.

Finally, in October of 2011, SBA expanded the program parameters. However, to a large extent, the modifications set forth in late October of 2011 were not fully integrated into the small business lending community for several months. Granite State's firsthand experience required the CDCs and the SBA to essentially remarket the program to overcome the initial restrictive guidelines from program launch in February. Activity started to pick up in March of 2012, and through September 2012, nearly 2,700 small businesses have taken advantage of this refinancing opportunity by taking out $2.5 billion. On an annualized basis, during the months of August and September 2012 nationwide, 504 refinancing accounted for approximately 30 percent of the total 504 loan volume.

With the end of the program in September of 2012, there were close to 400 loan applications that were left in the queue at the SBA in Sacramento, representing over $400 million. These are loans that were submitted and just because the program ended were not approved.

Chair LANDRIEU. Scott, I really want to ask you to try to speak up a little bit. This is very important testimony to get in, and I have got my staff here and Senator Snowe's staff. We are all ears. Are you testifying that the 504 commercial refinancing program was operated in such a way that it was too restrictive and virtually unusable to the businesses that you serve? Is that what your testimony is?

Mr. GARDINER. Yes. I believe——

Chair LANDRIEU. Okay. Why do you not try to say that in your own words——

Mr. GARDINER. Based on my experience——

Chair LANDRIEU [continuing]. And speak into the microphone, please.

Mr. GARDINER. Based on our CDC's experience and my experience, when the program was launched, it was—in February, the restrictions were just too tight and very——

Chair LANDRIEU. Were they ever loosened to your satisfaction?

Mr. GARDINER. Yes. They were loosened, finally loosened in October. There were a couple rounds of——

Chair LANDRIEU. Okay. And then the program expired when?

Mr. GARDINER. In September.

Chair LANDRIEU. The following September?

Mr. GARDINER. The following September.

Chair LANDRIEU. So for the year that the rules got sort of in order, it worked, in your opinion, fairly well?

Mr. GARDINER. Well, yes, but it took—the program was launched and we spoke to many small businesses that were inquiring, the small business community, and we had to say no so many times that I think the community, the small business lending community, just kind of turned the program off.

Chair LANDRIEU. Okay. Well, would you suggest that if we try to do that again, we lengthen out the authorization period so it is not so short and use the new modified rules? Is that what you are testifying?

Mr. GARDINER. Yes. Under the new modified rules, it works very well.

Chair LANDRIEU. And that could be a four- or five-year extension if we could find the offset, because all of these extensions require an offset. But I really want to know this from the small business community because it is going to determine how hard I will fight for this or not, because there are about 100 other things that are pushing against the amount of money that we have. And so I am urging you all to speak with one voice on this. If this program is something that can work under certain circumstances, then we want to know what those circumstances are and not use the little money that we are going to be given to advocate for a program that is not having an impact, okay.

So please visit with my staff after this, Scott, and give them—David Gillers is here.

[The prepared statement of Mr. Gardiner follows:]

Committee on Small Business and Entrepreneurship
United States Senate
S. 3442 – "Success Act"
November 29, 2012
Written Testimony
Of
Scott Gardiner
Executive Vice President
Granite State Economic Development Corporation

Introduction

Madame Chair, Ranking Member Olympia J. Snowe and members of the committee thank you for inviting me here today to provide my testimony regarding the SBA 504 Loan Program and specifically the impact of the SBA 504 Refinancing Program on small business companies. My name is Scott Gardiner and I have been involved with the SBA 504 Loan Program since 1988. Over the last 24 years I have been active in management, marketing, loan structuring and credit underwriting. Currently, I am the Executive Vice President of Granite State Economic Development Corporation which does business statewide in New Hampshire, Vermont, Maine and Massachusetts. We are the region's leading SBA 504 Certified Development Company and currently, the nation's 4th most active lender. In FYE 12, we approved over 270 SBA 504 loans totaling $145 million.

Our Certified Development Company

Granite State was originally certified in 1982 in three New Hampshire counties and expanded statewide in 1987. In 2003, when SBA regulatory changes created Local Economic Areas (LEA) and statewide certifications, Granite State Economic Development Corporation (GSDC) subsequently expanded into Maine, Massachusetts and Vermont. Since 2003, Granite State has become the region's largest and fastest growing Certified Development Company and has been the most active CDC in each of the four states in our area of operations. As in New Hampshire, we have local offices with professional staff in Maine, Massachusetts and Vermont.

Our Local 504 Loan Portfolio

Granite State Economic Development Corporation like the other 250 CDC's working on a local, regional or statewide basis has assisted thousands of small businesses in accessing the capital they need to expand and create jobs. Since 1982, we have provided 504 loan approvals to over 3,500 companies for $1.4 billion in 504 debentures while participating banks have provided an additional $2.1 billion as the first mortgage/first secured lender. On a portfolio-wide basis, Granite State's assisted companies have created and retained approximately 20,000 jobs. On a per capita basis, we have been the most active CDC in the country since 1992 and we continue to be New England's most active 504 lender. Of the 15 active CDC's in New England, Granite State accounts for 43% of the total 504 activity. Our portfolio consists of 96% existing businesses and 4% start-ups. Our portfolio companies come from nine major industry groups with the highest sector concentration in Service (26%), Hospitality (14%), Professional (13%) and Manufacturing (11%). Our active loan portfolio includes participation with over 50 banks. Each month we reach out to dozens of lenders, small businesses and economic development professionals to keep them informed about the benefits of the SBA 504 Loan Program.

The 504 Program is Working

Today, the 504 program is an important mechanism for providing fixed asset financing to the nation's small business community. For FYE September 30 2012 the 504 Loan program assisted more than 9,500 small businesses by providing approximately $6.7 billion of SBA debenture loans while leveraging at least $8.5 billion in conventional bank loans. In FYE 2012, the 504 Loan Program experienced a 15.7% increase in the number of small business loan approval and a 27.8% increase in the amount of debenture funding accessed by expanding companies. Certified Development Companies are now economic development organizations that support growth in regions that range from a single county in one state to a multi-state region. Over the past 30 years our industry has matured and gained the trust of both SBA and Congress to implement and manage a multi-billion dollar industry. Each successive year, the CDC industry has proven that it can adhere to strict financial regulations while effectively delivering a powerful economic development program to our country's businesses. Over the last 30 years Certified Development Companies have consistently met the challenging demands for continued loan growth while maintaining professional management practices. In return, the SBA has given CDC's more authority to process, approve, close and service small business loans.

504 Loan Refinancing Program

SBA's traditional 504 loan program is a long term financing tool designed to encourage economic development within a community. A 504 loan provides a small business with long term, fixed-rate financing to acquire major fixed assets for expansion or modernization. Typically, a 504 project includes three elements: a bank loan covering up to 50 percent of the project cost; a SBA 504 loan from a Certified Development Company (backed by a 100 percent SBA-guaranteed debenture) covering up to 40 percent of the cost; and a contribution of at least 10 percent equity from the small business owner. In February 2011 under the Small Business Jobs Act of 2010, the SBA implemented a temporary program allowing small businesses to refinance eligible fixed assets in its 504 program without the requirement of an expansion. This program provided small businesses the opportunity to lock in long-term stable financing, and finance eligible business expenses as well as protect jobs and hire additional workers. This temporary program expired on September 27, 2012. Congress authorized SBA to approve up to $15 billion in loans under this program ($7.5 billion in both fiscal year 2011 and 2012). Together with the first mortgage, this temporary program was intended to provide up to $33.8 billion of total project financing. Additional fees were charged to the borrower to cover the cost of this refinancing program and as a result no subsidy to the 504 Program was needed. SBA continued to perform full and thorough underwriting on all refinancing applications (i.e., there were no "delegated" lenders). The new refinancing loan was structured like SBA's traditional 504, with borrowers committing at least 10 percent equity and working with third party lending institutions and SBA approved Certified Development Companies in the standard 50 percent/40 percent split. A key feature of the new program was that it did not require an expansion of the business in order to qualify. Borrowers were able to refinance up to 90 percent of the current appraised property value and use the funds to pay off business related debt or other eligible business expenses. Prior to implementation of the program, market research showed that a large percentage of commercial mortgages outstanding were set to mature within a couple of years, particularly those held by community banks. In addition, as real estate values declined even small businesses that were performing well and making their payments on time had a hard time refinancing these loans and often needed to restructure their debt. In today's reality of more stringent banking regulations, many performing loans continue to be declined for refinancing. This is not because these borrowers are missing payments or need a bailout; it is simply caused by the drop in

commercial real estate values and the negative impact that drop has had on bank's loan to value ratio requirements. In the end, the ability to offer the 504 loan Refinance Program to these performing borrowers was often the only option available to these businesses. Further, this option provided lenders an opportunity to help their borrowers stay in business, maintain the jobs and keep a performing loan on the bank's books. The Small Business Administration's SBA 504 Refinancing Program created a unique and time driven opportunity to refinance owner occupied commercial real estate and capital equipment with long term fixed rate financing along with the ability to "cash out" equity to address other liabilities and projected working capital needs. This program provided SBA with an opportunity to assist businesses to improve cash flow and receive new long term fixed rates on their existing commercial real estate. It also provided the bank with the ability to reduce its commercial real estate loan concentration.

Merrimack Building Supply, Inc. was established by William Donegan in 1985 and has locations in Merrimack, NH, Medway, MA and Berlin, CT. Mr. Donegan had a 7 year relationship with large commercial bank, however, as a result of the recession, like many building supply companies, sales and earnings declined and the bank decided to exit the industry and demanded Merrimack Building Supply's $1,000,000 Line of Credit be paid off. Merrimack Building Supply never missed a payment and all trends in historical financial performance indicate the business will reach pre-recession levels in the next two years. This is a strong viable business with experienced management that employs 45 people. The SBA 504 refinance loan program allowed Mr. Donegan to use the equity in the business related real estate in New Hampshire and Massachusetts to pay off the Line of Credit and amortize the loan payments on a 20 year schedule, resulting in significantly improved cash flow. This was facilitated with Pentucket Bank in Haverhill, MA.

The SBA launched the 504 Refinance Program on February 17, 2011 and began accepting loan applications on February 28, 2011. The initial utilization of the program was relatively insignificant nationwide given the restrictive regulations that were initially set forth by the SBA. At first, the SBA restricted the program to small businesses whose mortgages were maturing within two years. As a result of that and other restrictions, only 307 SBA 504 refinance loan totaling $255 million were made nationwide during the first year of the program. The SBA modified those restrictions in June 2011. In October 2011, SBA further expanded the program parameters that encouraged more small businesses to take advantage of the longer term and the low interest rates offered through the program. To a large extent the modifications set forth in late October 2011 were not fully integrated into the small business lending community for several months. Granite State's first hand experience based on loan approvals was that the banks and borrowers did not fully embraced the 504 refinance program until February/March of 2012. Through September 2012, nearly 2,700 small businesses have taken advantage of this refinancing opportunity by taking out $2.5 billion in 504 loans. In NH, GSDC provided 10 SBA 504 refinance loans for $9,400,000. In New England we approved a total of 41 loans for $33,600,000. On an annualized basis, during the months of August and September 2012 nationwide 504 refinancing accounted for approximately 30% of total 504 loan volume. Unfortunately, there were 396 refinance applications representing an aggregate value of over $424,000,000 that were left in the queue and not processed by SBA because of the termination of the program. It is clear to the CDC industry that the program was just gaining important traction in the small business community when the program ended on September 27, 2012. Given the continued tight market for conventional real estate mortgages, advocates of the 504 program have strongly urged Congress to extend the program. Granite State Economic Development Corporation supports the consideration of a one and a half year extension of the SBA 504 Refinancing Program.

Scott Gardiner
Executive Vice President

Scott Gardiner is the Executive Vice President of Granite State Economic Development Corporation, a regional Certified Development Company serving New Hampshire, Massachusetts, Maine and Vermont. Scott brings over 24 years of SBA 504 Loan Program experience and expertise to the small business community. He has been active in management, marketing, loan structuring and credit underwriting.

Scott resides in Portsmouth, New Hampshire and holds an MBA from the University of New Hampshire and a BS degree from Gordon College.

Chair LANDRIEU. All right.
Fonda.

STATEMENT OF FONDA LINDFORS NEW, CHIEF EXECUTIVE OFFICER, QUATERNARY RESOURCE INVESTIGATIONS, LLC

Ms. LINDFORS NEW. Thank you, Chair Landrieu, Ranking Member Snowe, and members of the committee. My name is Fonda Lindfors New from Baton Rouge, Louisiana. I am the founder and CEO of QRI. My testimony today will focus on the legislative proposals currently before the Senate, including the SUCCESS and TEAM Acts.

I was born in Charleston, South Carolina, and graduated from the College of Charleston in 1981 with a B.S. in Geology. Upon graduation, I moved to Louisiana and worked at the Louisiana Geological Survey as a geologist from 1981 to 1986. While working in the coastal zone for LGS, I noticed thousands of oilfield production pits that needed to be remediated and closed. Thus, QRI began in 1986 to assist in the restoration process of coastal Louisiana by bringing oil field legacy sites into compliance.

Over the past 27 years, QRI has grown through hard work and dedication of a staff that now produces annual sales of over $8 million, has completed over 4,500 projects, and provides services in six divisions. This geologist learned very quickly that my geologic education did not teach me about capital, contracting, how to administrate a business, strategic partnerships, and how State and Federal laws impacted my business, thus, many challenges were faced in the early years.

I will say that the on-the-job training that QRI required vastly improved my prayer life in the early years. However, I would not recommend, "Oh, God, oh, God, please help me be a better business person," as any business woman's only plan to improve her administrative skills.

The three biggest challenges QRI has faced over the last 27 years are capital, entering the Federal market, and winning Federal contracts, which to date we have won 77 Federal contracts in the last four years. We have provided specific examples of how QRI has overcome those challenges as a woman-owned business in our written testimony.

One of the ways we overcame the challenges was to participate and attend every course offered by the SBA in our area. One of those courses, Emerging Leaders, or e200, required six months of efforts and continues to benefit the growth of QRI. I first became aware of e200 in an e-mail from Jo Ann Lawrence of the SBA. I contacted her to get additional details on the program and she assured me that the class would be well worth the vast amount of time it takes to take this course.

She was correct. e200 was an excellent course that I attended from April to October 2011. The e200 curriculum was well thought out and included written resources that my upper management at QRI still uses, such as the Strategic Growth Action Plan. The instructor, Sherif Ebrahim, was an excellent teacher who pushed me to success in this course. The SGAP was so detailed that it was instrumental in increasing our bank accounts receivable line by 32 percent. At the request of our major banker, an updated SGAP was

prepared and submitted in June of 2012 to once again successfully increase our AR line by another 24 percent.

The difference between e200 and other private sector offerings that I attended is that the course was real world and not just a class where you learn terms to take a test and then you forget it. The e200 course allowed me to develop a valuable set of tools that are repeatedly used by my upper management.

Today, Sherif Ebrahim continues to be a resource to me and my company. If I would have had the benefit of a program like e200 in my early years of QRI, my challenges would have still occurred, but I would have achieved success more quickly. As a result of our participation in the 8(a) program and courses such as e200, QRI's revenue and access to capital increased by over 50 percent from 2010 to 2011 and staffing increased by 22 percent.

QRI is extremely interested in changes to the EDWOSB program, also. In addition to removing the contract award price limits, removing the economically disadvantaged requirement, and adding sole source contract vehicles, QRI would like to ask the committee to consider adding a formal mentor-protege program.

As the Chairwoman and other Senators have stated today, entrepreneurs are the backbone of our economy. With just a little investment from the Federal Government, small business owners are given the tools to thrive, and in doing so provide jobs that turn around neighborhoods. This bill is essential to many small businesses, economic future including QRI.

I would like to thank the committee on behalf of QRI and small businesses for their attention to these important matters and their support for entrepreneurs. I would also like to thank the committee for their continued endeavors to make sure outstanding SBA employees, such as Jo Ann Lawrence, and e200 contractors, like Sherif Ebrahim, are funded and able to continue to assist companies such as QRI.

I am happy to answer any questions on these issues and serve as a resource to this committee. Thank you.

[The prepared statement of Ms. Lindfors New follows:]

Complete Testimony

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LA DBE I LED	*Founded in 1986*

29 November 2012

Testimony to US Senate Committee on Small Business & Entrepreneurship
"Creating Jobs and Growing the Economy: Legislative Proposals to Strengthen the Entrepreneurial Ecosystem."

Introduction

Thank you Chairwoman Landrieu, Ranking Member Snowe and members of the Committee. My name is Fonda Lindfors New. I am from Baton Rouge, Louisiana and I am the Founder and CEO of Quaternary Resource Investigations, LLC, which started in 1986. My testimony today will focus on the legislative proposals currently before the Senate, including the SUCCESS and TEAM Acts of 2012; highlighting the challenges facing small business owners, especially those who are woman owned small businesses such as QRI.

Founder of QRI's Background

To put my testimony into perspective, I would like to give you a brief summary of my background. I have been Chairwoman Landrieu's constituent since 1997. Like Senator Landrieu, I was born in an East Coast southern town, in my case Charleston, SC, and later moved to Louisiana. I wanted to be a geologist since I was eight years old. The love of geology was fed by both my mother and father who took our family on fossil and rock collecting trips throughout the country on every coast and many rivers. I absolutely loved it and my siblings are still talking about the sacrifices they made for my career, such as, the ability to identify all poisonous snakes, plants, spiders and other insects on a regional basis. I graduated from the College of Charleston in 1981 with a BS in Geology desiring to practice fluvial and coastal geology. I took a great job in the state of Louisiana that had the nation's largest river and coastal zone. Upon graduation, I worked at the Louisiana Geological Survey as a Coastal Geologist from 1981 to 1986 performing the collection and analysis of borings in coastal Louisiana. These borings were utilized to collect peat samples for radiocarbon dating by the laboratory I built and operated in order to construct sea level rise curves to assist in the modeling efforts for Louisiana coastal restoration.

QRI Story: Founding & Early Years

While working in the coastal zone for LGS, I noticed thousands of oilfield production pits that needed to be remediated and closed. The entrepreneur desire overcame the comfort and security of a state job and I founded QRI. Senators, this was not the year to start a business in Louisiana since the oil industry was decimated by a 46% price drop in oil. However, I had developed a technique known as Hard-To-Access-Sampling™ and this technique allowed the oil companies to know how much material had to be removed from the production pits. Thus, the beginning of QRI was born from a love of restoring coastal Louisiana by bringing oilfield legacy sites into compliance. Over the past 27 years, QRI has grown through the hard work and dedication of a staff that now produces annual sales of over $8,000,000 and has completed over 4,560 projects. QRI provides services in six

Divisions: [1]HTRW / Environmental / Consulting *founded-1986*, [2]Drilling *founded-1987*, [3]Geophysical *founded-2003*, [4]Emergency Response / Remediation *founded-2004*, [5]Construction *founded-2009*, [6]Information Technology *founded-2012*.

QRI Story: Challenges Faced

This geologist learned very quickly that my geologic education did not teach me about capital, contracting, how to administrate a business, strategic partnerships, and how state and federal laws impacted my business, thus many challenges were faced in the early years. These challenges were further complicated by my gender. Therefore, the early history of QRI can be described as existence and survival. I will say that the on the job training that QRI required vastly improved my prayer life in the early years. However, I would not recommend: "Oh God, Oh God please help me to become a better business person" as any business woman's only plan to improve her administrative skills.

The three biggest challenges QRI has faced over the last 27 years are capital, entering the federal market and contracts. We have provided specific examples below on how QRI has overcome those challenges as a woman owned business.

QRI has discovered two facts in dealing with banks. Fact 1 → Big banks are more difficult to deal with than small community banks. Fact 2 → Even though I have successfully run QRI for 27 years, I must be accompanied by a male for all bank meetings. The following example is an excerpt from my 8(a) SBD Certification application: When a large bank (LB) bought out QRI's small community bank (SCB), my banking issues began almost immediately with this large bank versus the small home town bank. My SCB loan officer and I were in the process of renewing QRI's standard Accounts Receivable and Equipment Loan when the bank acquisition occurred. I had banked at the SCB for 9 years and had an outstanding history of both growth and payment. After the acquisition, the rules changed and the standard renewal process took 98 days instead of the usual 5. When I went to the SCB loan officer to get an explanation of why everything was so different he said, *"Welcome to the old world boy's club. Fonda your problem is that you are not a man but they will not tell you that."* I called a QRI Board Meeting and relayed the potential of not having the bank and/or an Accounts Receivable line and we developed an interim plan. The line and equipment loan was eventually renewed but only after extensive costly effort on my part. Dealings with the bank continued to be very difficult so I eventually had to endure the cost of hiring male representatives. Letters from these representatives were always well received and the requests immediately granted while requests from me met automatic resistance. I decided to move all our financial dealings to a smaller banking environment that would tolerate women-in-business and not discriminate as much. The negative impact of my dealings with the LB was that resources (time and money) went out the door for a 98 day period while enduring the banking take over. In addition, there was the constant stress of knowing even when I was awarded large industry contracts, the cash flow of the company would have to fund them and there would be no additional banking assistance despite years of appropriate performance with the bank. The positive impact was that I learned how to operate within the existing system to fund QRI's growth.

The challenges below illustrate QRI's journey to enter new market places and develop a winning strategy for Federal contracts. For 13 years, greater than 75% of QRI's business came from providing specific niche services (closing 29 B sites) to the oil industry and primarily two companies, Chevron and Texaco. In 2000, Chevron bought Texaco and by 2004 Chevron implemented a Global Procurement program. QRI competed for the business but lost our 13 year

client to a large business. We developed a plan to overcome the loss of this revenue stream by applying and receiving 8(a) status. In addition to applying for Federal certifications, QRI also expanded into other commercial markets and added geophysical services. QRI was certified as a Woman-Owned Small Business (WOSB) into the 8(a) program on January 13, 2004 and began receiving subcontracts with large businesses in the Federal arena. On August 29, 2005, 85% of the contracts on which QRI was working were either delayed and/or cancelled due to the destruction of Hurricane Katrina. Because QRI had Federal certifications in place and had greatly expanded their client list, we were hired on September 5, 2005 as a subcontractor on the US EPA START (Superfund Technical Assessment & Response Team) contract for hurricane recovery. This experience eventually led to QRI receiving our first Federal competitive prime award in August of 2007. From 2007 to the present QRI has been awarded 77 prime federal contracts with the United States Army Corp of Engineers in seven districts (New Orleans, Vicksburg, Memphis, Seattle, Fort Worth, Tulsa and Galveston), United States Navy, United States Coast Guard, United States Geological Survey, General Service Administration, National Park Service and Federal Emergency Management Agency. Concurrently with building qualifications to be a prime contractor, QRI was developing the in-house skills to respond to the many variations of government bids (IFB, SF330, RFP, RFQ) and the extensive time and resources required to strategize, write, negotiate teaming agreements and eventually win a Federal contract.

Emerging Leaders Experience

An additional way we overcame the challenges was to participate and attend every course offered by the SBA in our area. One of those courses, Emerging Leaders or E200, required 6 months of efforts and continues to benefit the growth of QRI.

I first became aware of Emerging Leaders in an email from Jo Ann Lawrence, Supervisory Business Development Specialist, SBA, New Orleans, LA. I contacted her to get additional details on the program and she assured me that the class would be very beneficial to QRI. She was correct, E200 was an excellent course. I attended the New Orleans E200 from April to October of 2011.

The curriculum was well thought out and included written resources that my upper management at QRI still uses. The instructor, Sherif Ebrahim, was an excellent teacher who pushed me to SUCCESS in this course. My first experience with the course curriculum was to complete the Business Growth Self Assessment™ (BGSA). Completion of the BGSA was the first of many wake-up calls about my ability to truly lead my company. The next step was the draft preparation of our Strategic Growth Action Plan™ (SGAP) which was revised from May to the final submission in October.

The E200 course was a great success for QRI. The SGAP was so detailed that it was instrumental in increasing our bank AR line by 32% (**see attached excerpt from the SGAP**). At the request of our major banker, an updated SGAP was prepared and submitted in June of 2012 to once again successfully increase our AR line by 24%.

The difference between E200 and other private sector offerings that I attended is that the course was REAL WORLD and not just classes where you learn terms to take a test and then forget. In addition you have guest speakers from Industry and Government who will answer very specific questions about leadership, financial management, sales & marketing and resource management. The E200 course allowed me to develop a valuable set of tools that are repeatedly used by our upper management.

Today, I maintain contact with several CEOs from the E200 New Orleans Class of 2011. In addition, Sherif Ebrahim continues to be a resource to me and my company. When I talk to other small business owners, I highly recommend this course, especially to scientific leaders such as myself that have not had this type of coursework in college. I truly believe if I would have had the benefit of a program like E200 in my early years my challenges would have still occurred but I would have achieved success more quickly.

Emerging Leaders Facts

Since 2008, Emerging Leaders has reached over 1,000 small business owners in 27 communities nationwide with 41% of the participants being women. This program is the only government program that focuses on existing small business owners in underserved and Native American communities. At QRI we are always focusing on return on investment and the cost to the Federal Government is about 1/10 of 1% of entire SBA FY11 budget for the whole program.

As a result of our participation in the 8(a) program and SBA provided seminars and courses such as Emerging Leaders, QRI's revenue and access to capital increased by over 50% from 2010 to 2011 and staffing increased by 22%.

Other Key SBA Programs

QRI is extremely interested in changes to the EDWOSB (Economically Disadvantaged Woman Owned Small Business) program as stated in the Fairness in Women-Owned Small Business Contracting Act of 2012. In addition to removing the contract award price limits, removing the economically disadvantaged requirement and adding sole sourcing contract vehicles, QRI would like to ask the committee to consider adding a formal Mentor-Protégé program such as the 8(a) has in place.

As the Chairwoman and other Senators have stated, entrepreneurs are the backbone of our economy. Small businesses are the number one job creators and especially important in underserved communities. With just a little investment from the federal government, small business owners are given the tools to thrive and in doing so provide jobs and turn around neighborhoods. This bill is essential to many small businesses' economic future including QRI.

Conclusion

I would like to thank the Committee on behalf of QRI and small businesses, for their attention to these important matters and their support for entrepreneurs. I would also like to thank the committee for their continued endeavors to make sure outstanding SBA employees such as Jo Ann Lawrence and E200 contractors like Sherif Ebrahim are funded and able to continue to assist companies such as QRI. I am happy to answer any questions on these issues and to serve as a resource to the Senators.

Thank you very much for allowing me the privilege to provide this testimony.

Respectfully submitted,

Fonda Lindfors New, CPG
CEO of Quaternary Resource Investigations, LLC

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LA DBE I LED	*Founded in 1986*

29 November 2012

Testimony to US Senate Committee on Small Business & Entrepreneurship
"Creating Jobs and Growing the Economy: Legislative Proposals to Strengthen the Entrepreneurial Ecosystem."

Fonda Lindfors New Biography

FONDA LINDFORS NEW (born August 8, 1957) is the Founder and Chief Executive Officer of QRI, established in 1986 in Baton Rouge, Louisiana. Born in Charleston, South Carolina, Mrs. New moved to Baton Rouge, Louisiana in 1981. Mrs. New and her husband, Kenneth Wayne New (born 1953) have seven children (Jason [30]; John [29]; Jady [28]; Hope [26]; Mary [23]; Rachel [21]; Sarah [19]).

She graduated cum laude from the College of Charleston in 1981 with a BS degree in geology. Mrs. New received two Marine Sea Grant Scholarships appointments at the Marine Research Institute in Charleston, South Carolina in 1980 and 1981 for Radiocarbon Dating: Utilization to Predict Sea Level Rise". These appointments assisted Mrs. New in becoming employed by the Louisiana Geological Survey as a coastal and fluvial geologist responsible for building, calibrating and operating the State of Louisiana Radiocarbon Laboratory. She resigned from LGS in 1986 to establish QRI. Over the past 27 years as the CEO of QRI, she has built a company that now produces annual sales of over $8,000,000, has completed over 4,500 projects and provides services in six divisions.

Chair LANDRIEU. Thank you, Fonda, for that excellent testimony. We appreciate the specificity in which you identified some of the programs that have been helpful to you.

Joshua.

STATEMENT OF JOSHUA A. ETEMADI, SALES MANAGER, CONSTRUCTION BONDS, INC., A DIVISION OF MURRAY SECURUS, AND CHAIR, SMALL AND EMERGING BUSINESS COMMITTEE, NATIONAL ASSOCIATION OF SURETY BOND PRODUCERS

Mr. ETEMADI. Chair Landrieu, Ranking Member Snowe, members of the committee, thanks for the opportunity to speak to you this morning. My name is Joshua Etemadi and I am a licensed bond producer with Construction Bonds, Inc., a division of Murray Securus, and I am testifying on behalf of the National Association of Surety Bond Producers, which is a national trade association that employs companies that hire people like myself.

I have personally focused my career, albeit it kind of short, on assisting small and emerging construction firms to get surety credit through the SBA Bond Guarantee Program and also through the standard surety market. And if I have more time during the question period, I would be happy to share some case studies where I was able to use the SBA bond program to help contractors get bonds and are now very successful businesses.

My testimony this morning will highlight the importance of the SBA Bond Guarantee Program and your efforts to enhance its reach. The NASBP extends its appreciation to the committee for recognizing and for taking action in the SUCCESS Act that the current contract limit of the SBA Bond Guarantee Program is insufficient and that it fails to comport with the realities of the current procurement environment for contractors seeking award of public construction contracts, especially Federal contracts.

Now, the SBA Bond Guarantee Program was created to ensure that small and emerging contractors, which for various reasons cannot get standard surety credit, can get access to surety credit, and the program will provide guarantees anywhere from 70 to 90 percent to surety companies as an enticement to extend surety credit to these firms. Now, the contractor and the surety company pay fees to access the program and the current contract limit is $2 million.

In recent years, the SBA has undertaken tremendous administrative efforts to improve the functioning of the program, for example, streamlining its application process, reduction in paperwork, implementing a fast track application for bonds up to $250,000, quickly responding to claims, and expanding the program's reach to include design-build contracts. The SBA has also expanded its marketing efforts to bond producers and surety companies throughout the country and we applaud the SBA for taking these positive measures which could be magnified through statutory program enhancements.

Now, recently, Congress recognized that the contract limit of the program should be increased to aid these businesses that are trying to get bonded contracts. Under the American Recovery and Reinvestment Act, Congress increased the contract limit from $2 million to $5 million, and up to $10 million in certain circumstances. They

also vested discretion in the program administrator to determine the program's liabilities. We supported these important and needed enhancements, but unfortunately, they expired in September of 2010.

Now, by increasing the contract limit back to $5 million, the SUCCESS Act would restore these enhancements, but only in part. We continue to support increasing the contract limit of the Surety Bond Guarantee Program, but we believe that a higher contract limit of $6.5 million would allow the program to serve more small businesses. The NASBP also believes that the program administrator must be vested with statutory discretion to determine program liability to attract more surety company participation.

Beyond increasing the contract limit, investing the administrator with discretion, we believe additional enhancements to the program are necessary to improve its effectiveness in providing assistance to small contractors and we request consideration of the following additional enhancements.

One, raising the guarantees that are offered by the surety companies to a uniform level of 90 percent.

Reducing the fees charged to businesses to access the program. Now, this could be done on a short-term basis to help small businesses with the current economic climate.

And then support the current SBA efforts to establish a system of internal coordination between the Bond Guarantee Program and other SBA departments, like the Loan Guarantee Program and the Business Assistance Programs. And those recommendations are detailed more in my written testimony.

The NASBP appreciates the opportunity to address you on the importance of enhancements to this program and I hope my testimony proves beneficial to your deliberations regarding the SUCCESS Act. I welcome any questions that you may have for me.

[The prepared statement of Mr. Etemadi follows:]

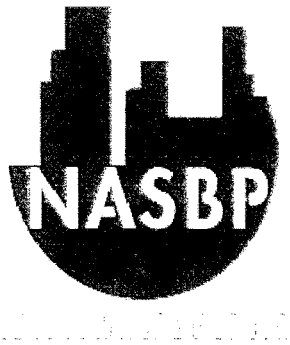
NATIONAL ASSOCATION OF SURETY BOND PRODUCERS

Testimony of Joshua Etemadi
On behalf of NASBP

Before the U.S. Senate Committee on Small Business & Entrepreneurship

On

Creating Jobs and Growing the Economy: Legislative Proposals to Strengthen the Entrepreneurial Ecosystem



November 29, 2012

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The National Association of Surety Bond Producers (NASBP) is a national trade organization of professional surety bond producers, whose membership includes firms employing licensed surety bond producers placing bid, performance, and payment bonds throughout the United States and its territories.

Joshua Etemadi
Sales Manager, Construction Bonds, Inc., A Division of Murray Securus
Chair, Small & Emerging Business Committee
National Association of Surety Bond Producers (NASBP)

Introductory Remarks

NASBP wishes to extend its appreciation to Chairman Landrieu and Ranking Member Snowe and to the members of the Committee for the opportunity to provide written and oral testimony on issues of importance concerning the U.S. Small Business Administration's (SBA) Surety Bond Guarantee Program (Program).

My name is Joshua Etemadi, and I am a licensed bond producer with the firm of Construction Bonds, Inc., a Division of Murray Securus. I am Chair of the NASBP Small and Emerging Business Committee, which was created to advocate for resources to and educational programs for small and emerging businesses, so they may be positioned to qualify for surety credit. My career has been dedicated to helping small construction firms obtain and increase their bonding capacity and grow and mature their businesses, with the goal of moving them from the non-standard surety market (SBA program) into the standard surety market (corporate surety programs).

As examples, my firm assisted a local contractor to obtain its first bond through the SBA Surety Bond Guarantee Program in 2008 for $150,000.00. Within three years, that contractor had grown, obtaining nearly $13 million in surety credit. The use of the Program also was vital in helping another local small construction firm acquire its first bond of $400,000.00 in 2008. Four years later, that construction firm is in the standard surety market with an aggregate bond line of $6 million. These are dramatic success stories, and not all contractors using the program necessarily will equal such successes, but these examples give resounding testament to the fact that the Program does achieve its objectives and is important to the business wellbeing and maturity of small, and particularly emerging, construction firms.

My testimony this morning will focus on S.3442, the "SUCCESS Act," specifically Title V—Access to Government Contracting, Subtitle A—Bonds, Section 511, which amends Section 411(a)(1) and (e)(2) of the Small Business Investment Act of 1958. We support the intent of these changes, which is to increase the reach of the U.S. SBA Surety Bond Guarantee Program to assist more small businesses by increasing the contract limit of the Program. NASBP also believes that additional enhancements are needed.

Assist Small Businesses: Enhance the Program

The Program was created to ensure that certain small contractors, which, for various reasons, do not qualify in the standard surety market, have a means by which to gain access to surety credit. The Program provides guarantees, ranging from 70 to 90 percent, to participating surety companies as an inducement for them to extend surety credit to these construction firms. The construction firm and the surety company pay fees to access the Program.

The Program has been serving small construction businesses for decades and continues to be a necessary and needed federal program. In recent years, under the direction of its Director, Frank Lalumiere, the SBA Surety Bond Guarantee Program has undertaken important efforts to improve its functioning, for example, by streamlining its application processes, implementing a "fast track" application for bonds under $250,000, quickly responding to claims, and expanding the Program's reach to include design-build contracts. Furthermore, SBA has engaged in enhanced marketing and outreach efforts to surety companies, which has increased surety company participation.

NASBP applauds the SBA for taking these critical steps. In the opinion of NASBP, however, more can and needs to be done so the Program can fully realize its potential to assist small businesses. The amendments contained in the SUCCESS Act at Section 511 are important changes that Congress can make to assist the Program to realize its full potential. NASBP also believes additional changes are warranted.

Reforms to the Program included in ARRA

NASBP supported provisions included in the 2009 American Recovery and Reinvestment Act (ARRA), which increased the contract size guaranteed by the SBA from $2 million to $5 million, and up to $10 million if a federal agency's contracting officer certifies that the guarantee is necessary, and vested discretion with the SBA Administrator to determine the Program's liabilities. NASBP supported these provisions; however, they expired on September 30, 2010. The current contract guarantee limit is $2 million.

Those provisions, now expired, permitted the Program to enhance its reach. Beginning with the passage of ARRA on February 17, 2009 until the provisions expired on September 30, 2010, the SBA guaranteed 166 ARRA bid bonds valued at $518 million and 52 final bonds valued at $145.4 million with only one contractor default[1]. While some may argue that increasing the contract size may place the federal government in greater risk regarding contractor default, this did not occur based upon the statistics compiled by the SBA. Based on these statistics, SBA continues to manage the risks undertaken in the Program very prudently.

Since the passage of ARRA, NASBP has modified its position to support an increase in the guarantee limit from $5 million to $6.5 million to align the Program with the simplified acquisition threshold and with the needs of other small business contracting programs, such as the 8a Minority Small Business and Capital Ownership Development Program. Raising the guarantee limit provided by the SBA to $6.5 million will allow small contractors to obtain assistance at higher bond amounts. As a result, increasing the Program's limit would increase opportunities for small businesses to compete for more federal contracts, especially those from contracting authorities, such as the Department of Defense (DoD), where the average size of construction contracts awarded to small businesses for fiscal year 2010 exceeded $5.9 million – nearly triple the size for which

[1] Robert Jay Dilger, SBA Surety Bond Guarantee Program. Congressional Research Service, 7-5700, R42037, pg. 20 (Oct. 6, 2011)

SBA can provide bonding support[2]. Subsequently, the increased contract limit to $6.5 million will allow the Program to better serve the needs of the DoD and other federal contracting authorities as well as small federal contractors.

NASBP believes that it is imperative that the SBA Administrator be provided with statutory discretion to determine liabilities assumed by the Program, so that a denial of a guarantee to a surety company can be partial, reflecting only the amount of the prejudice suffered by the government, and not a complete denial of the entire guarantee. This, again, was an important change temporarily made under ARRA. Restoring this change will act as an additional inducement to attract greater participation by surety companies, which will understand that the value of bond guarantees are solid and not provided on an "all or nothing" basis. Congress needs to ensure inclusion of such a change in its statutory enhancements of the Program.

Additional Reforms to Enhance the Program

Given the current economic climate, NASBP believes that Congress can and should do more to support the U.S. SBA Surety Bond Guarantee Program. These suggestions for additional enhancements, made below, are for the purpose of improving access by small construction firms and increasing participation by surety companies.

Construction firms, particularly those that are small and emerging, still face an exceedingly difficult construction market for the foreseeable future. The construction industry as a whole has been especially hard hit, exhibiting some of the highest unemployment figures of any industry. Congressional consideration should be given to reducing the fees paid by contractors to access the Program. Such a reduction in fees could be taken on a limited time basis to help small construction firms weather the current, difficult economic environment.

Other Congressional considerations should be focused on increasing surety company participation in the Program. The Program currently offers a range of guarantee percentages to participating surety companies, depending on the way the company interfaces with the Program. Recent SBA efforts have improved surety company participation, but NASBP believes that greater surety company participation could be realized by offering a uniform and higher guarantee percentage, such as a guarantee of 90 percent. Such a guarantee would permit more sureties to make the internal business case for underwriting emerging firms through the Program.

Finally, Congress needs to evidence support and funding for an internal SBA effort to coordinate the SBA Bond Guarantee Program and other SBA small business programs, such as those relating to loan guarantees and business assistance. NASBP believes that SBA should facilitate the services needed by a small business through an internal, coordinated effort among the various SBA programs and services. This would involve a "case approach" by SBA to a small business contacting one of its existing programs. For example, when a small business applies to any of the SBA programs in any of the SBA

[2] Challenges to Doing Business with the Department of Defense: Findings of the Panel on Business Challenges in the Defense Industry, House Committee on Armed Services, March 19, 2012, pg. 21.

offices, a case file should be opened and communications should be opened between all SBA programs that can provide assistance to the contractor. The needs of a small business should be reviewed so that it can be connected to the proper SBA program, i.e. loan, bond or other programs administered by the SBA. This should not delay any SBA program from providing the small business the specific assistance sought. If the business is a small and emerging contractor, for example, the SBA Surety Bond Guarantee Program should proceed to provide a bond guarantee while other SBA programs review the contractor for capital needs or other business assistance. It is our understanding that SBA is, in fact, working toward this approach. Such an effort likely will require additional resources and certainly deserves Congressional support.

NASBP believes that the above, delineated enhancements to the Program as well as adopting the provisions included in Section 511 of the "SUCCESS Act," albeit at a higher dollar contract limit of $6.5 million, would create significant opportunities for small and emerging construction businesses and additional incentives for more sureties to assist small firms, which otherwise do not qualify for surety credit in the standard market, to obtain their first bonds, placing them on the right road to business success and eventual entry into the standard surety market.

NASBP appreciates the opportunity to address the Senate Committee on Small Business & Entrepreneurship to raise awareness about important issues and enhancements to the SBA Surety Bond Guarantee Program. NASBP hopes its testimony proves beneficial to the deliberations of the Committee regarding S.3442 and welcomes any inquiries concerning the matters raised in this testimony or on other matters pertinent to small businesses and surety bonding.

Joshua A. Etemadi

Joshua A. Etemadi joined Construction Bonds, Inc. a Division of Murray Securus in August of 2007. Mr. Etemadi has dedicated his career to helping small contractors significantly increase their bonding capacity, having successfully moved contractors from non-standard market/SBA supported bonds to standard market surety credit in short periods of time.

Mr. Etemadi is currently serving as Chairman of the Small and Emerging Contractor Committee through the National Association of Surety Bond Producers (NASBP) and serves on the Government Relations and Automation and Technology Committees. Mr. Etemadi was also an integral part of Construction Bonds, Inc. receiving the 2011 SBA's first ever Surety Bond Producer of the Year award.

Mr. Etemadi has been featured in publications such as Construction Executive and the Washington Post based on his knowledge and expertise on surety bonding for emerging contractors. Mr. Etemadi holds a Bachelor's Degree in Business Management from George Mason University School of Management.

Chair LANDRIEU. Thank you, Joshua, and please give us some additional information about how the SBA works with Governors and local governments and other organizations that are trying to provide the same kind of surety bond expansion so we can see if we are coordinated across the country, if you can provide some testimony later about that——

Mr. ETEMADI. Sure.

Chair LANDRIEU. Okay.

David.

STATEMENT OF DAVID R. CLOUGH, STATE DIRECTOR, MAINE CHAPTER, NATIONAL FEDERATION OF INDEPENDENT BUSINESS

Mr. CLOUGH. Good morning, Chair Landrieu, Ranking Member Snowe, members of the committee. My name is David Clough and I am very pleased to be here to testify on behalf of NFIB, the nation's leading small business advocacy group. It has a typical member of eight to ten employees and about $500,000 in sales, almost the size of this committee a few moments ago.

I would like to recognize the Chair and Ranking Member Snowe and their teamwork that they have showed over the years and recently in the tax extenders bill and working on behalf of small business owners across the country. It is very valuable.

I also want to use this opportunity to underscore the tremendous contributions Senator Snowe has made to the State of Maine and to small business owners. It is with great sorrow that we heard last February that she had decided not to run for reelection, and also I can say that the legacy that she is leaving is one that is going to be hard to duplicate, in our eyes. But her accomplishments will be ones that have lasting effects for many years to come, so we do take comfort in knowing that and hope that when she leaves, she does not get out of her role as advocating for small business.

I would like to also comment that one of the things that is of concern to small business owners, and what we are seeing, actually, policy leaders in the State of Maine and elsewhere, recovery from this Great Recession. Several years ago, the Economic Forecasting Commission of the State forecast that Maine would recover the jobs lost in the Great Recession in about five years. A few months later, they said it would take about seven years. The most recent forecast that came out earlier this month said it will take until 2017 to get back to the employment level that existed in 2007. That is not very encouraging for those who have lost their jobs, and it is not very encouraging for those who have graduated from colleges, community colleges and high school who are looking for jobs, and I will get back to that in a moment.

One of the things that NFIB is learning from its members is there is a tremendous amount of uncertainty out there, and the uncertainty could be classified as uncertainty about economic trends and conditions. Is there a reliable enough trend going on that they can make business plans, they can go to a bank, they can make investment decisions? They have uncertainty about costs and things like the fiscal cliff, what decisions are made by Congress on that, decisions on Section 179 expensing, estate tax, the top marginal rate, and so forth. And then uncertainty about the Affordable Care

Act and what effect that will have on employment costs to businesses and new hires.

And then there is an emerging uncertainty, too, that is not receiving a lot of attention that has been mentioned this morning. That is uncertainty whether a trained workforce will be available for the jobs that the businesses have, and I have heard manufacturers, for example, say they cannot find the people for the jobs that they have. They would happily—and it is not just in Maine. They cannot find them anywhere, for example, in New England or the Northeast United States. And it is not because of the Maine winters that they cannot find them. It is because they just do not have the skilled workforce.

I would mention, though, that those are realities we have to deal with. One reality that is also important to recognize is the spirit of free enterprise and entrepreneurs. They are the people who will get the job done any way they possibly can, do more than expected with less than anybody thought was necessary, which I thought was a wonderful description of that kind of determination. They are the little engine that could. And one of the things that is terrific about them is they will do things that they did not even think were possible, but they figured that, somehow, some way, they will find a way to do that.

NFIB looks forward to working with the committee and working with other groups to accomplish what this country needs, and that is more jobs. My last comment is, if every small business could create just one new job, we would not have an unemployment problem. Thank you.

[The prepared statement of Mr. Clough follows:]

TESTIMONY BEFORE THE UNITED STATES CONGRESS
ON BEHALF OF THE

NATIONAL FEDERATION OF INDEPENDENT BUSINESS

NFIB
The Voice of Small Business®

Testimony of David R. Clough

Senate Committee on Small Business and Entrepreneurship

November 29, 2012

Creating Jobs and Growing the Economy: Legislative Proposals to Strengthen the Entrepreneurial Ecosystem

Good morning, Chairman Landrieu, Ranking Member Snowe, and members of the Committee. I am pleased to be here on behalf of the National Federation of Independent Business (NFIB) as the Committee's hearing today focuses on creating jobs, growing the economy, and legislative proposals to strengthen entrepreneurship.

The NFIB is the nation's leading small business advocacy organization representing over 350,000 small business owners across the country. The typical NFIB member employs about 8 to 10 employees with annual gross receipts of about $500,000. All of NFIB's members are independently owned, which is to say that none are publicly traded corporations.

I have been NFIB's State Director in Maine for 28 years, and during that time I have worked closely with Senator Snowe, who has been a strong advocate and champion for small businesses during her tenure in the United States Senate and before that in the House of Representatives. The small business community greatly appreciates her leadership on issues such as regulatory reform, healthcare reform, and ensuring that small businesses have a seat at the table when regulations are being promulgated. For example, NFIB key voted Senator Snowe's amendment (S.Amdt. 390) to the *Economic Development Revitalization Act of 2011* (S. 782) that would have reformed the regulatory process and created stronger protections for small businesses in the federal regulatory process. Additionally, Senator Snowe's amendment would have expanded the scope of the Regulatory Flexibility Act by requiring federal regulators to include an analysis of the indirect impact of federal regulations on the small business sector.

This year, for the 112th Congress, Senator Snowe received the Guardian of Small Business award, as she has eight times previously while in the Senate. She also received this award while in the House. Speaking for NFIB and small business owners in Maine, I can say that Senator Snowe will be missed but not forgotten. Her legacy of accomplishments – the positive effects she has had for small business nationally and in Maine – are greatly appreciated and will be felt for many years to come.

I would also like to take this opportunity to thank Chairwoman Landrieu and Ranking Member Snowe for their leadership on small business issues, specifically their work to introduce the *Small Business Tax Extenders Act of 2012* (S. 2050), which provides incentives for small businesses to invest in and expand their businesses and helps reduce tax complexity.

Small Business Outlook: State and National

NFIB frequently conducts surveys of both its members and small business owners generally. The monthly *Small Business Economic Trends* survey for October 2012 found that the percentage of owners uncertain about whether business conditions will be better or worse in the next six months was at a record high of 23 percent.[1] Additionally, in the most recent publication of the NFIB Research Foundation's *Small Business Problems and Priorities,* uncertainty over economic conditions ranked second out of 75 problems. Four of the top small business concerns are tax related.[2]

[1] *Small Business Economic Trends*, NFIB Research Foundation, Washington, DC, October 2012.
[2] Holly Wade, *Small Business Problems and Priorities,* NFIB Research Foundation. Washington, DC, series.

While there is no single definition of a small business, the problems our members confront relative to the tax code and the uncertainty surrounding future tax rates and regulations are representative of most small businesses.

Measures of Small Business Problem Importance

Problem	Rank	Percent "Critical"	Percent "Not a Problem"	2008 Rank
Cost of Health Insurance	1	52.3	6.0	1
Uncertainty over Economic Conditions	2	38.3	2.8	new
Cost of Natural Gas, Propane, Gasoline, Diesel, Fuel Oil	3	34.8	6.0	2
Uncertainty over Government Actions	4	35.1	5.9	new
Unreasonable Government Regulations	5	34.1	5.7	6
Federal Taxes on Business Income	6	29.5	6.5	3
Tax Complexity	7	28.8	6.2	5
Frequent Changes in Federal Tax Laws and Rules	8	24.0	7.0	15
Property Taxes (real, inventory or personal property)	9	24.4	8.6	4
State Taxes on Business Income	10	23.8	9.9	7

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NFIB

This is consistent with what I am hearing from small business owners in the state of Maine.

Maine, like many states, is struggling to recover jobs that were lost in the Great Recession and build a strong economy for the future. The November 2012 report from the state's Consensus Economic Forecasting Commission indicates it will take until 2017 to get back to the employment level of 2007. By comparison, the April 2011 report indicated the recovery of jobs would be accomplished in 2014. And, the February 2010 report indicated the recovery of jobs would occur in 2013.[3] The answer to the question "When will we get there?" is taking longer than had been expected. Meanwhile, tens of thousands of unemployed workers and thousands of young people entering the labor market in Maine are wondering what opportunities will exist for them. Existing and new small business owners are wondering, too.

Various business leaders briefed the Forecasting Commission in late October on trends in particular industry segments. As noted in a staff summary:[4]

> Bankers – "Maine banks are well-capitalized and very liquid but have faced increased compliance expenses due to new regulations."

[3] *Report of the Consensus Economic Forecasting Commission*, Maine State Planning Office, Augusta, ME, series.
[4] *Summary of CEFC Data Gathering Session on October 25, 2012*, Maine State Planning Office, Augusta, ME, October 2012.

> Builders & Contractors – "The construction backlog indicator has trended down to just under 5 months, which means jobs may be starting to dry up a bit. An informal survey of about one-third of members found that conditions have been fairly stagnant over the past year."
>
> Auto Dealers – "[E]mployment in auto dealerships has remained relatively stable, recovering from the dip caused a few years back by the auto industry bankruptcies. There are workforce concerns in the coming years, particularly around the availability of technicians with the computer skills that are now needed."
>
> Manufacturers – "While some segments of the manufacturing industry are stagnant, others (such as aerospace and medical devices) are growing. [T]he skills gap is the biggest issue for the industry, both in Maine and nationally. Companies are unable to find the skilled workers they need."

Where the jobs of the future will come from and what types of businesses will create those jobs are key questions.

In the past, small businesses have led the recovery of jobs lost in a recession. In the past, small businesses have been the key seedlings of future growth, innovation, and economic vitality.

But, to borrow from Yogi Berra, "The future ain't what it used to be."

A year ago and into 2012 the National Governors Association held a series of regional meetings around the country that were focused on the topic of growing state economies. A keynote presentation at those meetings by McKinsey & Company – *Faltering Engine: What's Happening to Today's Small Business?* – noted that the rate of startups (new firms less than 1 year old) is down significantly from the highs and lows of 1993 to 2010.[5]

The McKinsey presentation noted several causes including sharply decreased optimism, financing problems, and hurdles caused by regulations and taxes.

"Uncertainty" and "caution" are key words that I hear from small business owners in Maine.

They are uncertain about economic trends and whether future demand for a product or service is predictable enough to support adding jobs or taking out loans for investment in new machinery and equipment.

Uncertainty about costs is another factor. Will new government programs affecting business – federal, state, local – entail costs that are manageable? The costs and effects of the Affordable Care Act are on the minds of many business owners.

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[5] *Faltering Engine: What's Happening to Today's Small Business?*, McKinsey & Company, Discussion Document, National Governors Association, October 11, 2011.

Uncertainty about workforce preparedness also concerns small business owners. Will the workforce have sufficient skills and be available in sufficient numbers? What will be involved in training or retraining workers of the past for the jobs of the future?

These are general themes. What one hears from particular sectors -- retail, services, tourism -- varies by location of the business and time of the year. Business owners who survive a significant recession vow to be cautious about over extending themselves in the future; they become more risk averse.

Years ago I heard a definition of small business that perhaps captures this spirit:

> A small business is one that is independently owned and operated. It has missed at least one payroll. It is small enough to be exempt from government regulations it knows about but large enough to be cited for violating regulations it never heard of. It has at least three fewer employees than it really needs to get the job done. And, it has been in business long enough for the owner to periodically question the wisdom of ever starting it in the first place.

Meanwhile, there are business owners engaged in technology development, or exploring innovative uses of technology, who are eager to obtain funding for research, development, production, and marketing. They are excited about what their business is doing and scared that they are not moving quickly enough, that some other business, somewhere else in the world may be working on the same idea and may be a step ahead.

Most importantly, small businesses need certainty regarding taxes and regulatory actions in order for them to further plan and grow their businesses. However, the uncertainty surrounding the fiscal cliff has hampered their ability to do so.

Uncertainty and the "Fiscal Cliff"

A slew of tax provisions important to small business are set to expire at the end of 2012. These expiring taxes add up to an almost $500 billion tax increase for 2013 alone. This is a major concern for small business owners because it creates uncertainty since owners do not know what their tax liability will be in 2013.

Because most small businesses are organized as pass-through entities, which pay taxes at the individual rate, the expiration of the lower individual rates first instituted in 2001 will hurt small businesses more than other taxpayers. Allowing only the top tax rates to expire will cost 710,000 jobs and shrink the economy by 1.3% in the long-run according to Ernst & Young and will cost 200,000 jobs in the short-run according to the Congressional Budget Office.

In addition to individual rates, the estate tax rate will increase from 35 percent to 55 percent and the exemption will drop to $1 million from $5 million. This will result in 13 times the number of small businesses subject to the estate tax. Also, unless it is "patched" next year, the AMT will hit more small business owners. Finally, many important tax provisions, such as expensing under section 179, will be greatly reduced next year.

Congress must act immediately to permanently extend current individual income tax rates, maintain the estate tax at current levels, and extend other expiring business tax provisions that help small businesses to succeed.

Conclusion

I appreciate that the Senate Committee on Small Business and Entrepreneurship is taking a close look at legislative proposals to strengthen entrepreneurship that as a result will help create jobs and grow the economy. As you move forward, I urge you to be mindful of the unique challenges – such as regulatory, workforce, tax, financial, attitudinal – that face small businesses.

Thank you.

David Clough
State Director, Maine Chapter
National Federation of Independent Business (NFIB)

With the exception of a two-year break in the mid-1990s, David R. Clough has been the NFIB/Maine state director since 1982. In this role he has helped write numerous legislative proposals and amendments, write speeches and position papers for legislators, counseled legislators and candidates on key issues affecting small business owners, testified at hundreds of public hearings and performed a variety of other tasks.

As a journalism major in college and later as a newspaper reporter, Clough gained his ability to research and write informatively about a wide variety of issues. From 1973-1976 he was a special assistant on Capitol Hill to Hon. William S. Cohen. He was also a delegate to the White House Conferences in 1986 and 1995 and has served on numerous state commissions and councils including the Business Advisory Councils of three governors.

A native of Bangor, Maine, Clough has two daughters and lives in Yarmouth, Maine. He is also a member of the Portland Rotary Club.

Chair LANDRIEU. Thank you. I say that constantly, and thank you for repeating it here.

Diana.

STATEMENT OF DIANA FURCHTGOTT-ROTH, SENIOR FELLOW, MANHATTAN INSTITUTE FOR POLICY RESEARCH

Ms. FURCHTGOTT-ROTH. Chair Landrieu, Ranking Member Snowe, Senator Shaheen, thank you so much for inviting me here to testify today. And Senator Snowe, thank you so much for all your years of service and all the wonderful things you have done in this committee and also outside.

Thanks also for holding this hearing today. This is really a vitally important issue. So the programs we have talked about today, the SBA programs, reach millions of entrepreneurs, but there are many more whom these programs do not reach. That is why it is important to look at the whole regulatory and tax structure of what entrepreneurs are facing.

So if you are an entrepreneur today—and I am married to one entrepreneur, I am the mother of another entrepreneur—you do not know what your tax rate is going to be in a month. If you are at the bottom, you do not know if it is going to be ten percent or 15 percent. If it is at the top, you do not know if it is going to be 35 percent or 42 percent, including the phase-outs of the deductions and personal exemptions. About 48 percent of small businesses pay tax at the 35 percent rate, according to calculations from Internal Revenue Service data. If you are an entrepreneur, you do not know if the small business tax exemption, if the estate tax exemption is going to drop to $1 million and the tax rate rise to 55 percent, as is due on January 1. That means if you die the first month of January or before Congress has finished and sorted this out, your heirs might have to sell the business in order to pay the estate taxes. This is just a terrible situation to be with.

It is not just the uncertainty of the fiscal cliff that is a problem, but the new health care act has real effects on small business and entrepreneurs because it takes effect as businesses move from 49 to 50 workers. And, Chair, you presented evidence before showing that a smaller number of jobs had been created by business. Well, the Affordable Care Act discourages business from creating jobs. If you move from 49 to 50 workers and you do not have the right kind of health insurance, you have to pay penalties of $40,000 a year. Move to 51 workers, it is $42,000 a year in penalties. And that encourages businesses to keep employment below the 49—at 49 or below. You can, of course, solve this problem if you are an entrepreneur by laying off your full-time workers and hiring part-time workers, but that is not good for employees of small business. It is not good for the small business owners, who would, of course, prefer to have more experienced employees working for them.

Another cloud of uncertainty lies over energy regulations. We all know the great American energy revolution caused by hydrofracturing. We look at North Dakota, three percent unemployment rate. Hydrofracturing, our new natural gas supplies, we have 200 years of an inexpensive fuel. But guess what. The Environmental Protection Agency and the Energy Department have rules in the wings they are going to be rolling out over the next few

months that might stem that supply of natural gas. We do not know what those regulations are. And if you are a small business, maybe you are in the petrochemical area, maybe you are doing some subcontracting from one of these large companies, these regulations can just wreck your business. Plus, it would raise your energy costs. So that is another big source of uncertainty.

I would really like to echo what previous panelists said about the need for immigration reform. There are innovators, entrepreneurs, all over the world who want nothing more but to come to America, and the Start-Up Act and the Kerry-Lugar bill would allow them to come for a five-year period and then get a green card if they managed to create jobs for native-born Americans. And I would underscore the importance of immigration reform, being an immigrant myself.

Thanks very much, and I would be glad to answer any questions.

[The prepared statement of Ms. Furchtgott-Roth follows:]

Effects of Regulatory and Fiscal Uncertainty on Entrepreneurs

Diana Furchtgott-Roth
Senior Fellow, Manhattan Institute for Policy Research

Testimony before the Senate Committee on
Small Business and Entrepreneurship

November 29, 2012

Effects of Regulatory and Fiscal Uncertainty on Entrepreneurs

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Chair Landrieu, Ranking Member Snowe, members of the Committee, I am honored to be invited to testify before your Committee today on the subject of the effects of regulatory and fiscal uncertainty on employers.

I have followed and written about this and related issues for many years. Currently I am a senior fellow at the Manhattan Institute for Policy Research. I am the author of several books, most recently *Regulating to Disaster: How Green Jobs Policies Are Damaging America's Economy* (Encounter Books, 2012). I am the editor of *Overcoming Barriers to Entrepreneurship in the United States* (Rowman and Littlefield, 2008).

From February 2003 until April 2005 I was chief economist at the U.S. Department of Labor. From 2001 until 2003 I served at the Council of Economic Advisers as chief of staff and special adviser. I have served as Deputy Executive Secretary of the Domestic Policy Council under President George H.W. Bush and as an economist on President Ronald Reagan's Council of Economic Advisers.

The State of the Economy

The Great Recession ended in June 2009, but, over three years later, the economy still has not recovered. The annualized growth of gross domestic product is barely two percent. October's unemployment rate stood at 7.9 percent, and 40 percent of the unemployed have been out of work for six months or more.

Labor Department data from the Job Openings and Labor Turnover Survey, released on November 6, show that employer job openings and hiring rates are still at low levels. The job openings rate in September was 2.6 percent, down from 3.2 percent in September 2007. The hiring rate in September was 3.1 percent, down from 3.3 percent in August. Five years ago, in September 2007, it was 3.7 percent.

The economy created only 171,000 jobs in October, following a revised 148,000 jobs in September. The civilian labor force participation rate is 63.8 percent, down from 64.1 percent in October 2011 and 65.8 percent in October 2007. This is the same level as in April 1983, at the beginning of the decade when millions of women moved into the labor force.

Despite all the people who have left the labor force, the unemployment rate remains unacceptably high at 7.9 percent. Over 12 million Americans were unemployed in October, and the percentage of the unemployed out of work for 27 weeks or longer stands at 40 percent. The Labor Department's broadest measure of unemployment, including discouraged workers and those at work part-time for economic reasons is at 14.6 percent.

The 7.9 percent overall unemployment rate masks other groups within the economy that are doing far worse. The African American unemployment rate is 14.3 percent. Teens' unemployment rates are even higher, at 23.7 percent, and the African American teen unemployment rate is 40.5 percent.

It is most troubling that although jobs are the first priority for most Americans, the Administration's regulatory and legislative agenda has the effect of reducing jobs rather than creating them. The uncertainty of proposed tax increases, energy and environmental regulation, and the Affordable Care Act serve to drive jobs abroad rather than foster domestic growth.

The Role of Entrepreneurship

Syracuse University professor Carl Schramm and Bloomberg Government director of research Robert Litan, in a new book, *Better Capitalism: Revewing the Entrepreneurial Strength of the American Economy*, have calculated that the economy produces about 15 companies a year that will grow to earn $1 billion in revenue—the Googles, the Apples, the Yahoos. These companies were founded by entrepreneurs and grew to be giants, powering the economy.

If the number of such entrepreneurs could be raised to approximately 60 companies a year, GDP growth would rise by one percent, estimate Litan and Schramm, generating another $150 billion in output and reducing unemployment and deficits.

What stands in the way of the formation of these additional companies? What laws and government policies are preventing the next Microsoft and Ford Motor Company from getting off the ground?

The Uncertainty of the Fiscal Cliff

One drawback is the so-called fiscal cliff, which refers to the combination of spending cuts and tax increases that will occur on January 1, 2013, if Congress does nothing. Increasing taxes by $514 billion next year will make America less competitive and slow the economy. More entrepreneurs will be attracted by

offshore lower-tax locations, and those that remain will make fewer investments. Table 1 describes the tax changes that are due on January 1.

The Congressional Budget Office estimates that going off the fiscal cliff will reduce GDP growth in 2013 by half a percentage point, and that the unemployment rate will rise to over 9 percent. Ninety percent of households will face tax increases next year, according to the Brookings Institution-Urban Institute Tax Policy Center.

According to the Tax Foundation, at the upper end, a four-person household at median income in New Jersey would see a 7 percent increase in federal taxes of almost $7,000. Other states that would be hardest-hit include Maryland, Connecticut, and Massachusetts.

Businesses plan ahead, and Internal Revenue Service data show that 48 percent of small business income is taxed at the 35 percent individual rate. If the Bush tax cuts expire and the top tax rate rises to 42 percent, including the new Medicare tax and the phaseout of personal exemptions and itemized deductions, some businesses will cut back. They may delay expansion and investment and lay off workers.

The failure to pass a change in the alternative minimum tax for 2012 will have consequences for 2013 first-quarter growth. Without the fix, 28 million more people, including many entrepreneurs, will pay additional taxes under the AMT, a tax originally set up to catch high income earners but which now traps millions of middle-income earners as well.

Acting Internal Revenue Service Commissioner Steven Miller, in a letter to House Ways and Means ranking minority member Sander Levin (D-MI), reported that the IRS has programmed its computers in the expectation that Congress would adjust the AMT, as it has done in prior years. Reprogramming the computers would take months, and 60 million taxpayers would be unable to file returns or get refunds until late March.

Some of the most harmful effects of the fiscal cliff come from increases in taxes on capital, because capital investment allows entrepreneurs to expand and powers future growth. Raising long-term capital gains tax rates to a maximum of 24 percent from 15 percent means that people will postpone sales of capital assets in the hope that the rate will again decline. Raising taxes on dividends from 15 percent to a maximum of 43 percent will discourage firms from issuing dividends.

Taxes matter. If they did not matter, Congress could double them and get rid of the deficit. Taxes affect individual and business decisions. States with high taxes, such as New York and California, see that their residents migrate to low-tax states, such as Texas and Florida. Countries with high tax rates find they are unsustainable because capital is global.

Corporate tax reform would help entrepreneurs because it would attract capital back to the United States. America has the highest corporate tax rate in the industrialized world, at 35 percent, and, unlike most countries, corporations are taxed on their worldwide income. Both Republicans and Democrats have proposed lowering the top corporate tax rate. Further, the structure of the Research and Development tax credit needs to be modified, because it is of little use to start-up firms that have yet to make a profit.

Increasing Job Growth through Regulatory Reform

In addition to the fiscal cliff, numerous unpredictable regulations add to the costs of doing business and discourage entrepreneurship. Through regulatory reform, by executive action, President Obama could create more jobs without spending another dollar of taxpayer money, generating billions of additional dollars in income tax revenues for Treasury coffers.

Regulations are controlled by presidential appointees at agencies such as the Environmental Protection Agency and the Labor Department, which are part of the executive branch, and at "independent" agencies, such as the National Labor Relations Board and the Securities and Exchange Commission, which has quasi-judicial functions.

Tougher regulations lead to numerous economic woes, not least incentivizing employers to locate elsewhere. Friendlier regulations draw them back home.

Mr. Obama acknowledged this when, on January 18, 2011, he issued Executive Order 13563, entitled Improving Regulation and Regulatory Review.

Each agency is supposed to make a plan to "periodically review its existing significant regulations to determine whether any such regulations should be modified, streamlined, expanded, or repealed so as to make the agency's regulatory program more effective or less burdensome in achieving the regulatory objectives."

On July 11, 2011, President Obama issued Executive Order 13579, extending this regulation to independent agencies.

While Mr. Obama knows that burdensome regulations crimp job creation, his agencies continue to interfere with private sector job creation.

The Environmental Protection Agency is set to release multiple regulations over the next few months. A prime target is coal, which accounts for 38 percent of American electricity production, down from 45 percent in 2010. EPA is developing regulations to restrict coal ash emitted into the atmosphere. It wants to impose tighter standards for mercury, nitrogen dioxide, sulfur dioxide, and other particulates, and new standards for water and carbon. It is considering regulations on hydrofracturing, potentially limiting the use of new-found inexpensive natural gas which can draw manufacturing back to America. EPA asserts that these more restrictive limits are necessary to protect public health.

Although these regulations might result in some small improvements in air quality, these regulations will raise the price of energy, discouraging energy-intensive manufacturing. The timing of these regulations appears unnecessarily harsh, especially because EPA states on its Web site that U.S. air quality has been steadily improving since 1980:

> "Since 1980, nationwide air quality, measured at more than a thousand locations across the country, has improved significantly for all six principal pollutants. These common pollutants are ground-level ozone, particle pollution, nitrogen dioxide, carbon monoxide, sulfur dioxide, and lead."

Furthermore, the links between improved air quality and health are unclear. At the same time as air quality has been improving, the incidence of asthma, a disease commonly associated with polluted air, has been increasing. Between 1980 and 2001, as measured air quality was improving, the prevalence of asthma tripled, according to the Centers for Disease Control.

EPA regulations have resulted in the closure of over 100 coal-fired power plants since January 2010. Although one stated reason for EPA's regulations is to help the world's climate, reducing American coal consumption does not help global climate change if that same coal is used in China.

The Affordable Care Act

Even though the Affordable Care Act's taxes on small business do not take effect until 2014, the law is already affecting employment. Beginning January 1, 2014, companies that do not provide the right kind of health insurance will pay $2,000 per worker per year if they have more than 49 workers. Moving from 49 to 50

workers will cost a firm $40,000 per year (the first 30 workers being exempt from the penalty).

This law is especially expensive for small firms, many of whom do not already offer health insurance.

This requirement will cover employers with at least $500,000 in annual payroll costs, and it will add to employment costs for workplaces that do not now have the prescribed set of health benefits. Workers who are not laid off will receive lower wages to compensate for the higher benefits.

Unfortunately for employees, the Affordable Care Act encourages businesses to replace full-time workers with part-time workers, because firms do not pay the penalty on employees who work fewer than 30 hours per week. Several companies, especially in the leisure and hospitality business, have announced that they will be hiring more part-time workers.

Income taxes on the most productive small businesses will increase, making them less willing to expand productions and employment. The top tax rate on business owners who pay taxes as individuals, not corporations, now is 35 percent. Under the new health care bill it will rise even higher, with the inclusion of an additional 0.9 percent Medicare tax on wage and salary income and a new 3.8 percent Medicare tax on investment income for singles and couples earning over $200,000 and $250,000 respectively. With state taxes, some combined rates will exceed 55 percent. That will discourage hiring and encourage retrenchment and use of contractors.

Immigration

One reform that would help entrepreneurship would be to revise our immigration laws to admit more highly skilled immigrants and entrepreneurs, a goal that has been embraced by some Republicans and some Democrats.

Many people do not understand how immigrants could help create jobs. "Why give out more visas when we have a high unemployment rate?" is a typical question.

But data show that immigrants found new companies in America at greater rates than do native-born Americans. If America allowed more immigrants to enter, and gave green cards to those who created jobs, employment would rise.

Consider Sergey Brin's Google, Andrew Grove's Intel; Jerry Yang's Yahoo; Pierre Omidyar's eBay; and Elon Musk's PayPal and SpaceX, to name but a few. Past

immigrant founders include Alexander Graham Bell, Levi Strauss, Adolph Coors, and Henry Heinz.

Once companies are around five years old, they appear to reach a hiring equilibrium. They keep the workers they have already hired, but on average their employee expansion rate slows down and they generate no new jobs. One way to expand employment is to attract more new, innovative firms.

A bill sponsored by Massachusetts Democrat John Kerry and Indiana Republican Richard Lugar would set up a new class of visa called the EB-6, aimed especially at entrepreneurs.

Those who could bring in capital from abroad, or who have already generated U.S. sales, would be eligible for the visa. If they hired a certain number of non-family members, the EB-6 would transition into a green card, and they could stay forever and become citizens.

The Kerry-Lugar bill proposes about 5,000 EB-6 visas a year. Those immigrants who did not hire workers would not receive green cards and would have to leave. The Kerry-Lugar bill would allow America to take potential entrepreneurs on a provisionary basis, and keep the successful ones.

This visa would be especially attractive to some of the million immigrants in America who now have temporary H1-B visas, work permits obtained by employers that require workers eventually to return to their home countries. If H1-B visa holders could start companies and hire other workers, they could convert the H1-B visa to the EB-6, and then progress to the green card.

Once an H1-B visa was converted into an EB-6, one market for the new entrepreneur would be his former firm. Rather than selling his services to an employer, he would sell his firm's services to his former employer, and also to other employers.

Another group that could benefit from EB-6 visas would be the 60,000 foreign students who graduate with American degrees in the technical fields of science, technology, engineering, and math.

The possibility of such visas would encourage more foreign students to come here to study. Now, many do not come, because they believe that they will just have to return home when their studies are completed. Instead, they study elsewhere, for example in Canada, Britain, and Australia.

The uncertainty of the fiscal cliff and the administration's legislative and regulatory agenda dampen economic growth and overall job creation. With this agenda, the economy will not produce the jobs needed to reduce unemployment, including long-term unemployment.

Table 1 : Tax Changes Taking Effect January 1, 2013

Tax Change	Tax Increase (2013 over 2012)
Expiration of the 2001-03 tax cuts (not including estate)	$156 billion
Expiration of the payroll tax holiday	$125 billion
Failure to patch the Alternative Minimum Tax	$88 billion
Expiration of business expensing	$48 billion
Expiration of other "tax extenders"	$40 billion
New PPACA (Obamacare) taxes	$36 billion
Expiration of the 2009 stimulus	$11 billion
Estate tax increase	$10 billion
Total, Tax Increases	**$514 billion**

Source: Tax Foundation; Congressional Budget Office; Joint Committee on Taxation; Office of Management & Budget.

Diana Furchtgott-Roth

Diana Furchtgott-Roth is a senior fellow at the Manhattan Institute. She is a contributing editor of RealClearMarkets.com, and a columnist for the *Washington Examiner*, MarketWatch.com, and *Tax Notes*. From 2003 to 2005, Ms. Furchtgott-Roth was chief economist of the U.S. Department of Labor. From 2001 to 2002 she served as chief of staff of President George W. Bush's Council of Economic Advisers. Ms. Furchtgott-Roth served as deputy executive director of the Domestic Policy Council and associate director of the Office of Policy Planning in the White House under President George H.W. Bush from 1991 to 1993, and she was an economist on the staff of President Reagan's Council of Economic Advisers from 1986 to 1987.

Ms. Furchtgott-Roth is the author of *Regulating to Disaster: How Green Jobs Policies are Damaging America's Economy* (Encounter Books, 2012) and *Women's Figures: An Illustrated Guide to the Economic Progress of Women in America* (AEI Press, 2012). She is the editor of Overcoming Barriers to Entrepreneurship in the United States (Rowman and Littlefield, 2008). Her articles have been published in the *New York Times, Washington Post, Financial Times, The Wall Street Journal, Investor's Business Daily*, the *Los Angeles Times*, and *Le Figaro*, among others.

Ms. Furchtgott-Roth is a frequent guest on FOX Business News, and she has appeared on numerous other TV and radio shows, including CNBC's Larry Kudlow Show, C-SPAN's *Washington Journal*, and PBS's *The NewsHour* with Jim Lehrer.

Ms. Furchtgott-Roth's areas of expertise include employment, taxation, education, pensions, unionization, and immigration. Ms. Furchtgott-Roth was assistant to the president and resident fellow at the American Enterprise Institute from 1993 to 2001. From 1987 to 1991 she was an economist at the American Petroleum Institute, where she authored papers on energy and taxation.

Ms. Furchtgott-Roth received her B.A. in economics from Swarthmore College and her M.Phil. in economics from Oxford University.

Chair LANDRIEU. Thank you for that excellent testimony.
Julie.

STATEMENT OF JULIE R. WEEKS, PRESIDENT AND CHIEF EXECUTIVE OFFICER, WOMENABLE, AND CHAIR, ASSOCIATION OF WOMEN'S BUSINESS CENTERS

Ms. WEEKS. Thank you, Chair Landrieu, Ranking Member Snowe, Senator Shaheen, for inviting me to be here with you today. I am representing not only myself as a woman business owner, but the 8.3 million women-owned businesses that are sitting behind me in the room, out in the world doing business, and I have, as Senator Snowe recognized at the beginning—thank you very much—been working in the vineyards of women's enterprise development for quite a long time.

We know from analyzing census data, conducting research, that women-owned firms continue to grow in number at rates one-and-a-half times the national average. We have been saying all along in this hearing this morning, bemoaning the lack of small business job growth. Well, the only small businesses really in any great number creating jobs these days are women business owners. Other privately-held companies are not creating jobs and not generating revenue. Women-owned businesses are.

I would suggest that part of the reason for that is the big bang of women's entrepreneurship that happened back in 1988, the Women's Business Ownership Act. We are coming up—next year will be the 25th anniversary of the Women's Business Ownership Act, so it is very important to not only look at what the progress has happened since then, but to look at the major underpinnings of that Act and see, how can we make them better going forward.

The four main tenets of that Act was extending the Equal Credit Opportunity Act of 1974 to include business credit. Up until that Act—Senator Snowe remembers this well—women business owners could not get business credit in their own name. It told the Census Bureau, please start counting all women-owned businesses, including C Corporations. It established the National Women's Business Council, which gave women entrepreneurs a voice. And it established the demonstration project, which has grown into the 106 Women's Business Centers today. I would suggest that those four areas are continuing to be important.

Another key area, though, that is of great importance is access to markets. As some folks may realize, or remember back to 1988, there was a provision in the introductory bill of H.R. 5050 that included a Women-Owned Small Business Procurement Program. It was removed to ensure passage of the Women's Business Ownership Act of 1988 and it was only—the five percent procurement goal was only put in the mid-1990s. The Women-Owned Small Business Program, as we all know, took a long time between passage and implementation, and we need more teeth to that Act.

I would suggest—I have three specific recommendations for consideration for this committee, the first one of which is to eliminate that monetary limit on the women-owned small business contracts tool and to allow agency purchasing to be reserving procurements specifically for women-owned small businesses. Once women-owned

businesses get into procurement, the playing field, we have seen in research, is relatively level, but getting in is the challenge.

Secondly, Women's Business Centers is a very critical, important program. Senator Landrieu, I love your idea of naming it the Olympia Snowe Women's Business Center Program. I think, personally, that would be a marvelous idea. But I believe—we have been talking this morning and the folks from the SBA said that they are going to be harmonizing and analyzing the outcomes of SBA's Entrepreneurship Development Programs in commonality, but I would suggest that if we are looking at the only point of comparison between the three programs of SCORE, SBDC, and Women's Business Centers, which is one-on-one counseling, we are missing the majority of the activities that Women's Business Centers perform. They not only provide one-on-one counseling, but training, mentoring programs, peer mentoring, incubator programs, access to capital, either directly or loan packaging. We are not capturing the full value of the Women's Business Center Program.

And, finally, I would recommend that we maintain analysis and research and information on women- and men-owned businesses. A survey of small business owners of the Census Bureau has also been under the knife. I realize that is not under the purview of your committee specifically, but I do know that in the Women's Business Ownership Act, you directed the Census Bureau to start counting all women-owned businesses. I have a couple of ideas of some additional analysis that the census could perform to better understand the growth continuum of women- and men-owned businesses that is included in my written testimony.

And I guess, finally, even though I am running a tad over, if I am the last person to testify at a hearing, a Small Business Committee hearing, being co-chaired by Ranking Member Snowe, I want to, on behalf of all women business owners all around the country, thank you. Thank you very much for your service.

[The prepared statement of Ms. Weeks follows:]

Testimony of Julie R. Weeks
President and CEO, Womenable
Chair, Association of Women's Business Centers
U.S. Senate Committee on Small Business and Entrepreneurship Hearing on November 29, 2012

It is an honor to have been asked to testify at this hearing, and offer my thoughts and observations on the state of women's enterprise development, what lies ahead for the women's business community, and what public policy actions could be most effective and impactful for the nation's 8.3 million women-owned businesses and their 7.7 million employees. It is most fitting – for women's enterprise advocates in particular – to reflect on this matter, as 2013 marks the 25th anniversary of the Women's Business Ownership Act of 1988.

As all women's business advocates know, there were four main tenets of the Act:

1) Extending the Equal Credit Opportunity Act of 1974, which allowed women to establish personal credit in their own names, to business credit – enabling women business owners to gain much wider and direct access to capital;
2) Directing the US Census Bureau to include women-owned corporations in their quinquennial business census for the first time, as leaving them out painted an incomplete, undervalued picture of the economic contributions of women-owned firms;
3) Establishing the National Women's Business Council, providing a voice for women business owners and their associations in federal policy making; and
4) Launching a "demonstration project" of relational entrepreneurial training that has grown from 4 original training organizations to a network of over 100 women's business centers in nearly every state today.

Since the passage of that landmark legislation in October 1988, there has been tremendous progress in support for women's entrepreneurship, and in the growth and diversity of women-owned businesses. In my view, the main markers of progress and achievement have been:

- The proliferation of women's business membership associations, and the increasing power of their voices;
- A growing body of research-based knowledge about women business owners and their enterprises;
- A sea-change in the way the "women's business market" is viewed by corporations and financial institutions – from casual, part-time, home-based businesses not worthy of special attention to a growth market of customers and suppliers; and
- Above average growth in the number of women-owned businesses overall, as well as in the diversity of their owners and their industries.

We know that, as of 2012, there are an estimated 8.3 million majority women-owned businesses, employing 7.7 million people and generating nearly $1.3 trillion in revenues. Adding equally-owned firms into the picture, there are 13.2 million women- and equally-owned firms, employing 15.8 million workers and generating nearly $2.7 trillion in revenues.

We also know that, over the past 15 years, women-owned firms have been growing in number at a rate 1-1/2 times that of all U.S. firms, and the growth in employment and revenues of women-owned firms is exceeding that of all other privately-held businesses in the economy – up 9% and 58%, respectively.[1]

However, we also know that the vast majority of women-owned firms – a far greater proportion than men-owned firms – remain small. Fully 81% of men-owned firms have no employees other

[1] The State of Women-Owned Business Report: A Summary of Important Trends, 1997-2012. Commissioned by American Express OPEN, written by Womenable, based on published data from the US Census Bureau.

than the owner, but that number rises to 90% among women-owned firms. Just 2% of women-owned firms employ 10 or more workers, compared to 5% of men-owned firms. And just 2% of women-owned firms have crossed the million-dollar revenue threshold, compared to 6% of men-owned firms.

As small business advocates and economic policymakers, we all know that the key question is how to move more businesses from self-employers to job creators, and from small firms to medium-sized and even larger. And I would suggest that the answer to that key question may well be different for women-owned businesses than it is for men-owned firms.

In my view, and in the view of many other women's business advocates, issues surrounding the ***growth continuum*** are the "next big thing" for women's enterprise development in the United States (and globally, for that matter). And by growth continuum I mean recognizing that "growth" is not either-or, not sitting still versus going 100 miles an hour. We are doing many small businesses a disservice by ignoring moderately paced growth in foundational small firms in favor of chasing after the shiny object of the "fast-growth" or "high growth potential" firm. It is not only easier to pave the way for 100 five-employee firms to hire two workers each than to get one high-potential firm to grow from zero to 200, it is likely to be more sustainable and healthier in the long term for the communities in which those 100 small businesses are located.

Further, in grappling with the issue of supporting growth all along the growth continuum, I believe that where we as supporters of enterprise development are still falling short is in the recognition, acceptance and, indeed, celebration of the fact that many women start and grow their enterprises for different reasons than their male counterparts, may take a less linear path to business achievement, and define success by different metrics.

Looking forward at the activities of this Committee for the remainder of this year, and into the next Congress with respect to the women's business community, I would offer policy recommendations in three key areas: 1) greater access to the federal marketplace for women-owned small businesses; 2) a more complete measurement of the impact of women's business centers; and 3) continued support for the Census' Survey of Business Owners, and a more nuanced investigation of women-owned and -led businesses.

1. Federal Procurement and WOSBs

One key avenue for growth for many small businesses is the federal marketplace. The U.S. government spent over $535 billion in FY2011 on contracts and grants, and we know there is a goal to spend 23% of that with small businesses in general, and 5% with women-owned small businesses. (In FY2011, they spent 21.65% and 3.98%, respectively.)

Once small businesses become active federal contractors, the playing field is remarkably level. While among women-owned firms overall are just 40% as likely as the average small business to cross the million-dollar revenue threshold, among active federal contractors there is no significant difference by gender in the level of sales achievement nor in the value of federal contracts over the lifetime of their involvement in federal contracting.[2]

However, opening the doors to more equal access to the federal marketplace for women-owned small businesses has been more problematic. Federal procurement assistance for women-owned small businesses was originally included in H.R.5050/S.2733 back in 1988, but was

[2] Women and Minority Small Business Contractors: Divergent Paths to Equal Success. Published February 2012.

removed in order to pass the bill. Indeed, it was not until 1994 that the 5% goal was established, and we all know that the Women-Owned Small Business procurement program, passed by Congress in 1999, was not implemented until 2009, and an office to manage the program was not established until 2011. Senators Landrieu and Snowe have been vocal and stalwart supporters of this issue, and S.2172 (the *Fairness in Women-Owned Small Business Contracting Act of 2012)* and the subsequently introduced S.3442 (the *SUCCESS Act)* and S.3572 *(the RESTART Act)* all would make very positive improvements to the program. **In particular, it is critically important that the dollar threshold on WOSB contracts be eliminated and that reserved procurements be explicitly allowed.** All major women's business groups, including NAWBO and WIPP, have spoken out in favor of these actions, and as a member of both organizations, I heartily concur.

2. Women's Business Centers

Federal support for entrepreneurship education and technical assistance for women-owned businesses has had a checkered past, and even now there are some in the U.S. Congress who feel that one size should fit all with respect to enterprise development. Women's business advocates, including Senators Snowe and Landrieu, know better, and have been strong supporters of women's business centers.

As federal spending is tightened, as it must, programs need to show their impact and effectiveness. With respect to women's business centers, it has been shown that the information collection and cross-program analysis undertaken by the SBA to evaluate WBCs, SBDCs and SCORE is inadequate, as it covers only the points of commonality across the programs (specifically one-on-one counseling) and not the full range of all of the support that is provided to clients by WBCs, including: training for start-up and growth, mentoring, peer counseling and support, WBE certification for government procurement and access to corporate purchasing, incubator space, loan packaging and even direct lending. Indeed, a survey conducted last year by the Association of Women's Business Centers found that the WBC statistics provided by the SBA may be undercounting the performance of WBCs by as much as 24%. According to the AWBC, each WBC – on average – helped to launch 121 new businesses and create 333 new jobs per center in FY2010, and assisted businesses whose collective revenues totaled $12.2 million.[3]

I would recommend that any analysis of performance data for women's business centers (such as that proposed in S.3442 and S.3572) ensure that all activities that WBCs undertake to fulfill their mission are included in that analysis. To exclude the activities that differentiate WBCs from other entrepreneurial development efforts is to ignore the very qualities that make WBCs unique, customer-centric, location-specific, welcoming to women, and highly successful.

3. The Census Bureau's Survey of Business Owners

Data from the U.S. Census Bureau has been critically important to women's business advocates, which is why a more complete accounting of the economic contributions of women-owned firms was one of the cornerstones of the Women's Business Ownership Act of 1988. In the first quinquennial census conducted after the passage of that act (the 1992 census, published in 1995), when the Census included women-owned C corporations for the first time, the number of enumerated women-owned firms in the US increased by just 9%, but the

[3] See the AWBC 2011 Economic Impact Survey: Executive Summary.

employment attributed to women-owned firms jumped by 111% and the measurement of the revenues generated by women-owned firms shot up by 145%. It was these numbers that made corporations wake up to the value of women-owned firms as customers and suppliers, led banks to begin targeting women-owned firms, and amplified the voice of women's business associations.

The Census Bureau's quinquennial Survey of Business Owners (SBO) has been an invaluable tool for mapping progress and uncovering gaps in the growth of the number, employment and revenues of women-owned businesses – and of minority-owned firms as well. **Maintaining funding for the Census' SBO program is, therefore, critically important.**

Further, my recent analysis of the growth of women-owned businesses over the past 15 years, which has utilized the Census data, has highlighted two areas that I feel would be beneficial to learn more about:

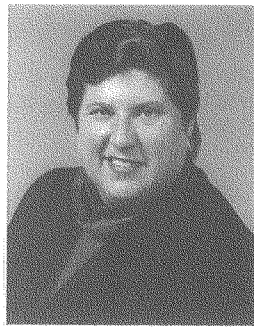
1) Trends in the number and size of "women-led" firms. As businesses grow, many attract outside investors or share business ownership with senior managers in the company. Therefore, a firm that was women-founded and formerly majority women-owned may drop below the 51% majority ownership threshold. We need to learn more about how and when that happens, and what the size and economic contributions of this invisible population of women-led firms are.
2) There is growing discussion, here and elsewhere in the world, about social enterprises. These can be for-profit firms that consciously follow "triple bottom line" practices, one of a growing number of businesses that structure themselves as "B" (benefit) corporations, or non-profit organizations. Research suggests that women are more likely than average to follow these principles and lead non-profit organizations, but the Census Bureau currently combines non-profit organizations along with publicly-traded large corporations into the "publicly held and other firms not classifiable by gender, Hispanic or Latino origin, or race" category. The Census Bureau should study the feasibility of separating non-profit organizations from publicly traded firms, ensuring the addition of the "b" corporation legal form of organization, and testing whether gender of ownership can be measured among these firms.

I would recommend that the Economic Census Branch of the Company Statistics Division of the Census Bureau consider ways to address these issues, either by modifying the SBO survey tool or by analyzing existing data in greater depth. I would further suggest that this is a potential area of inquiry for the National Women's Business Council.

Finally, if I might be so presumptuous to speak on behalf of the entire women's enterprise development community, I would like to recognize that, ever since she came to the U.S. Congress in 1978, Senator Olympia Snowe has been a vocal supporter and forceful advocate for women's entrepreneurship issues without equal in the U.S. Congress. Her support and thought leadership on behalf of the women's business center program, on federal procurement issues, on SBA entrepreneurial development coordination and impact evaluation, on the National Women's Business Council; her inclusiveness in calling advocates to the table to discuss challenges and solutions; and the collegial way she has led the Senate Committee on Small Business and Entrepreneurship as both Chair and Ranking Member is unparalleled and is a shining example of the best in national politics and policymaking. Her voice and leadership will be sorely missed by all of us.

womenable
Enabling women's entrepreneurship worldwide

Julie R. Weeks



Julie Weeks is the President and CEO of Womenable, a for-profit social enterprise that works to enable women's entrepreneurship worldwide by improving the systems – laws, policies, programs and research-based knowledge – that support women's enterprise creation and growth. Weeks is one of the world's leading experts in the field of women's enterprise development, with experience in both the private and public sectors in the areas of research, public policy and program management. She is an accomplished oral and written communicator, with proven ability to translate data and complex information into clear, concise, and actionable knowledge.

Weeks has over 30 years experience in research, public policy, and communications. For three years, she served as Executive Director of the National Women's Business Council, a federally-funded bipartisan policy advisory body created by the U.S. Congress to serve as an independent voice of women's entrepreneurship and an advisor to the President, U.S. Congress and the U.S. Small Business Administration on women's entrepreneurship issues. Prior to that position, Weeks spent nine years as the Director of Research and Managing Director of the Center for Women's Business Research, a nonprofit organization that conducts research among women business owners and their enterprises. She has also served as Deputy Chief Counsel for Statistics and Research at the U.S. Small Business Administration, and Vice President for Research and Public Policy at two market research firms.

It can be said that Weeks has been personally responsible for much of the extant information on the state of women business owners and their enterprises in the United States. Additionally, she has led, coordinated or consulted on research projects focused on women business owners and their enterprises in nearly two dozen other countries.

Weeks has a BA in Political Science from the University of Michigan, and a Master's degree from that same institution in Political Science with a concentration in research methodology.

In addition to her work leading Womenable, Weeks chairs the board of the Association of Women's Business Centers, serves on the board of the Global Banking Alliance for Women, and is on the editorial advisory boards of Enterprising Women magazine and the International Journal of Gender and Entrepreneurship.

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Chair LANDRIEU. Thank you, Julie.

We are going to have to bring this committee to an end in about 12 minutes, so we are going to each take four minutes for questions, and thank you all for your excellent testimony. So if your answers can be very brief.

David, let me start with you. It is quite a conundrum that you have testified, and it is true, that we have lost many businesses in the United States through this great recession, and you testified in Maine your experiences with NFIB. But on the other hand, you said that when business owners go to hire, there is a lack of human capital. What is NFIB's position on training, or does NFIB have a position on investments in training for human capital that is already here in the country? We have heard about immigration, people coming in with skills from other countries and getting the Ph.D. or the Master's degree here. But what about people that are here in the country that need Ph.D.s and Master's degrees? What is NFIB's position on those investments?

Mr. CLOUGH. I do not have a detailed answer for you, Chair Landrieu, on that. I will get an answer to you after this hearing. It is something that they are beginning to recognize, they are spotting in their periodic surveys of problems and priorities. And what it is is it is the skills, that people have the skills that are needed in the workplace. It is something that they are hearing about, we are hearing about, and it is even showing up—I think McKinsey did a report on the global shortage of skilled workforce. So it is not just the United States. It is other developed countries.

Chair LANDRIEU. Well, I would really look forward to that and really urge the NFIB to come with some strong suggestions about whatever methods, approaches, investments to develop the skill set of Americans that are already here as well as people seeking to become citizens of our country.

Diana, let me ask you this. When you talk about—and we struggled with this when we did this health care bill, believe me. It was a topic of much discussion, about where to set the requirement for businesses to maintain health insurance for their employees. And as you know, I fought very hard to move that limit up from 25, which was originally proposed, to 50. And we recognize the challenges of that. But on the other hand, to have a system of health care that is a public-private partnership, where individuals have to take responsibility, where businesses have to assume some responsibility, and government has to assume some responsibility, how would you craft the ramp effect, if you would?

We are not going to repeal the Affordable Care Act. It will not be repealed. So in implementing it, how would you suggest that the ramp effect between the 49th and the 50th or the 50th and 51st employees—do you have any suggestions about how to make that less of a barrier to hiring or a more able way for small businesses through the subsidies, maybe, to help them to provide that health insurance that is important for their workers?

Ms. FURCHTGOTT-ROTH. I would say that the government should not require businesses of any size to provide health insurance. We should allow individuals to choose the health insurance they want, just as they choose auto insurance and home insurance. We never hear someone say, oh, my goodness, I am losing my job. I am not

going to be able to drive because I do not have auto insurance because they purchase it outside from the employer. That is what we need to do in this case. We also need to have a wider variety of plans available on the exchanges, not just the qualified benefit plan. People need more choice——

Chair LANDRIEU. Well, I could not agree with you more. I could not agree with you more. And there was a bill that I actually supported that would have done just that. But I will be honest with you. It was too far of a reach for the Congress to move from a system traditionally of employer-sponsored health care, with many of our largest employers already sponsoring health care, to move to a complete private individual model. So what Congress did was try to find a balance between preserving the best of the employer-sponsored plans but allowing that individual freedom of choice through exchanges that, ironically, some of the more conservative Governors in our country were refusing to set up, exactly what you said, to give individuals the freedom to get their insurance not attached to their employment.

Ms. FURCHTGOTT-ROTH. Right.

Chair LANDRIEU. So this is a real conundrum. My time is finished——

Ms. FURCHTGOTT-ROTH. If you look at Congressman Price's Empower Patients First Act, that would allow individuals to bring to their employer some kind of refundable tax credit. The employer would then purchase the insurance for them at whatever plan they choose. Then when the employee leaves for another job, he does not have to switch plans. The new employer can move the subsidy, if the employer has a subsidy, to the same plan, kind of like with a 401(k) plan where you can just roll it over and you do not have to liquidate it.

Chair LANDRIEU. Well, we are going to continue to work on this.

Senator Snowe.

Senator SNOWE. Thank you. I will be a fast talker. And I want to thank all of you for your very impressive testimony.

David, let me start with you. I am going to ask one question of the panel. Given the current situation regarding the fiscal cliff and the much debated issue about whether or not you can draw and delineate a line regarding a small business exemption regarding the top tax rates, David, do you think it is possible—and it is an important issue because 50 percent of all income above the $250,000 is attributable to pass-through income—do you think we can draw that line, and how?

Mr. CLOUGH. I am going to beg off on the how. I will just mention on drawing the line, the NFIB has been considering that. I will let them get back to you and the committee with a more specific answer. They have done a study. They are aware of the Ernst and Young study, for example, that suggested there could be very significant job losses over the long run, depending on where the line is drawn. And also, I think, the Congressional Budget Office showed in the short run that there could be some significant job losses. The exact place, based on what I hear, is going to vary in some respects on the business, as well, and what stage of development the business is in.

Senator SNOWE. Julie, do you want to add anything? And I hope I am here for the 50th anniversary of the Women's Business Centers, someplace in the world.

Ms. WEEKS. Whatever happens, you are going to have to be there. We will definitely invite you.

I am supposed to answer a fiscal-related question, too?

Senator SNOWE. Yes.

Ms. WEEKS. Well, I think that given that the only growth that has been happening has been happening with women's entrepreneurship, continuing to support a non-one-size-fits-all but a targeted approach is certainly key. I think that the uncertainty over what is happening here in Washington is the most critical element to all small business owners, male or female, with how are they going to grow their business.

So I guess my primary reaction and advice is just please do something. The churning and the lack of activity is causing perhaps more grief and lack of growth than having a problem—or putting a solution out that not everybody agrees with. I think it is just critically important. If we do not get our act together here in Washington before the end of the Congress, it is really going to be a horrible situation for all small businesses—and large businesses, too.

Senator SNOWE. Ms. Furchtgott-Roth.

Ms. FURCHTGOTT-ROTH. Yes. We can see that tax rates have consequences. We can see how, right now, companies are rushing to pay out dividends before January 1 because they think the tax on dividends is going from 15 percent to 44 percent. There will be other consequences of raising the tax rate for small businesses. They will make fewer investments. More of them will go offshore. They will cut back on job creation. And it is extremely important. As President Obama said in 2010—in 2010, he said—in December—it is not time to raise the tax rates because of the current economic situation. Well, economic growth is slower than it was in 2010 and we need to make sure that we do not kill the goose that lays the golden eggs.

Senator SNOWE. Thank you.

Mr. Etemadi.

Mr. ETEMADI. Well, I do not know if I have a response to that regarding the fiscal cliff, so I will just pass.

Ms. LINDFORS NEW. What we have done at QRI, because of the uncertainties up here, is we have focused our business development, and again, this was in our SGAP plan, on issues that are going to have to be addressed no matter what. One of those issues is the infrastructure of the Mississippi River levee. We have done multiple projects where we are installing relief wells on the levees. They are either going to get installed or the levees are going to fail. Congress is not going to let that happen and they are going to have to put in emergency funds to do that.

The other work that we are very focused on is coastal restoration, obviously, being from Louisiana. We were very involved in the Hurricane Katrina recovery. Our small company is working for the Coast Guard. We are doing the biological assessment for the BP Deep Water Oil Horizon job. We are installing flood gates in Rockefeller Refuge for the State of Louisiana.

So we are focusing on work that is going to have to happen over the next several years, and by then, with our great leadership that we have—thank you, Chair Landrieu, and I am really saddened about you retiring, Senator Snowe. I mean, you have been incredible——

Senator SNOWE. Thank you.

Ms. LINDFORS NEW [continuing]. For women-owned small businesses, and small businesses in general. Surely, over the next couple of years, you all are going to have all this straight, because if I know if I can take my small business—talking about a fiscal cliff, we faced our own fiscal cliff and we figured out how to get around it. You all can figure out how to get around it, too.

Senator SNOWE. We could not agree with you more.

Chair LANDRIEU. Fonda, we could not agree with you more. The two of us talk all the time. If we could just write the bills and pass them, we could fix it and it would get done. Unfortunately, we have got a big Congress to run into. But the two of us kind of see things very similarly, trust me. But go ahead, and I am sorry. And we have to—can we move on to——

Senator SNOWE. Yes.

Chair LANDRIEU. Okay. Can we get to Senator Shaheen, and we have been joined by Senator Ayotte.

Senator SHAHEEN. Again, thank you all very much for your testimony. We appreciate it. And I think the point you make about certainty is a very important one, and certainly I believe that we are going to get this done. It may be messy, but it is going to get done, and what I hope all of you will do is encourage the businesses that you work with and your own businesses to urge Congress to act. You do not have to tell us how to act, but just say, get it done, because it is very important.

Scott, I want to go back. Chair Landrieu picked right up on what you were saying about the restrictions on the 504 refi program. It is something that we talked about as that program was ramping up and we tried to weigh in in a way to address some of your concerns. But I wonder if you could elaborate just a little more on the changes that were made to make the program more effective and whether you think it is now working adequately and what you see in your region, which includes New Hampshire and much of New England, in terms of the interest that would be out there amongst small businesses if the program continued.

Chair LANDRIEU. And, Scott, before you answer, let me turn the gavel, I think appropriately, to Senator Snowe for her to close out this meeting. I have got to leave for a pre-scheduled event, and I am very, very sorry. But I am going to turn the gavel over. She definitely knows how to use it——

[Laughter.]

And she will finish this meeting, hopefully in the next ten minutes, because I know members have to leave, including Senator Shaheen. But thank you so much.

Mr. GARDINER. Thank you. Let me say this. The program is working very well right now. The changes made in October of 2011 really have a good handle on the program and the needs of the small business. And the changes that took place were the SBA opening the program up to allow many more businesses to access

the program by taking the debt that they had on the real estate and not limiting it to a two-year—that the debt had to be maturing within two years. So that was one of the primary repositionings that the SBA took.

But the program is working very well, I think as evidenced by the existing applications at the SBA. Over approximately 400 applications are sitting there waiting to be approved. Those affect jobs in New Hampshire, Maine, Louisiana. All the States across the country have applications in there. So there is a strong demand for this program.

And one point I would like to make on jobs. These are businesses that are existing businesses. They have gone through the recession. They have had to lay off staff, I am sure, to maintain business. And now they are operating very lean. When the economy turns around, these businesses that we are assisting by reducing their cash flow, freeing up cash, they will be able to use that to create more jobs. When they start growing, they are going to immediately start hiring new staff. So I think that is an important point.

Senator SHAHEEN. A very good point, so that this is a real opportunity to create jobs if we can extend the program.

Mr. GARDINER. Yes.

Senator SHAHEEN. Mr. Etemadi, you talked about wanting to see the increase on the surety bond guarantee go from $5 million to $6.5 million. Do you have any data or any analysis that shows what that might be able to do in terms of job creation and the businesses that that might help if we were able to increase it?

Mr. ETEMADI. Well, I can tell you that the average small business contract by the Department of Defense was $5.9 million, and so having it increased to $6.5 million would be beneficial to small businesses trying to access that program. And on top of that, the——

Senator SHAHEEN. And do you have any numbers, any estimates that you all have about how many businesses would be affected if that increase happened?

Mr. ETEMADI. I would have to check on that, but——

Senator SHAHEEN. If you could, that would be information that I think would be very helpful to the committee.

Mr. ETEMADI. Sure.

Senator SHAHEEN. Thank you very much. Thank you.

Senator SNOWE [presiding]. Yes, and thank you.

And now I would like to recognize the other colleague from neighboring New Hampshire, Senator Ayotte.

Senator AYOTTE. Thank you very much, Chairman Snowe, and I also want to thank my colleague from New Hampshire, Senator Shaheen. I appreciate all the witnesses being here today, and you obviously have discussed very important issues that impact small businesses, which in our State, of course, is the heart and soul of our economy. And I will echo what has already been said here, that we hope to resolve the issues that are impacting the fiscal cliff and we need to do it in a way that does not hurt economic growth, because with the fiscal state of the country and $16 trillion in debt, we not only need to deal with the drivers of our debt, but also grow our economy if we are going to recover. So I know the issues that you discussed and I appreciate your testimony on those issues.

I wanted to also thank Mr. Gardiner for being here today. I know that this panel appreciates your input and your expertise on the proposed 504 refinance extension and I want to thank you for the overall important work that you do with businesses in New Hampshire. So I just have—and I know that we are going to meet later to discuss those and I look forward to that meeting.

I have a couple of questions related overall to that program. Number one would be we know that the refinance program expired on September 27, as I understand it, and that in New Hampshire, the Granite State provided ten of the 504 refinance loans for about $9.4 million. You also noted that there were 396 refinance applications, or you said, roughly, just a minute ago, about 400 applications, and there is strong demand for the program, with an aggregate value of over $424 million that are left in the queue, so to speak.

Mr. GARDINER. Correct.

Senator AYOTTE. Can you give me an estimate? If we were, for example, to approve the program for another year, how many are in the queue for New Hampshire? How many do you think would be eligible for approval in New Hampshire? I am just trying to get a sense of our own State.

Mr. GARDINER. I think for New Hampshire, we see the volume representing approximately 30 percent of the overall 504 volume. So it is a little bit hard to judge, but I would guess, easily, 25 to 30 loans that could be approved.

Senator AYOTTE. Estimating.

Mr. GARDINER. Estimating. In New Hampshire.

Senator AYOTTE. Okay.

Mr. GARDINER. Yes, in the next 12 months.

Senator AYOTTE. And this may have been addressed earlier, and if it was, I certainly apologize for that, but one of the key justifications for the program itself, and I believe you touched on this in your testimony, was originally contained within the Jobs Act of 2010, was really what we saw as a drop in the commercial real estate market. Really, commercial real estate prices at that time were dropping. And today, we have seen, thankfully, some improvement in that market. And according to estimates, the prices have been rising, and fortunately, some of the vacancy rates are falling, showing some rebound.

And my question, compared to where we were when we were looking at extending this program in 2010 under the Jobs Act when we established it—so one question I think is an important question to address is if the commercial real estate market is improving, why should we extend the program? And I think that is, obviously, a fundamental question when we have a lot of other competing interests and we want to make sure that we address programs that are most effective, and I do not doubt the effectiveness in New Hampshire, but I thought that was a very important issue for you to address.

Mr. GARDINER. A large part of it is the decline in the commercial real estate market, but another issue is just the bank—the commercial banks out there have changed their policies because of the recession, I think, and the downturn. They have tightened up their credit policies. They are not—even though there may be equity in

real estate and the equity may be improving, the banks have not come around to lending as they did in the past. So I think this program helps the banks to leverage the real estate to allow those businesses to use that equity so that they can restructure their debt. So you are basically taking short-term debt that may be used for term loans, short-term equipment financing, and allowing the bank to restructure it, use the equity in the real estate and turn it into long-term debt. So you are immediately improving the cash flow of the business. And these are strong businesses. They have been proven. One of the criteria is that these businesses have never missed a payment in the last two years. So we are not talking about risky businesses that we are just trying to bail out.

So the commercial real estate market or the commercial real estate values, although it is climbing, I think it has got a long way to go before the banks are able to restructure and help the businesses like this refinance program can.

Senator AYOTTE. I see my time is up. I know we will have a chance to spend more time together in the afternoon. I certainly appreciate everyone on the panel. This is a very important time for our economy and making sure that we have the best climate for small businesses, in particular, to thrive and grow. So I thank you all.

Senator SNOWE. Thank you, Senator Ayotte.

Again, I want to thank each and every one of you for being here today, for submitting your testimony on how to approach these critical issues confronting small businesses and the role that each of you play in your respective arenas. And also, I thank you for your patience, for waiting until you had the opportunity to testify.

Again, I want to reiterate how crucial it is that these decisions that we are going to be making, as you well know, in the remaining weeks of this legislative session could really determine the outcome for the future of our country, all the issues surrounding the fiscal cliff, and most notably how it is going to affect the entities of small businesses that we depend upon to create those jobs.

I noted that there had been a letter submitted by so many small business organizations to the Congressional leadership regarding these issues and representing millions of pass-through business entities, as they say, employing tens of millions of workers, urging Congress to pursue comprehensive tax reform and entitlement reform to reduce our long-term debt. The point here is making sure that we do not create adverse consequences to those that you represent and are a part of, and that is the job creators. I mean, it is absolutely an imperative for the future. Hopefully, those lines can be drawn, because I think it is going to be—otherwise, it will have profound impact on the future of this economic recovery.

You know, it happens to be the worst recovery in the history of this country. I am stunned by the numbers that you mentioned, David, regarding Maine, for example, and having to defer and delay the years by which we are going to return to the pre-recession levels of 2007 for employment. I mean, it is stunning now it is 2017.

And so the more we hesitate and delay and defer and obfuscate, the more this lingering uncertainty is going to cast a shadow over our ability as a country to create those jobs that people desperately

need and certainly deserve, not to mention, as you have raised here today, is what are the jobs for the future, and that is another major issue. And we can never get to those questions because we are still dealing with the ultimate economic issues for far too long.

So I know we can do it. Hopefully, there will be that bipartisanship that is the final ingredient that can make it possible. So I thank you again for being here today.

The hearing is adjourned.

[Whereupon, at 12:30 p.m., the committee was adjourned.]

APPENDIX MATERIAL SUBMITTED

United States Senate
Committee on Small Business and Entrepreneurship

Hearing entitled:
Creating Jobs and Growing the Economy: Legislative Proposals to Strengthen the Entrepreneurial Ecosystem

November 29, 2012

Questions for the Record
from Chair Mary L. Landrieu
to Sean Greene, SBA

Panel I

Question #1 – Access to Capital - Small Business Investment Company I want to congratulate you on record numbers for the Small Business Investment Company Program's new licenses issued as well as investment commitments. You note in your testimony that if we implemented some of the changes that both Senator Snowe and I have suggested in our legislation, the program could help reach even more high growth small businesses.

One SBIC in North Carolina, Triangle Capital, has said "If the proposed legislation is passed we believe that over the next 12-24 months we would be able to directly help another 30-40 companies equating to up to another 2,000 jobs."

- Can you speak to what the program can expect if the proposed bill is passed, and where you see the program in 3 to 5 years?

Answer:

The most immediate impact of the proposed legislation would be to allow a number of fund families to access increased levels of leverage thereby increasing the amount of funds potentially available to invest in small businesses. I believe in FY 2013 we would significantly exceed the record amount of leverage that was committed to SBICs in FY 2012. Given the popularity of the program and the overall financial performance of the SBIC program, I believe this growth in demand for leverage would continue over the next 3-5 years as well. Additionally, the growth in demand would be fueled by the continued active participation in the program by our larger and top performing funds. This, in turn, should attract additional LPs and top GPs to the program. By itself, this change may well necessitate an increase in needed authorization from $3 billion to $4 billion. When one adds the substantial interest expressed to date in the Early Stage SBIC program, I am of the opinion that we would most definitely need the increased authorization.

In summary, the legislation would allow us to meet the increased demand for the program from our better performing funds and attract more top level GPs and LPs to the program.

Question #2 – Access to Capital – 504 Refinancing Provision

This past year was **the highest year on record** for the 504 loan program, spurred in part by the utilization of the new 504 refinance program. As you know, the ability to refinance commercial real estate debt into long term, fixed rate interest rates has been very beneficial for many small businesses. Over $2 billion was refinanced through the program, and this was really only being utilized for less than the full year. Unfortunately the program has expired. Senator Snowe and I, along with 6 other Republicans and Democrats have tried extending this program with 5 different legislative vehicles.

- Can you speak to what could happen if we are able to renew the program?

Answer:

If Congress renews the Jobs Act 504 Debt Refinancing Program, SBA will re-implement the program as quickly and responsibly as possible. As you have indicated, there was a lot of interest and demand for the 504 refinance program, particularly in the final months of the program. The final rules that went into effect October 12, 2011 succeeded for a number of reasons, including the allowance of borrowers to access their equity for working capital. In FY12, SBA approved 2,424 504 refinance applications. These added up to over $2.2 billion in lending for the CDC/SBA portion of the loans. So, in light of the heavy demand for refinancing under the program, the Administration is taking a hard look at whether it makes sense to support reauthorizing it for a period of time. While no decisions have been made at this point regarding Administration support, SBA would of course re-implement the program if it is renewed by Congress.

Question #3 – Access to Capital – 504 Refinancing Provision

John Hart of the Greater Texas Capital Corporation, has said: "The Jobs Act Refi Program has **been a life saver for many of our borrowers**. The ability to obtain business operating capital from the equity held in their business real estate has **literally saved several of our borrower businesses**. Through this program, over a relatively short period of time, and with just 13 borrowers we have been able to generate over $4 million in business operating capital while reducing aggregate monthly payments by some $107,000. This is real economic assistance."

- In the event that we are not able to renew the program, what can we do for borrowers such as those that John sees every day?

Answer:

SBA had the opportunity during the 504 Temporary Jobs Act Refinance program to provide fixed-rate long-term refinancing for small businesses with a component for financing

business expenses (working capital). Although SBA can provide long-term refinancing and financing for business expenses through the 7(a) program, only the 504 program can provide the long-term fixed-rate feature. Also, the 504 program has historically low interest rates currently through debenture sales. SBA can assist borrowers through the 7(a) program, however not with the same benefit to the borrower as under the Jobs Act refinance program.

Question #4 – Implementation of the SBIR/STTR Reauth

Sean, in your testimony you note that the SBA has made record speed in issuing the draft regulations and the policy directives to implement the six-year SBIR and STTR reauthorization that we passed last December.

Before I ask a question, I have a **few comments**:

1. I appreciate that you and your team have worked so hard to meet the tight deadlines for issuing those regulations and policy directives.
2. I do hope that the comments my colleagues and I (Senators Snowe, Shaheen, Scott Brown, Ayotte and Tom Udall) submitted regarding the draft regulations on the VC majority-owned firms and the size standards have made an impact and will be reflected in the final or interim final rule issued.

- **Question**: In order for the SBA to continue operating unauthorized pilot programs, the Administration must publish the final or interim final rule for the VC Majority-owned firms by December 31st. OMB is an important part of the process. **Are the draft rules at OMB for final clearance, and has OMB indicated it will finish its work and meet the deadline?**
  Answer:

  SBA published the final rule on size and eligibility for the SBIR/STTR programs on December 27, 2012, just ahead of the deadline. The rule makes meaningful changes to our proposed rule, based on your feedback as well as the broader public feedback.

Question #5 – SBIR, 3% 3-Year Pilot for Administration Funds:

Sean, as you know, Senator Snowe and I sent letters to the Secretaries and Directors of the 11 agencies that participate in the SBIR program. Our goal was to make sure agencies had done two things:

1. Complied with the law and increased the SBIR allocation from 2.5 to 2.6% in FY2012 and the STTR allocation from .3% to .35%, and,
2. Crafted a proposal for using up to 3 percent of their SBIR funds to administer the program, such as increasing outreach to low-participation states like Louisiana and Maine, who have excellent scientists, engineers and entrepreneurs as states like California and Massachusetts, and for reducing to 90 days the review of applications and the disbursement of awards.

Of the nine agencies that have replied, it seems most have complied with the law on the increase. But the answers to the plans for using that 3 percent funding were not specific enough and did not have plans that could be measured.

- **Question: Since Administrator Mills must approve an agency's plan before it can use that money, are you working with the agencies to make sure they better identify the uses for the money to help small businesses and that the uses can be measured?**

  Answer:

  SBA has been working closely with the agencies on this issue. As detailed in the policy directive, SBA has outlined six specific performance criteria that agencies should focus on. Each agency is then required to develop a work plan which lays out in each area specific performance goals, planned actions, and approximate percentage of the Admin funds that the agency will use in that area. Several agencies, but not all, have submitted work plans to SBA for approval. After reviewing the plans, SBA has provided feedback to the agencies requesting more specific metrics for the agency's planned actions. We are making sure to work with agencies to give them detailed feedback on their plans.

  In addition, SBA has been working with the 11 SBIR/STTR agencies to develop an interagency agreement that would utilize some of this administrative funding for the development of a coordinated and unified outreach plan with a centrally focused strategy. This includes developing a priority list of outreach initiatives such as educational content, national and regional events, marketing and communication coordination. We have been meeting with SBIR/STTR program managers regularly to get their input and anticipate having this outreach plan in the near future.

United States Senate
Committee on Small Business and Entrepreneurship

Hearing entitled:
Creating Jobs and Growing the Economy: Legislative Proposals to Strengthen the Entrepreneurial Ecosystem

November 29, 2012

Questions for the Record
from Chair Mary L. Landrieu
to Michael Chodos, SBA

Panel I

Question – Entrepreneurial Development
In your testimony, you state that the SBA is working with Resource Partners to improve ways to measure and report out comparative performance metrics across the entire Network.

- Can you explain a little further those improvements are or might be, and what exactly the agency is doing, or is planning to do, in order to achieve results?

Answer:

The Office of Entrepreneurial Development has taken the following steps to review, analyze and improve the measurement and reporting of resource partner performance metrics:

1) Starting in FY12 and continuing through FY13, OED has undertaken a comprehensive modernization project for our Resource Partner data collection system, known as EDMIS. EDMIS is the "system of record" in which Resource Partners (including Small Business Development Centers, Women's Business Centers and SCORE) report key activities and key outcomes respecting their clients. For our Resource Partners' counseling clients, EDMIS captures demographic information, business-specific data, type of assistance sought and other information which allows the Agency, the Resource Partners and Congress to understand who is receiving our Resource Partners' assistance and the tangible, concrete outcomes those clients are experiencing as a result of that assistance. For our training clients (i.e. those who receive "classroom-type" entrepreneurial training) it captures information about the number of clients, basic demographic information, the subject matter of training delivered and other information about the classroom offering.

   Over time, the Agency and its Resource Partners and stakeholders have identified additional information and new and better data analysis they feel should be incorporated into EDMIS. Accordingly, starting in FY12 the Agency conducted

extensive workshops with designated expert working groups from across our Resource Partner networks to gather feedback and input into how best to improve EDMIS. Based on this information along with Agency analysis, an EDMIS system modernization plan was developed and is now being implemented. This modernization involves system enhancements including additional data fields, improved budget and performance integration capabilities, and greatly enhanced reporting capabilities. We have also discussed with the Agency's Office of Veteran's Business Development potential opportunities for incorporating their counseling and training data into EDMIS as well. As we move forward in the implementation process, we will be reporting out to our Resource Partners regularly and working with them to make sure their systems are updated in a parallel fashion to integrate effectively with the improved capabilities in EDMIS. We currently anticipate that development, testing and implementation will occur through the remainder of FY13.

2) In addition to our EDMIS Modernization project, we have formed a Performance Metrics Workgroup to analyze the following topics and to work with our Resource Partners to identify specific opportunities for change, modification and improvement. We plan to implement improvements on a rolling basis starting in the final quarter of FY13:

   - Surveying: In addition OED's EDMIS system, into which our Resource Partners upload data about individual counseling clients or training classes, OED also conducts an annual Impact Survey. The purpose of the survey is to assess the financial impact of our partners' counseling services, as well as our clients' attitudinal assessments of the service they received as well as their perceptions of changes in management/marketing practices as a result of those services. Various of our Resource Partners also engage in surveying or polling of their clients. Accordingly, we will be consulting with our Resource Partners to identify opportunities to coordinate our respective surveys to avoid any unnecessary duplication; to align the outcomes measured by the surveys; and to reduce costs where possible through sharing of questionnaires and responses.

   - Evaluation and Alignment of Metrics: In addition to the output and outcome metrics we gather in EDMIS; and in addition to the matters on which we collect data in our annual Impact Survey; some of our Resource Partners collect additional metrics in their own data collection systems. Some of these additional data items are collected for their state, local, foundation and other funding partners; other items are collected because our Resource Partners consider them sufficiently important to track. These supplemental approaches to metrics tracking (over and above that which is collected in EDMIS and

measured in OED's annual Impact Survey) reflect our Resource Partners' individualized and local needs. But it could be that certain of these measures would be of value if more broadly measured and thus should become part of the "core" metrics gathered by all partners and reported across the entire network. We intend to analyze this issue.

Also, certain of our partners focus primarily on training activities, while others focus more on one-on-one counseling activities. Currently, the Agency measures the outputs and outcomes for these two activities differently, as would be expected given the different level of personal engagement with a classroom attendee than with a face-to-face counseling client. The Agency will be working with its partners to identify additional ways to measure the effectiveness of all our training activities and to align these measures more effectively with our counseling measures where it is feasible and reasonable to do so.

Consistent with applicable law, we will be working with the Agency's Office of Performance Management, the Agency's Chief Economist, and representatives from each of our Resource Partners to develop a more transparent and cross-network matrix of output and outcome measurements currently collected and then jointly identifying opportunities to better share and align those measurements across all Resource Partner networks and across both counseling and training activities.

Question – Entrepreneurial Development

You include impressive statistics on the effectiveness of SBA's "core" counseling, mentoring and training programs, and the Resource Partners responsible for providing those services, specifically Small Business Development Centers, Women's Business Centers and SCORE chapters.

- Can you briefly explain what the SBA is doing to ensure that these programs are coordinating with each other and working together in providing these services?

Answer:

1) The Agency and our Resource Partners share the view that all the activities across our Resource Partner network should be collaborative and coordinated to make sure businesses get the help they need and that taxpayer dollars are well spent without duplication or overlap. The Agency is committed to a "No Wrong Front Door" policy for our Resource Partner network. What this means is that no matter which Partner a client first sees, the client's needs will be evaluated and it will be directed to

the team of partners who can best provide all those diverse services which that unique client needs.

To this end, we and our Resource Partners start from the shared premise that the fundamental strength of the Agency's Resource Partner network lies in its nationwide reach and flexibility: With over 14,000 counselors and mentors nationwide, and with over 900 Small Business Development Centers, 110 Women's Business Centers and 350 SCORE chapters, small business owners (and potential small business owners) can find in their communities a training class, online resource, or a counselor/mentor to help them through their daily business challenges and with their strategic planning.

Our Resource Partners do not take a "one size fits all" approach. Every local SCORE chapter, SBDC service center and Women's Business Center is deeply embedded in its local community and is well aware of local economic development needs. They tailor their programs and services, both in-person and online, to those local community needs.

Each of our Resource Partner networks is prepared to provide existing and prospective business owners with whatever assistance they need; in doing so, each network provides a broad range of in-person and online programs, services and tools to its clients. In addition, each network has network-wide attributes which support its effectiveness: Our Small Business Development Centers benefit from the breadth of resources arising from their deep connections with their University and college hosts; our Women's Business Centers generally reach into underserved communities in which they are often the primary provider of business services; and our SCORE volunteers bring an unparalleled body of personal, real-world business experience to their counseling, mentoring and training activities.

These programs, services and unique attributes are brought to bear in each local community in a specific way depending upon the circumstances of our Resource Partners in that community. For example, in certain communities, the SBDC might be situated right in the University itself, and might have extensive staff and resources. In another community, the SBDC service center might be a much smaller operation, with only one or two staff; but the local Women's Business Center might be a very robust operation with extensive reach into the local business and economic development community. Similarly, in some communities SCORE has a smaller presence compared with our other partners; in other communities, SCORE has very robust chapters and is the primary workshop/business training and counseling/mentoring provider in that area. In addition, in certain communities, one or more of our Resource Partners are co-located in central, shared office facilities

from which they jointly "intake" and serve business clients. In other communities, they spread out to cover different parts of the area.

2) Against this backdrop, to drive efficiency and avoid duplication, the Agency requires its Resource Partners to collaborate and coordinate their efforts to avoid duplication and to drive efficiency of local services. During FY12 and FY13, the Agency embodied that requirement very explicitly in each partner's Cooperative Agreement.

3) The Agency also developed and implemented policy supporting this coordination and collaboration requirement through consultation with our Office of Field Operations and with representatives from across our Resource Partner network. Specifically, in May of 2012, SBA's Office of Entrepreneurial Development and Office of Field Operations (District Offices) convened the first-ever national meeting of representatives from each Resource Partner network and from our field District Offices, to identify concrete ways to collaborate and avoid duplication and to identify strategies we could utilize to improve clients' access and utilization of SBA's programs and services.

   Given the unique local features of our Resource Partner network, the Agency believes that implementation of cross-network coordination and collaboration cannot be accomplished solely through national-level policy discussion, but must also be discussed and implemented at the local level, working in each community with the Agency's local SBA District Office.

   Accordingly, as a second stage to implementing collaboration and coordination, during FY12 and FY13 Agency representatives from our Offices of Entrepreneurial Development and Field Operations reviewed Resource Partner practices and engagement with the local SBA District Offices to find opportunities for greater collaboration and coordination across our partner networks and between them and each District Office.

4) Metrics: Currently, the manner in which the Agency collects metrics was not designed to measure coordination and collaboration between Resource Partners. There exists in the EDMIS system a means to track when one Resource Partners refers a client to another as they collaborate with each other to provide shared and coordinated services to their business clients. However, the capability to track that unique client through various Resource Partners after the referral (or through subsequent referrals) does not currently exist. Accordingly, we are building into the new EDMIS system the capability to use a confidential "unique identifier" for each client which would allow such tracking. This will allow for more robust tracking of

customers through our networks, thus allowing for better analytics and understanding of how our partners collaborate on providing counseling and training.

Question – Federal Contracting

In the federal bonding arena, the Miller Act requires bonding, yet there has been a case in which an agency waived this requirement and the small business subcontractor was not able to get relief from the prime contractor's bonding company (no bond was issued because of the waiver).

- Please describe what steps can be taken to prevent instances such as this.

Answer:

The Miller Act requires the prime contractor to obtain a bond on any construction contract valued at $150k or more. The situation presented is likely a construction contract less than $150k or a service contract. Subcontractors are afforded a degree of safety when the prime contractor is bonded as they can turn to the surety company should the prime contractor fail to pay for supplies or services rendered. Proposed legislation could require all construction contracts of any value to be bonded, as well as service contracts. We have no evidence, however, that suggests that the frequency of the problem cited warrants formal action.

Question – Entrepreneurial Development

You state that Regional Innovation Cluster Program provides small business innovators with targeted technical support within the SBA's Network, as well as with investment and funding partners and potential contracting opportunities.

- Can you please explain how the program works? How is the agency measuring its effectiveness?
- If you could, please provide any data and statistics with regards to the program's effectiveness, particularly in the areas that you describe in your testimony.

Answer:

SBA's Resource Partner network is extraordinarily effective at providing small businesses with critical, individualized capacity-building support: business planning, marketing analysis, financial statement review and business process re-engineering, export assistance, help with accessing financing, etc.

But in addition, every small business must effectively connect into the key relationships necessary to drive success in its particular industry or market sector. Regional Innovation Clusters (Clusters) act as a networking hub to connect small businesses in a particular industry sector and geographic region with other business innovators in the same sector

and with specialized suppliers, research institutions, large prime customers and investors who also operate in that sector. In addition, market success requires small businesses to know their customers and target their product development dollars efficiently. Therefore, through intensive, industry-specific technical assistance, our Clusters help small business innovators commercialize promising technologies needed by government and industry buyers in that particular sector. And then, through showcasing, networking and "demonstration events," they help get these small businesses and their products in front of investment and other funding sources, research institutions and customers/buyers in order to bring products to market.

Across the country, our Resource Partners work with our Regional Innovation Clusters: The Resource Partners provide the businesses with information and coaching on the key building blocks of business success, while the Cluster experts help them with the highly technical product development and relationship-building assistance necessary to get and keep customers and investors in their particular market sector (such as smart-grid, fuel cell energy storage, solar cells, imaging, aerospace, and agricultural processing technologies and networks).

Recognizing the challenges that small business innovators face in making critical market, investor and research connections as well as the solution offered by Clusters, in September, 2010 the Agency created a pilot initiative to identify promising regional innovation clusters and to identify best practices supporting cluster effectiveness.

Since 2010, the Agency's Regional Innovation Cluster Initiative has helped develop and grow 10 regional economies across the country and promote small business connections in key industry supply chains:

- 3 Advanced Defense Technology Clusters specifically focused on meeting the needs of the defense industry by developing and promoting innovation with defense applications including aerospace and cyber security.
- 7 Regional Innovation Clusters focused on ground-breaking technologies in a variety of industries including smart grid, nuclear technology, hydrogen fuel cell technology, and agriculture technology.

SBA has also participated in Joint Cluster initiatives with other federal agencies through the Jobs Accelerator and Innovation Cluster program.

For the ten Regional Innovation Clusters it funded starting in FY10, SBA funded a third-party evaluator to examine the ten pilot clusters in detail, including their various stakeholder participants and the services and activities provided by the clusters, with a focus on small business participants. The report, published in June 2012, evaluated the initial outcomes observed during the first year of the initiative, including the employment, revenue, and payroll of the small businesses as well as their ability to spur

innovation and obtain financing. Furthermore, the report analyzes the regional economic impact of the economic activity of the clusters' small business participants. (Year 2 data analysis is expected to be complete by March, 2013.)

Key Pilot Findings and Outcomes from the One-Year Evaluation:

1. **SBA's Clusters Initiative Increased Small Businesses' Participation in 10 Regional Clusters.**
   - Total small business participation in the 10 clusters grew by over 275% in one year.
   - Small business participants grew from 179 at the start of the pilot to 672 at the end of the first year.
   - Top reasons for small business participation in the clusters: networking with other SBs (82%); access to new markets (domestic and international) (50%); access to cluster services (49%); access to government procurement. opportunities (49%); and integration in the industry's supply chain (45%).

2. **Network Effects: Clusters Helped Small Businesses Enhance Economic Activity**
   - Access to Capital as Reported by Cluster Administrators, based on effects resulting from participants' active participation in the Cluster:
   - Nearly $48 million in capital through private funding sources such as venture capital and angel capital.
   - Over $6.5 million in early stage investment from federal Small Business Innovation Research (SBIR) and Small Business Technology Transfer (STTR) awards.
   - Access to Markets as Reported by Cluster Administrators
   - Over $217 million contracts or subcontracts awarded to small business participants.

3. **More Small Businesses Participating Means More Growth in Small Business Jobs, Revenue, & Payroll.**
   - On average, total employment grew by 11.2% in the small businesses that participated in the clusters, including both full-time and part-time employees. This includes a 7.6% increase of full-time employees.
   - Nearly all of the clusters involved in the initiative—9 out of 10—experienced an increase in the average revenue of small business participants. On average, revenue of small business participants increased by 13.7%.
   - The average payroll (total compensation paid to employees) of small business participants increased by 23.4%.
   - Seven new businesses started.

4. **Clusters Participation Successfully Spurs Small Business Innovation.**

- Over two thirds (69%) of small businesses that sought cluster services reported that they developed new products or services.
- More than half (54%) reported being able to commercialize new technology.
- Nearly one in four (22%) small businesses reported having pending patents.

5. **All ten clusters provided services directly to their small business participants; the majority also leveraged SBA Resource Partners and third-party organization's expertise.**
    - Over 85% of the small businesses surveyed reported that the services and activities provided by the cluster were unique and could not be found elsewhere.

6. **The more established clusters allocated more funding to providing services vs. cluster management.**
    - Clusters three years or older spent the majority of their SBA funding on providing services to their members rather than cluster administration.

United States Senate
Committee on Small Business and Entrepreneurship

Hearing entitled:
Creating Jobs and Growing the Economy: Legislative Proposals to Strengthen the Entrepreneurial Ecosystem

November 29, 2012

Questions for the Record
from Chair Mary L. Landrieu
to Fonda Lindfors New

PANEL II

PRIORITY QUESTIONS

Question #1 – Emerging Leaders (TEAM Act):
You are a trained geologist who started a business 27 years ago. As you mentioned in your testimony, QRI is quite the successful and diverse company with over $8 million in annual sales and over 4,500 projects. **Since your graduation from the Emerging Leaders / e200 program, you have hired 12 new full-time employees and increased your revenues by 52 percent.**

- How did you grow your business so much in just one year? What about the curriculum is so special?

Note for Senator: Your bill, S. 3638 the "TEAM Act," formally authorizes the Emerging Leaders/e200 program and increases the program level from the current $1.1M level to $2M. That expands the program from 27 SBA District Offices to 47 SBA District Offices around the country.

QRI Response:

- QRI's growth during the 2010 – 2011 year is a continuation of the trend of growth from previous years providing a foundation for successful capture of larger Federal contracts. QRI has made great strides in overcoming being initially a private sector woman-owned business in South Louisiana by implementing the following:
  - Market Diversification. QRI now has 6 divisions: •HTRW / Environmental Consulting, •Drilling, •Geophysical, •Emergency Response / Remediation, •Construction, •Information Technology
  - Teaming with partners via joint ventures on larger bonded jobs with large business partners that cannot bid on the job due to it being a small business set-a-side. The partner provides most of the bond and QRI provides the qualifications and access to the opportunity.
  - Teaming with companies who have national and federal reputations in coastal, cultural, biological, environmental, remediation and construction work.
- My participation in the Emerging Leaders / e200 program provided me with useful, written resources such as the Business Growth Self Assessment™ (BGSA). Completion of the BGSA was the first of many wake-up calls about my ability to truly lead my company. The next step was the draft preparation of our Strategic Growth Action Plan™ (SGAP) which was revised from May to the final submission in October. The E200 course walks you step by step through

the process not with a fictional example but with your actual company. At the end of the process you have a plan which you can implement. The SGAP was so detailed that it was instrumental in increasing our bank AR line by 32%. At the request of our major banker, an updated SGAP was prepared and submitted in June of 2012 to once again successfully increase our AR line by 24%.

Question #2 – Emerging Leaders (TEAM Act):

The Emerging Leaders / e200 program is not just for geologist-turned-CEOs and not for MBA-turned-CEOs. Enrollees are from all kinds of small businesses. They have different education and ethnic backgrounds. But the program is unbelievably **successful in its four years of existence: over 50% of graduating businesses have created 908 new full-time jobs; graduates are increasing their revenue by an average of $1.8 million. It's a proven success and a proven job-creator.** That's why I'm fighting to put e200 teachers in every SBA district office. CEOs shouldn't have two hours like you to participate and learn and create jobs. That's why the TEAM Act should pass, because of proven successes like you.

- Do you think other CEOs would benefit from enrolling and learning the e200 curriculum like you did if we grew the program to other regions?

- Yes. I do think other CEOs in any region would benefit from the e200 curriculum. When I talk to other small business owners, I highly recommend this course. Making this program available to other regions would be providing a great service to the small business community as the lessons can be customized for all types of businesses.

Question #3 – Federal Contracting:

I understand that you are classified as an Economic Disabled Women Owned Small Business (EDWOSB) for 8(a) contracting.

- How has this contracting classification helped you?
- To date, QRI has received one contract as a result of the EDWOSB classification. However, our current business capture plan includes bidding on contract opportunities utilizing the EDWOSB / WOSB NAICS codes. During our recent 8(a) exit interview with the SBA, we discussed the need for additions to the WOSB NAICS code list. Although some of the NAICS codes available to QRI through the 8(a) program are included in the WOSB NAICS codes, many more have been lost to us.
- How did you learn to navigate the Federal contracting world?
- Utilizing resources such as our 8(a) mentors for learning how to effectively write a federal proposal response.
- Assistance from LA PTAC Southeast in searching for bid opportunities and instruction on how to respond to various types of solicitations.
- Responding to Sources Sought from Fed Biz Ops.
- Responding to RFP's from Fed Biz Ops.
- Keeping our CCR updated so that federal contracting officers and specialist researching for various services in NAICS codes will see QRI in their searches.
- Attending various types of trade shows, such as the SAME Small Business Conference in Grapevine, TX and presenting as exhibitors.
- Attending weekly and monthly business meetings, such as Business Networking International, Louisiana Coastal Protection and Restoration Authority, Society of American Military Engineers.

- Attending quarterly meetings with small business representatives from various agencies, such as the USACE, AFCEE, etc. to ascertain acquisition strategies and upcoming projects.
- QRI has focused on teaming and joint venture agreements in the federal arena which has launched numerous private sector projects also.

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Responses of Joshua Etemadi, Chair of the NASBP Small & Emerging Business Committee, to Questions for the Record
For the Hearing entitled: ***Creating Jobs and Growing the Economy: Legislative Proposals to Strengthen the Entrepreneurial Ecosystem***
From Chairman Mary Landrieu, Senate Committee on Small Business and Entrepreneurship

Question #1 – Contracting/Surety:
Your testimony mentioned that you could provide examples regarding how your firm has been able to provide bonds to small and emerging contractors through the SBA Bond Guarantee Program who may not have otherwise qualified for bonding in the standard surety market.

- Please discuss some of those examples with the Committee?

  Response: Several of our contractors have benefited from use of the SBA Bond Guarantee Program. We have one client whose first bond was under $200,000, used the SBA Bond Guarantee Program for several projects and now enjoys a $15 million bond program outside of the SBA. Another local firm used the program for one $300,000 bond in 2008, but now maintains a $6 million program in the standard market. Even though the program was only used for one bond, that contractor did not initially qualify for the bond on their own. With the SBA's help, they were able to properly grow their business and are now a sustainable enterprise. We also have several contractors that are using the program now who struggled financially during this economic recession. Without this program, they would be unable to maintain bonding capacity and keep their business running.

(*Follow Up Questions*)

- How has the decrease in the contract bond size guaranteed by the SBA from $2 to $5 million post ARRA impacted your business?

  Response: Many small businesses are unable to use this program. The small business set-aside limitations of $4 million prevent many small businesses from utilizing this program. When the program supported bonds up to $5 million, we were able to look at these opportunities. When it was in place, we were able to cater to small contractors that were looking for a little more capacity than their standard market would offer. For example, if a contractor had a $2 million single, $4 million aggregate bonding line but wanted to get support for a $3 million single, $6 million aggregate program, we could offer support. With the average small business contract averaging under $6 million, many small businesses are unable to benefit from this program.

- Was your firm able to provide surety bonds for contractors above $2 million when ARRA was in effect?

Response: Yes.

- If so, how many bonds did your agency place with the SBA? Was that contract amount well above the $2 million amount?

Response: We issued several bonds over the $2 million threshold. In one particular case, we issued one around $3.9 million. However, the program was just building some momentum when ARRA expired. Under the new proposed threshold, we now have enough exposure and preparedness in the industry to let this program benefit contractors throughout the country.

Question #2 – Contracting/Surety Bonds:
Your testimony references the need for greater participation of surety companies in the SBA Surety Bond Guarantee Program.

- What recommendations would you suggest to incentivize them to participate?

Response: NASBP recommends the SBA Surety Bond Guarantee Program (Program) be enhanced to offer a uniformly high guarantee percentage that makes business sense to surety companies. Without such a high guarantee, such as 90%, surety companies will be hard pressed to make the internal business case for underwriting firms that otherwise do not qualify for surety credit. Further, some of the Program's existing regulations are out of step with prevailing practices of the construction and surety industries. Current SBA regulations, for example, require notice to the SBA from the surety company of change orders exceeding a certain dollar amount or percentage of the contract amount, but most construction contracts, including commonly used standardized forms, such as those published by the American Institute of Architects and by ConsensusDOCS, include boilerplate language requiring the surety to waive notice of increases in contract amount. As a result, sureties routinely are not informed of all contract increases as they occur and are not in position to provide the SBA with notice of all changes in the contract amount. The failure to inform the SBA of such changes constitutes grounds for the denial of the surety's guarantee. Vesting the Program Administrator with discretion to assume Program liabilities would allow the SBA to analyze the prejudice it suffers from a regulatory violation and, in appropriate circumstances, to decide on a partial denial, rather than a complete denial, of a sureties guarantee. Moreover, the Program does not include a structured process for surety companies to contest the denial of a previously-approved guarantee. Surety company participants should have a delineated means by which to have their concerns or positions heard before a denial of a guarantee is made. These proposed enhancements should facilitate greater surety company participation in the Program.

1 Chair Landrieu. Thank you, Julie.

2 We are going to have to bring this committee to an end

3 in about 12 minutes, so we are going to each take four

4 minutes for questions, and thank you all for your excellent

5 testimony. So if your answers can be very brief.

6 David, let me start with you. It is quite a conundrum

7 that you have testified, and it is true, that we have lost

8 many businesses in the United States through this great

9 recession, and you testified in Maine your experiences with

10 NFIB. But on the other hand, you said that when business

11 owners go to hire, there is a lack of human capital. What

12 is NFIB's position on training, or does NFIB have a position

13 on investments in training for human capital that is already

14 here in the country? We have heard about immigration,

15 people coming in with skills from other countries and

16 getting the Ph.D. or the Master's degree here. But what

17 about people that are here in the country that need Ph.D.s

18 and Master's degrees? What is NFIB's position on those

19 investments?

20 Mr. Clough. I do not have a detailed answer for you,

21 Chair Landrieu, on that. I will get an answer to you after

22 this hearing. It is something that they are beginning to

23 recognize, they are spotting in their periodic surveys of

24 problems and priorities. And what it is is it is the

25 skills, that people have the skills that are needed in the

1 workplace. It is something that they are hearing about, we
2 are hearing about, and it is even showing up--I think
3 McKinsey did a report on the global shortage of skilled
4 workforce. So it is not just the United States. It is
5 other developed countries.
6 Chair Landrieu. Well, I would really look forward to
7 that and really urge the NFIB to come with some strong
8 suggestions about whatever methods, approaches, investments
9 to develop the skill set of Americans that are already here
10 as well as people seeking to become citizens of our country.
11 Diana, let me ask you this. When you talk about--and
12 we struggled with this when we did this health care bill,
13 believe me. It was a topic of much discussion, about where
14 to set the requirement for businesses to maintain health
15 insurance for their employees. And as you know, I fought
16 very hard to move that limit up from 25, which was
17 originally proposed, to 50. And we recognize the challenges
18 of that. But on the other hand, to have a system of health
19 care that is a public-private partnership, where individuals
20 have to take responsibility, where businesses have to assume
21 some responsibility, and government has to assume some
22 responsibility, how would you craft the ramp effect, if you
23 would?
24 We are not going to repeal the Affordable Care Act. It
25 will not be repealed. So in implementing it, how would you

David R. Clough QFR for Senator Landrieu (page 102, lines 20-25; page 103, lines 1-5):

Small business owners know that employees are their most valuable resource, and small business owners work hard to train and retain employees by creating a rewarding workplace. Most small-business owners already provide workforce training for their employees. According to the NFIB Research Foundation, about four in five small employers provide employee training beyond introductory activity. The NFIB Research Foundation also found that there was no over-riding problem or set of problems that beset small employers in their employee training efforts. The most severe, albeit severe only for a limited number, is the lack of time owners and/or other employees have available to help others; employees possessing inadequate learning skills and often the interest, necessary to acquire new or upgraded skills; and cost, including the inability to pull the employee off the job.

Additionally, the NFIB Young Entrepreneur Foundation (YEF), a 501(c)(3) organization, is committed to educating young people about the critical role of small business and the American free enterprise system. By promoting the lessons of free enterprise, YEF helps build the next generation of small business owners and entrepreneurs. YEF educates young people about the critical role of small business in the American free-enterprise system and helps students interested in entrepreneurship further their education. Entrepreneurship education is a building block for a well-rounded education, promising to make school rigorous, relevant, and engaging. It creates the possibility for unleashing and cultivating creative energies and talents among students, to grow the economy.

United States Senate
Committee on Small Business and Entrepreneurship

Hearing entitled:
Creating Jobs and Growing the Economy: Legislative Proposals to Strengthen the Entrepreneurial Ecosystem

November 29, 2012

Questions for the Record
from Ranking Member Olympia Snowe
to Mr. Sean Greene, Associate Administrator for Investment, SBA

Mr. Greene, SBICs with multiple funds often find themselves reaching the maximum amount of government-guaranteed capital, or leverage, that they can draw from the SBA. As a result of provisions I worked with Chair Landrieu to include in the *American Recovery and Reinvestment Act*, the maximum leverage available to a SBIC may generally not exceed $150 million. The maximum amount of outstanding leverage made available to two or more SBICs that are commonly controlled may generally not exceed $225 million. Unfortunately, these leverage maximums serve as a strong disincentive for existing SBICs with a solid track record to apply for new funds. Indeed, current law essentially makes strong SBICs victims of their own success by forcing them out of the program.

Question: To encourage SBICs to apply for new funds and continue investing, as well as to be able to safely use all the leverage to which they are entitled, Chair Landrieu and I introduced legislation to increase to $350 million the leverage limit for 2 or more SBICs that are under common control. This legislation also increases the funding limit for the SBIC program from the current level of $3 billion to $4 billion. Mr. Greene, you express Administration support for those of these proposals in your testimony, can you expand on how these initiatives will allow SBICs with a track record of success to start new funds and continue investing in start-up small businesses?

Answer:

In licensing subsequent funds, we have a history of strong performance within the SBIC program to rely upon. Given their success, these funds often have the ability to raise significant amounts of private capital and, as such, are the larger funds in our program's portfolio. If leverage is not available, these funds have the option of leaving the program and operating as non-SBICs. This also allows them to invest in other than small businesses. With the increased leverage amounts available for fund families, these funds are now more likely to remain in the program to take advantage of the favorable financing available through SBA. It allows them to achieve the scale they desire, access relatively cheap financing and significantly ease their fundraising burden. The

increase in the program's overall authorization ensures we will be able to fully satisfy the expected increase in demand the program is currently experiencing.

Outside of increasing the SBIC program maximum leverage amounts, what other recommendations do you have that Congress or the SBA could make to improve the program?

Answer:

We believe the increase in the family of funds limit and the increase in the overall authorization level are the two most important changes that should be instituted. The Agency believes it can address other concerns through its regulatory process. We have also made significant improvements in operating the program more effectively and efficiently, and will maintain this focus on continuous operational improvement.

In this year's State of the Union, the President encouraged Congress to help break down the barriers to entrepreneurship and allow startups to again flourish. I agree that there are too many barriers; which I know several of today's participants can attest to. Throughout the course of the Obama Administration, the President had repeatedly sought to enhance private sector involvement in startups. In December, the White House announced that the Small Business Administration would be launching the Early Stage Innovation Fund, enhancing the Startup America partnership which was announced during the beginning of 2011.

Question: In order to do this the Small Business Administration has modified its rules to create a new sub-category of small business investment companies (SBIC) known as "Early-Stage SBICs" that allow private funds that invest in early stage companies to participate in the SBIC program. Mr. Greene, can you update the Committee on how many applicants you have received for the Early Stage SBIC program?

Answer:

In response to its initial Call Notice issued last winter, the Agency received a total of 33 submissions. After a rigorous review process, we issued six "green light" letters inviting the filing of a license application. On December 5, 2012, Hatteras Venture Partners IV SBIC, L.P. was issued the first Early Stage SBIC license. We do expect a number of the remaining green light letter recipients to file applications in the near future. On December 18, 2012, SBA issued another Call Notice inviting potential applicants for the Early Stage SBIC program. We expect to receive a similar level of interest as before.

Further, as the Early Stage Innovation Fund progresses what role do you envision the Small Business Administration playing with the Startup America partnership?

Answer:

Through the Early Stage SBIC program, the Impact Initiative, the SBIR/STTR program and other efforts, the Agency expects to play a substantive continuing role with the Startup America partnership.

3. Last December, Congress in a rare moment of bipartisanship and after many years of trying, reauthorized the Small Business Innovation Research (SBIR) program for six years. This was a landmark agreement that resolved years of uncertainty and temporary extensions program. I was pleased to have worked closely with Chair Landrieu, and her predecessor Senator Kerry, to craft this compromise, now the law of the land, which will direct much needed research and development funding to innovative small firms across the country. The final compromise had widespread support, not only in this Committee and in Congress, but also from groups such as the Small Business Technology Council, the National Small Business Association, the Biotechnology Industry Organization and the National Venture Capital Association.

   Among other things, the Reauthorization increased the SBIR set aside by 0.1% each fiscal year from FY 2012 through FY 2017 when it will be 3.2% of all federal extramural R&D dollars, and permits firms that are majority-owned by venture capital to compete for 25% of SBIR funds at NIH, DOE, and NSF, and 15% for all other agencies.

   Question: I recognize that Congress gave the SBA an extremely aggressive timeline to complete a size and eligibility rulemaking and revise the SBIR/STTR Policy Directives. Will the SBA complete a final size and eligibility rulemaking by the end of this year, as directed by the new law? Why or why not?

   Answer:

   As mentioned in the answer to Chair Landrieu, SBA was able to publish the final rule on size and eligibility for the SBIR/STTR programs on December 27, 2012. This rule addresses ownership, control and affiliation for participants in the SBIR/STTR programs and includes participants that are majority-owned by multiple venture capital operating companies, private equity firms or hedge funds. In addition to issuing the rule in December 2012, SBA has created a compliance guide, FAQs and hosted at least one webinar to date to educate the public further about the rule. All of this information is available at www.SBIR.gov.

United States Senate
Committee on Small Business and Entrepreneurship

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November 29, 2012

Questions for the Record
from Ranking Member Olympia Snowe
to Michael Chodos, SBA

1. In the Association of Women's Business Centers 2011 Economic Impact Survey, the AWBC estimates that the figures of clients served differ by 24% between the SBA's projected average and the AWBC estimate. The SBA provided a figure of 160,000 WBC clients has been served in FY 2010, while the AWBC estimates the actual figure of clients served is nearly 40,000 higher. *The AWBC suggest- the discrepancy lies in the SBA management information system, which does not fully capture the impact of the broad range of services provided by WBCs to their clients.*

Question: One of the most important measurement tools in estimating the validity and efficacy of a program is through reliable metrics, and if there is validity to the suggestion that the SBA management information system doesn't completely capture the impact of the range of services that WBCs provide, how will the SBA work with AWBCs to accurately portray the program?

Answer:

SBA regularly engages with the Women's Business Centers and the AWBC regarding metrics issues including any issues about the EDMIS system. We believe the EDMIS system is reliable, in the sense that the data entered into it is accurately maintained and accurately reported. With respect to the number of clients served through counseling and training, EDMIS is the "system of record" for those output figures. For this reason, Resource Partners are required to report all counseling and training data into EDMIS; and whenever the Agency learns from a Resource Partner of an issue with data uploads, etc., the Agency works through the issue. Accordingly, by the time each fiscal quarter's data and each year's annual data are final and all issues resolved, there should be no discrepancy about the number of clients served.

The EDMIS system currently collects output measures from counseling and training provided by our Resource Partners, but outcome (i.e. "impact") measures only from counseling clients and not from training (i.e. classroom-type workshops) provided by our partners. This is a function of the different type of relationship between a face-to-face, individual counseling session, and a larger-group training class: It has historically not been thought practical to ask a classroom attendee to provide the same level of detailed, business-specific data of a counseling client. Also, many of our counseling clients receive ongoing counseling which allows the system to track changes in that client's business over the course of time. We cannot currently track whether training clients come to multiple training classes over time; nor do we collect detailed business-specific information after each class which would allow, in theory, the tracking of changes to the business and thus the "impact" of training over time. Finally, the nature of counseling is very client-specific, while training is more generalized information. Thus, it is easier to draw a causal connection between the effect of counseling on a client's business decisions and therefore to measure ultimate impact of the counseling. There is a more generalized connection between information received in a classroom environment and specific business decisions and outcomes which might follow from that classroom experience.

This disparity between the outcome data entered into EDMIS for our counseling clients and the lesser data entered for our training clients poses a unique issue for our Women's Business Centers, since the majority of the services they provide are training services as distinct from counseling services, and since EDMIS does not capture "outcome" data for training clients. The survey conducted by the AWBC attempts to use a survey-type methodology to identify more of the "outcomes" of the WBC's client services than are captured in the training figures entered by our Resource Partners directly into EDMIS.

SBA is modernizing EDMIS to collect more robust data i.e., counseling, training, and other detailed client information to capture a broader scope of the services that our Resource Partners provide. The system modernization is a collaborative venture with our Resource Partners that began in early 2012. The system modernization will be combined with an increased emphasis for Resource Partners to timely and accurately enter data. As part of the modernization process, we are also working with all our Resource Partners to identify and align all our respective surveying, polling and other data-collection methodologies, in order to harmonize the data collected through these efforts and to have a coordinated set of data sources between the Agency and its partners.

2. In a 2007 report, the GAO pointed out that under the terms of Women's Business Center (WBC) awards, WBCs are required to coordinate with local Small Business Development Centers (SBDC) and SCORE chapters to avoid duplication. Yet, based on the GAO's review, it was revealed that the SBA provided WBCs with minimal guidance on how to carry out coordination. Thus, unless these programs were speaking to each other and referring clients of their ***own*** initiative, it is unlikely they're ***not already*** duplicating each other's efforts or leveraging resources. Moreover, WBCs claimed that one challenge to service coordination was competition for the number of clients as program success is measured, in part, by client participation.

Question: In light of recent GAO reports highlighting, in great detail, the massive overlapping of Federal programs and the phenomenal volume of tax payer dollars lost in that duplication, I am eager to hear how the SBA is better coordinating these three economic development programs?

Answer:

1) The Agency and our Resource Partners share the view that all the activities across our Resource Partner network should be collaborative and coordinated to make sure businesses get the help they need and that taxpayer dollars are well spent without duplication or overlap.

   To this end, we and our Resource Partners start from the shared premise that the fundamental strength of the Agency's Resource Partner network lies in its nationwide reach and flexibility: With over 14,000 counselors and mentors nationwide, and with over 900 Small Business Development Centers, 110 Women's Business Centers and 350 SCORE chapters, small business owners (and potential small business owners) can find in their communities a training class, online resource, or a counselor/mentor to help them through their daily business challenges and with their strategic planning.

   Our Resource Partners do not take a "one size fits all" approach. Every local SCORE chapter, SBDC service center and Women's Business Center is deeply embedded in its local community and is well aware of local economic development needs. They tailor their programs and services, both in-person and online, to those local community needs.

   Each of our Resource Partner networks is prepared to provide existing and prospective business owners with whatever assistance they need; in doing so, each network provides a broad range of in-person and online programs, services and tools to its clients. In addition, each network has network-wide attributes which support its

effectiveness: Our Small Business Development Centers benefit from the breadth of resources arising from their deep connections with their University and college hosts; our Women's Business Centers generally reach into underserved communities in which they are often the primary provider of business services; and our SCORE volunteers bring an unparalleled body of personal, real-world business experience to their counseling, mentoring and training activities.

These programs, services and unique attributes are brought to bear in each local community in a specific way depending upon the circumstances of our Resource Partners in that community. For example, in certain communities, the SBDC might be situated right in the University itself, and might have extensive staff and resources. In another community, the SBDC service center might be a much smaller operation, with only one or two staff; but the local Women's Business Center might be a very robust operation with extensive reach into the local business and economic development community. Similarly, in some communities SCORE has a smaller presence compared with our other partners; in other communities, SCORE has very robust chapters and is the primary workshop/business training and counseling/mentoring provider in that area. In addition, in certain communities, one or more of our Resource Partners are co-located in central, shared office facilities from which they jointly "intake" and serve business clients. In other communities, they spread out to cover different parts of the area.

2) Against this backdrop, to drive efficiency and avoid duplication, the Agency requires its Resource Partners to collaborate and coordinate their efforts to avoid duplication and to drive efficiency of local services. During FY12 and FY13, the Agency embodied that requirement very explicitly in each partner's Cooperative Agreement.

3) The Agency also developed and implemented policy supporting this coordination and collaboration requirement through consultation with our Office of Field Operations and with representatives from across our Resource Partner network. Specifically, in May of 2012, SBA's Office of Entrepreneurial Development and Office of Field Operations (District Offices) convened the first-ever national meeting of representatives from each Resource Partner network and from our field District Offices, to identify concrete ways to collaborate and avoid duplication and to identify strategies we could utilize to improve clients' access and utilization of SBA's programs and services.

   Given the unique local features of our Resource Partner network, the Agency believes that implementation of cross-network coordination and collaboration cannot be accomplished solely through national-level policy discussion, but must also be

discussed and implemented at the local level, working in each community with the Agency's local SBA District Office.

Accordingly, as a second stage to implementing collaboration and coordination, during FY12 and FY13 Agency representatives from our Offices of Entrepreneurial Development and Field Operations reviewed Resource Partner practices and engagement with the local SBA District Offices to find opportunities for greater collaboration and coordination across our partner networks and between them and each District Office.

4) Metrics: Currently, the manner in which the Agency collects metrics was not designed to measure coordination and collaboration between Resource Partners. There exists in the EDMIS system a means to track when one Resource Partner refers a client to another as they collaborate with each other to provide shared and coordinated services to their business clients. However, the capability to track that unique client through various Resource Partners after the referral (or through subsequent referrals) does not currently exist. Accordingly, we are building into the new EDMIS system the capability to use a confidential "unique identifier" for each client which would allow such tracking. This will allow for more robust tracking of customers through our networks, thus allowing for better analytics and understanding of how our partners collaborate on providing counseling and training.

   The Agency believes that more effectively tracking services received by unique, individual clients across our Resource Partner network will eliminate any "challenge" to collaboration arising from "competition for the number of clients." Instead of simply measuring "how many clients" each Partner serves annually, it will allow us to identify which clients received services across the Partner network, and how effectively the entire network coordinated its services and "No Wrong Front Door" policies to provide the client with the entire suite of services needed across the life of the client's business.

Specifically with regards to the Emerging Leaders program, which Chair Landrieu is proposing that we make permanent, how is the SBA ensuring that this initiative is not duplicative of, or overlapping with, the SBDC, WBC and SCORE programs?

Answer:

Emerging Leaders (e200) plays an essential role within the circle of SBA resources and partners. During the first two stages of small business growth (existence and survival) businesses require tactical support to survive - such as the technical assistance offered by SBDCs and WBCs. To continue growth, they need more strategic and intensive support, resources and peer engagement.

The Emerging Leaders Initiative provides strategic support through small business executive education and peer-review for the CEO, COO, and CFO. This intensive, high-level education allows businesses to maintain a profitable status quo while developing a strong foundation for self-assessment and growth. The Initiative specifically accelerates SBA's delivery of products and services in underserved markets to urban and Native American small employer businesses with high growth potential. In many cases, Resource Partners are part of the resource mix that is offered to these businesses, and are referral points for most of them. This 7 month training is not for start-ups, but for businesses with demonstrated revenue, job creation and sustainability.

- 56% of e200 businesses are located in a low- to moderate-income census tract.
- 71% of e200 businesses are minority-owned
- 41% of e200 participants are women
- Since 2008, e200 has served the needs of 1,000 small business owners.
    - Average e200 business has operated for 13 years
    - Average e200 business has 14 FTE
    - e200 businesses reported average annual revenue of over $1 .6 million
    - Accessed $26 million in new financing.
    - Obtained $450 million in government contracts.
- Despite the economic challenges in recent years, over 50% of businesses have created new jobs in their communities.

3. As the current Ranking Member, and former Chair of this Committee, I can tell you that one of the greatest challenges I confront when determining the efficiency and job creating potential of SBA funded programs is the data deficiency. Another challenge is the inconsistency in program metrics. For example, SCORE follows different metrics than SBDCs and WBCs despite their shared objectives.

Question: Can you explain why these economic development programs, which in many cases serve the same constituencies, measure their progress with different

yardsticks? Why, in your opinion, don't we see more performance data specific to programs?

Answer:

We know from history and ongoing analysis that each program serves a specific business and entrepreneur constituency; and that the mix of how, when and why partners are utilized in a particular market is driven by local demand, local skills and expertise, and other resources outside of our funded partners.

Our Resource Partners do not take a "one size fits all" approach. Every local SCORE chapter, SBDC service center and Women's Business Center is deeply embedded in its local community and is well aware of local economic development needs. They tailor their programs and services, both in-person and online, to those local community needs.

Program performance measures, (Key Performance Indicators – KPIs) align with each program's specific mission and its core activities. In the Agency's Congressional Budget Submissions and annual Performance Reports, a chart is laid out for each program which shows trends in these KPIs.

For example, the KPIs for each program, as agreed on by the Agency's Performance Office and OMB, reflect output, outcome, and efficiency measures. An excerpt from the information in the referenced documents is shown below.

Performance Indicator	Type of Measure	Reported Actuals	Target Future Yrs.	Actuals
SCORE – SB assisted	Output	2006-2011		
SCORE – SB Created	**Outcome**	**2006-2011**		
SCORE – Cost per SB assisted	Efficiency	2006-2011		
SBDC – Long term counseling clients*	Output	2006-2011		
SBDC – SB Created	**Outcome**	**2006-2011**		
SBDC – Capital Infusion	Outcome	2006-2011		

SBDC – Jobs Created	Outcome	2006-2011		
SBDC – Cost per SB Created	Efficiency	2006-2011		
WBC – SB Assisted	Output	2006-2011		
WBC – SB Created	**Outcome**	**2006-2011**		
Cost per SB Assisted	Efficiency	2006-2011		

As you can see, each program contains one program outcome KPI, SBs created, and a minimum of one output KPI – businesses assisted in the case of SCORE and WBC; and long term counseling clients for SBDC (a subset of businesses assisted) because for the SBDC program, long term counseling (5 hrs. or more of engagement) has proven to be the best predictor of client success and sustainability.

Nevertheless, the Office of Entrepreneurial Development is fully engaged in ongoing analysis and review of our measures and metrics to identify all opportunities to make those metrics more effective and transparent and to allow greater performance review of our Partners.

Accordingly, starting in FY12 and continuing through FY13, OED has undertaken a comprehensive modernization project for our Resource Partner data collection system, known as EDMIS. EDMIS is the "system of record" in which Resource Partners (including Small Business Development Centers, Women's Business Centers and SCORE) report key activities and key outcomes respecting their clients. For our Resource Partners' counseling clients, EDMIS captures demographic information, business-specific data, type of assistance sought and other information which allows the Agency, the Resource Partners and Congress to understand who is receiving our Resource Partners' assistance and the tangible, concrete outcomes those clients are experiencing as a result of that assistance. For our training clients (i.e. those who receive "classroom-type" entrepreneurial training) it captures information about the number of clients, basic demographic information, the subject matter of training delivered and other information about the classroom offering.

Over time, the Agency and its Resource Partners and stakeholders have identified additional information and new and better data analysis they feel should be incorporated into EDMIS. Accordingly, starting in FY12 the Agency conducted extensive workshops with designated expert working groups from across our Resource Partner networks to

gather feedback and input into how best to improve EDMIS. Based on this information along with Agency analysis, an EDMIS system modernization plan was developed and is now being implemented. This modernization involves system enhancements including additional data fields, improved budget and performance integration capabilities, and greatly enhanced reporting capabilities. We have also discussed with the Agency's Office of Veteran's Business Development potential opportunities for incorporating their counseling and training data into EDMIS as well. As we move forward in the implementation process, we will be reporting out to our Resource Partners regularly and working with them to make sure their systems are updated in a parallel fashion to integrate effectively with the improved capabilities in EDMIS. We currently anticipate that development, testing and implementation will occur through the remainder of FY13.

In addition to our EDMIS Modernization project, we have formed a Performance Metrics Workgroup to analyze the following topics and to work with our Resource Partners to identify specific opportunities for change, modification and improvement. We plan to implement improvements on a rolling basis starting in the final quarter of FY13:

- Surveying: In addition, OED's EDMIS system, into which our Resource Partners upload data about individual counseling clients or training classes, OED also conducts an annual Impact Survey. The purpose of the survey is to assess the financial impact of our partners' counseling services, as well as our clients' attitudinal assessments of the service they received as well as their perceptions of changes in management/marketing practices as a result of those services. Various of our Resource Partners also engage in surveying or polling of their clients. Accordingly, we will be consulting with our Resource Partners to identify opportunities to coordinate our respective surveys to avoid any unnecessary duplication; to align the outcomes measured by the surveys; and to reduce costs where possible through sharing of questionnaires and responses.

- Evaluation and Alignment of Metrics: In addition to the output and outcome metrics we gather in EDMIS; and in addition to the matters on which we collect data in our annual Impact Survey; some of our Resource Partners collect additional metrics in their own data collection systems. Some of these additional data items are collected for their state, local, foundation and other funding partners; other items are collected because our Resource Partners consider them sufficiently important to track. These supplemental approaches to metrics tracking (over and above that which is collected in EDMIS and measured in OED's annual Impact Survey) reflect our Resource Partners' individualized and local needs. But it could be that certain of these measures

would be of value if more broadly measured and thus should become part of the "core" metrics gathered by all partners and reported across the entire network. We intend to analyze this issue.

Also, certain of our partners focus primarily on training activities, while others focus more on one-on-one counseling activities. Currently, the Agency measures the outputs and outcomes for these two activities differently, as would be expected given the different level of personal engagement with a classroom attendee than with a face-to-face counseling client. The Agency will be working with its partners to identify additional ways to measure the effectiveness of all our training activities and to align these measures more effectively with our counseling measures where it is feasible and reasonable to do so.

Consistent with applicable law, we will be working with the Agency's Office of Performance Management, the Agency's Chief Economist, and representatives from each of our Resource Partners to develop a more transparent and cross-network matrix of output and outcome measurements currently collected and then jointly identifying opportunities to better share and align those measurements across all Resource Partner networks and across both counseling and training activities.

Question: As Members of this Committee, how should we judge the efficacy of these programs? Does the Administration support the bill Chair Landrieu and I have introduced, S. 3197, to more effectively measure the effectiveness of the SBA's resource partners?

Answer:

The Agency believes that the efficacy of its Resource Partner programs should be judged by the data collected respecting these programs. Between the EDMIS system and SBA's annual Impact Survey of Resource Partner clients, extensive output and outcome-based information is available to the Committee with which to review and evaluate these programs.

As set forth above, the Agency believes that data collection, surveying and analysis must constantly be evaluated and improved; and for that reason, the Agency is engaged in the EDMIS modernization project referenced above. It is also why the Agency is simultaneously engaging in a comprehensive review of the Performance Management surveys, polling and metrics collected by all our Partners so we can transparently review,

evaluate and align the best practices for measuring each Partner's effectiveness. The Agency is happy to work with the Committee on any legislative changes that might help us achieve these goals.

Question: Does the Administration share my view that we should not be expanding the SCORE program at this time, given the request of $6.3 million, as opposed to $13 million, in the SBA's FY2013 budget request? Would you agree that now is not the time – with the economic realities that exist today – among charges of duplication and a lack of consistent, measurable program results, to double or even triple their funding?

Answer:

The Administration's FY2013 budget request sets forth the requested Resource Partner funding levels.

The Agency strongly affirms and acknowledges the Committee's long-standing support for SCORE and the benefits it provides to small business owners and entrepreneurs in communities across America. Small businesses represent the foundation for America's economic growth, and SCORE's network of volunteers is a unique asset in building communities across the country by helping individual businesses confront their challenges and succeed. SCORE's volunteers return enormous value to their communities in the form of business starts, revenue increases and job creation, and has demonstrated again and again over the years that its results overwhelmingly justify the federal support which helps its volunteers coordinate, provide and track their services.

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Hearing entitled:
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November 29, 2012

Questions for the Record
from Ranking Member Olympia Snowe
to Fonda Lindfors New, CEO of QRI

1. Ms. New, thank you for your testimony today, and particularly for giving the Members of this Committee such a poignant example of a women-owned and operated firm that responded to the needs of the market and her state, and built a successful business that has grown in revenue and employees over the past 27 years. As you have described, you have overcome many obstacles in your road to success, particularly in accessing capital to grow your business, and in securing contracts to keep it going.

   It is my hope that the women's contracting program that those of us in Congress have fought so hard to create and then to have implemented, will benefit you and the thousands of other women-owned firms that have a good or service that the federal government needs. While I am hopeful that this program will help us to address the low tendency of women-owned firms to grow in employees and revenues, I am very concerned that the limitations concerning the dollar threshold of contracts and the inability of agencies to sole source to women in the program will severely impact its potential to help women entrepreneurs.

   Question: How might the dollar limitation of $5 million on manufacturing contracts and $3 million on all other contracts stifle the ability of QRI and other women-owned firms to access to lucrative federal contracts?

QRI Response:

QRI graduated from the 8(a) program on January 13, 2013. QRI's current Strategic Growth Action Plan under our WOSB and SB certifications forecast a goal of serving 60% Government and 40% Commercial markets by increasing the number of proposals submitted, increasing employees, and the acquisition of other small businesses with backlog – thus providing the growth needed to measured business increase. Limiting the dollar amounts of contracts would impact our current growth trend and stifle our goals. Accessibility to contracts with dollar amounts greater than $3 million allow companies such as QRI to stimulate local growth by providing more job opportunities, purchasing new equipment, tools and technology, and growth of existing facilities.

It is only in the women's program that this dollar limitation, and the restriction on sole sourcing, is applied. Can you please explain to the Committee, from your perspective, why addressing this unfairness through S. 2172, the Fairness in Women-Owned Small Business Contracting Act, can help the federal government reach its goal of awarding 5 percent of all contracts to women-owned firms?

QRI Response:

QRI is extremely interested in changes to the EDWOSB (Economically Disadvantaged Woman Owned Small Business) program as stated in the Fairness in Women-Owned Small Business Contracting Act of 2012. Since 2007, QRI has received 78 Federal contracts with obligated funds exceeding $35 million. Through our dedication to quarterly meetings with small business representatives from various agencies, such as the USACE, AFCEE, etc. to ascertain acquisition strategies and upcoming projects, QRI has helped agencies meet award goals for 8(a). QRI's services, certifications, and licenses will continue to be used by our company to penetrate deeper into both the defense and the non-defense small business Federal government marketplace, with special emphasis on the U.S. Army Corp of Engineers, General Service Administration, National Park Service and U.S. Coast Guard.

In addition to the removing the contract award price limits, removing the economically disadvantaged requirement and adding sole sourcing contract vehicles, QRI would like to ask the committee to consider adding a formal Mentor-Protégé program such as the 8(a) has in place.

1 find a balance between preserving the best of the employer-
2 sponsored plans but allowing that individual freedom of
3 choice through exchanges that, ironically, some of the more
4 conservative Governors in our country were refusing to set
5 up, exactly what you said, to give individuals the freedom
6 to get their insurance not attached to their employment.
7 Ms. Furchtgott-Roth. Right.
8 Chair Landrieu. So this is a real conundrum. My time
9 is finished--
10 Ms. Furchtgott-Roth. If you look at Congressman
11 Price's Empower Patients First Act, that would allow
12 individuals to bring to their employer some kind of
13 refundable tax credit. The employer would then purchase the
14 insurance for them at whatever plan they choose. Then when
15 the employee leaves for another job, he does not have to
16 switch plans. The new employer can move the subsidy, if the
17 employer has a subsidy, to the same plan, kind of like with
18 a 401(k) plan where you can just roll it over and you do not
19 have to liquidate it.
20 Chair Landrieu. Well, we are going to continue to work
21 on this.
22 [redacted]
23 Senator Snowe. Thank you. I will be a fast talker.
24 And I want to thank all of you for your very impressive
25 testimony.

1 David, let me start with you. I am going to ask one
2 question of the panel. Given the current situation
3 regarding the fiscal cliff and the much debated issue about
4 whether or not you can draw and delineate a line regarding a
5 small business exemption regarding the top tax rates, David,
6 [redacted]--and it is an important issue
7 because 50 percent of all income above the $250,000 is
8 attributable to pass-through income-[redacted] an
9 [redacted]
10 Mr. Clough: I am going to beg off on the how. I will
11 just mention on drawing the line, the NFIB has been
12 considering that. I will let them get back to you and the
13 committee with a more specific answer. They have done a
14 study. They are aware of the Ernst and Young study, for
15 example, that suggested there could be very significant job
16 losses over the long run, depending on where the line is
17 drawn. And also, I think, the Congressional Budget Office
18 showed in the short run that there could be some significant
19 job losses. The exact place, based on what I hear, is going
20 to vary in some respects on the business, as well, and what
21 stage of development the business is in.
22 Senator Snowe. Julie, do you want to add anything?
23 And I hope I am here for the 50th anniversary of the Women's
24 Business Centers, someplace in the world.
25 Ms. Weeks. Whatever happens, you are going to have to

See attached response to replace lines 10-21

David R. Clough QFR for Senator Snowe (page 106, lines 10-21):

Drawing a line for tax rate increases at almost any income threshold will capture a significant amount of small business income. At the $250,000 level, the Joint Committee on Taxation determined that 940,000 business entities would be affected by increases to the marginal tax rates at that income level. Drawing the line at higher income levels also hits a significant number of small businesses. For example, the Treasury Department determined that approximately 750,000 small business entities would be affected by tax increases at the $500,000 level.

Further, exempting small business income from rate increases is problematic. This method only adds to the tax code's complexity and adversely affects the ability of pass-through entities to function under existing rules.

National Association of Surety Bond Producers
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December 5, 2012

Ms. Krystal Brumfield
Tax Counsel
U.S. Senate Committee on Small Business & Entrepreneurship
428A Russell Building
Washington, DC 20510

RE: Senator Jeanne Shaheen's Question

Dear Ms. Brumfield:

On behalf of the National Association of Surety Bond Producers (NASBP), I would like to thank you for affording NASBP the opportunity to testify before the Committee concerning S. 3442, the SUCCESS Act. NASBP's testimony focused solely on Section 511 of the bill, which increases the contract size of the SBA Surety Bond Guarantee Program from $2 million to $5 million. NASBP valued this opportunity to express our continued support for the Program, and to offer suggested changes that we believe will enhance the Program to benefit small and emerging construction firms.

During last week's hearing, Senator Shaheen posed a question to Joshua Etemadi who testified on behalf of NASBP. The Senator inquired how many small businesses might benefit if the contract size was increased past $5 million, as contemplated in the bill, to $6.5 million. NASBP supports increasing the contract size beyond $5 million to $6.5 million, as stated in our testimony, to align it with other small business contracting programs, such as the 8(a) Minority Small Business and Capital Ownership Development Program. Such an alignment should expand the number of small businesses which could utilize the Program to seek award of contracts between $2 million and $6.5 million, which is the simplified acquisition threshold.

While NASBP does not have exact data to ascertain how many small businesses might benefit by increasing the contract size to $6.5 million, we can provide data concerning the impact that the American Recovery and Reinvestment Act (ARRA) made by increasing the contract size from $2 million to $5 million.

According to the SBA Office of Surety Guarantees, when the contract size was increased from $2 million to $5 million with the passage ARRA, a total of 218 bond guarantees were issued representing a contract value of over $660 million. Some argued that increasing the contract size placed the federal government in greater risk regarding contractor default; however, according to SBA, there were only two defaults during that period, which indicates that there was little to no risk for U.S. taxpayers.

Additional points Congress might consider when contemplating increasing the contract size to $6.5 million include, the average size for Department of Defense construction contracts for small businesses for FY 2010 exceeded $5.9 million, which is nearly triple the size of the current contract size guaranteed by the Program. Furthermore, ARRA increased the size standard permanently for building construction and heavy and civil engineering to $33.5 million and $14 million for specialty trades, all of which indicates a strong need for increasing the SBA Surety Bond Guarantee Program's contract limit to allow more small businesses to compete for contracting opportunities.

It should also be noted that momentum had just started to grow for bonds in excess of $2 million when the ARRA provisions expired in September 2010. The current contract size limit of $2 million was increased in 2001. Prior to that, the limit was $1.25 million. The growth in current construction costs far exceed the contract size amount of $2 million and needs to be adjusted to reflect today's market and inflation rate and the average size of small construction procurements.

The SBA Surety Bond Guarantee Program was created to ensure that small and emerging contractors have the opportunity to bid on public construction work, grow their businesses and remain a viable part of the U.S. economy. With a few additional enhancements, NASBP believes that a good Program that assists so many small businesses may become better.

Again, thank you for the opportunity to testify before the Senate Committee on Small Business & Entrepreneurship. NASBP looks forward to our continued working relationship with you and the Committee.

Please let me know if you have any questions, or need further clarification.

Sincerely yours,

Lawrence E. LeClair
Director, Government Relations

cc: Mark McCallum, NASBP
Frank Lalumiere, SBA Office of Surety Guarantees
Joshua Etemadi, Construction Bonds, Inc., a Division of Murray Securus

United States Senate
Committee on Small Business and Entrepreneurship Hearing

Thursday, November 29, 2012

"Creating Jobs and Growing the Economy: Legislative Proposals to Strengthen the Entrepreneurial Ecosystem."

Questions for the Record
from Senator Carl Levin to the Small Business Administration

I. Intermediary Lending Pilot Program Question

The Intermediary Lending Pilot Program (ILP) was designed to provide credit to small businesses that, for a variety of reasons, including the lack of sufficient collateral, are unable to secure credit through a conventional lender, even with the assistance of a 7(a) guarantee. The ILP is designed to enhance the efforts of these organizations by allowing up to 40 intermediaries to apply for $1 million in loans from the SBA. These SBA loans were to be used by the intermediaries to capitalize revolving loan funds through which loans of up to $200,000 would be made to small businesses in need of flexible debt financing to sustain and create jobs. The program was authorized for three years and funded for two years.

a. With the second round of program funding completed, please provide a status report on SBA's implementation of the ILP, a list of the intermediary lending organizations that received ILP loans and to the extent possible examples of the types of loans that the ILP's made in turn to small businesses using the ILP funds. In addition, what has the SBA learned from the ILP pilot in terms of meeting the demands of small businesses for slightly larger loans than are available through the Microloan program?

   As part of the Agency's implementation of the ILP Program, SBA published regulations in April 2011 and a Procedural Guide in January 2012 to communicate program requirements to participating ILP Intermediaries and other interested organizations. Additionally, SBA has held several training opportunities for selected ILP Intermediaries to learn and discuss program requirements.

   SBA selected 20 organizations during FY2011 and 18 organizations during FY2012 to participate in the ILP Program. While SBA had funding and authority to select up to 20 organizations in FY2012, SBA did not receive enough qualified applications to do so. Of the 38 organization selected, 37 currently participate in the ILP Program and are listed below. (After more thoroughly reviewing program requirements, the additional organization which had been selected declined to participate.)

ILP Intermediaries	City	State
3Core, Inc.	Chico	CA
Banco de Desarrollo Centro Oriental, Inc. (BADECO)	Caguas	PR
Barberton Community Development Corporation	Barberton	OH
Ben Franklin Tech Partners of Southeast Pennsylvania, The	Philadelphia	PA
Biddeford-Saco Area Economic Development Corporation	Saco	ME
Business Finance Group, Inc.	Fairfax	VA
Capital Regional Development Council	Concord	NH
Center for Economic & Empowerment Development	Fayetteville	NC
Central Minnesota Development Company	Andover	MN
Clay-Platte Development Corporation	Kansas City	MO
Colorado Lending Source, Ltd.	Denver	CO
Cooperative Fund Of New England	Amherst	MA
Craft 3 a/k/a (ShoreBank Enterprise Group Pacific)	Ilwaco	WA
Dakota Certified Development Corporation	Fargo	ND
Eastern Shore Entrepreneurship Center	Easton	MD
Fresno County Economic Opportunities Commission	Fresno	CA
Grand Central Texas DC	Austin	TX
GROW South Dakota	Sisseton	SD
Hamilton County Development Company, Inc.	Cincinnati	OH
La Fuerza Unida Community Development Corporation	East Norwich	NY
Mahoning Valley Economic Development Corporation	Youngstown	OH
Metropolitan Economic Development Association	Minneapolis	MN
Ohio Community Development Finance Fund	Columbus	OH
Oregon Business Development Corporation	Bend	OR
Pacific Community Ventures (PCV)	San Francisco	CA
Paragon Foundation of Palm Beach County, Inc., The	West Palm Beach	FL
PIDC Regional Development Corporation	Philadelphia	PA
Rural Nevada Development Corporation	Ely	NV
San Fernando Valley Small Business Development Corp.	Van Nuys	CA
Seattle Economic Development Fund	Seattle	WA
ShoreBank Enterprise Detroit d/b/a Detroit Development Fund	Detroit	MI
South Eastern Development Foundation	Sioux Falls	SD
Support Center-NC, The	Raleigh	NC
Tampa Bay Economic Development Corporation	Tampa	FL
TELACU Community Capital, Inc.	Loa Angeles	CA
UP Business Capital	Marquette	MI
Valley Development Initiative	Salem	OR

As of February 4, 2013, ILP Intermediaries had approved loans for $9.4 million to 123 small businesses under the program. More than 80 percent of these funds, or $7.7 million, was loaned in the $50,000 to $200,000 range, which is outside the scope of the

Microloan Program. SBA has learned that a high demand exists for nonprofit lenders to make these slightly larger loans.

b. Funding for the ILP program is not appropriated in the third and final year for which it has been authorized. Does SBA support finding funding to allow the ILP to operate in the third year of its authorization and will SBA support and recommend the continuation of the program?

SBA believes the ILP Program, along with the 7(a) program and Small Loan Advantage, is one approach for providing follow-on funding for the SBA's microborrowers. In SBA's FY2013 budget request, the agency had to make a number of tough funding choices, and a third year of funding for the ILP program was not part of the request. As for future funding for the program, the SBA will continue to evaluate the performance of the ILP pilot before making a recommendation on its continuation or expansion.

II. 504 Program Question

The Small Business Jobs Act included a temporary provision that allowed small businesses to refinance fixed assets and eligible business expenses through the SBA's 504 program. This pilot program expired at the end of September. I hear from Michigan Community Development Corporations that refinancing still is very important to small businesses in Michigan. They report the SBA 504 refinance option program worked very well. For instance, the Oakland County Economic Development & Community Affairs CDC reported to my office that they had several refinance projects that provided the small business with a rate and term that will help these companies prosper for years to come.

However, due to the delay in rolling out the program many businesses were unable to take advantage of it. I have heard that due to the delay in rolling out the program SBA was inundated with applications that could not get approved before the sunset date. For instance, Oakland County's CDC had four loans that were caught in the last minute rush and were not approved because the SBA simply ran out of time.

a. Given the clear need for the program, does SBA support extending the refinancing pilot? If so, what is SBA doing to promote this?

There was a lot of interest and demand for the 504 refinance program, particularly in the final months of the program. The final rules that went into effect October 12, 2011 succeeded for a number of reasons, including the allowance of borrowers to access their equity for working capital. In FY12, SBA approved 2,424 504 refinance applications. These added up to over $2.2 billion in lending for the CDC/SBA portion of the loans. So, in light of the heavy demand for refinancing under the program, the Administration is taking a hard look at whether it makes sense to support reauthorizing it for a period of time. No decisions have been made. Of course, if Congress decides to reauthorize it, we will re-implement the program as quickly and responsibly as possible.

III. SBIC Question

I have been informed by Michigan Small Business Investment Company (SBIC) participants that the SBA under Sean Greene has done a great job of improving the SBIC Program. This is welcome news.

a. The President's budget proposes raising the statutory cap for the SBIC program to keep funds that have proven themselves successful at small business investing in the program at no cost to the taxpayer. There are bipartisan bills in the House and Senate that would raise these limits. Does the Administration support any of these bills?

   The Administration supports the effort to increase the statutory authorization level for the SBIC debenture program from $3 billion to $4 billion as well as the effort to increase the amount of leverage by licensees under common control from $225 million to $350 million, with appropriate safeguards.

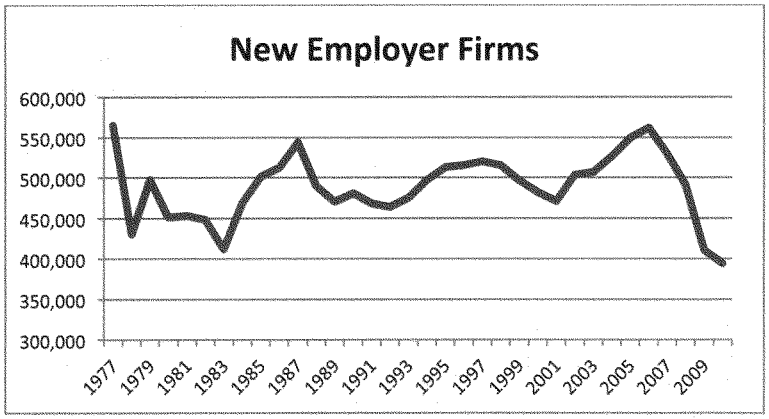
b. The Administration has been successful in reducing the licensing times from almost two years to less than six months which is commendable. However, I have recently heard that over the past few months problems with licensing times have reemerged. How long is the current wait from when an SBIC preliminary application is submitted to when it is first opened for review? Is there is a renewed problem with licensing delays and if so, what happened and what can be done to get the SBIC licensing process back on track?

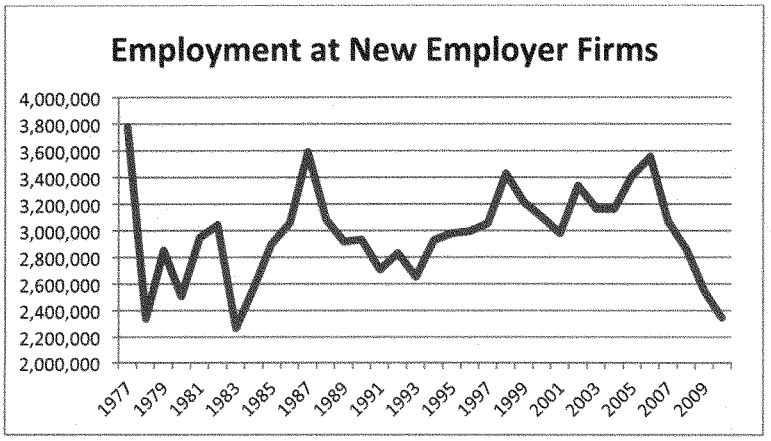
   For FY 2012 the Investment Division licensed 30 funds with an average processing time of less than six months. The four funds licensed in the first quarter of FY 2013 had an average processing time of 4.125 months while the year to date average is slightly less than five months (7 funds). Early in a fiscal year the processing time is subject to substantial variation due to small sample size. However, we are confident that we will continue to meet our goal of six months or less for the full fiscal year.

c. I have also heard that the Investment Division is short staffed which may be causing delays in licensing and general administration and in updating SBIC regulations. Does the Investment Decision need additional staff to properly handle its work load?

   The offices primarily charged with licensing SBICs and overseeing their operations have current authorized staffing levels higher than the staff levels that existed at the end of both FY 2011 and FY 2012. We are in the process of hiring up to those levels in order to meet the continued high demand for the program. Processing times for the initial MAQ filings had increased somewhat over the last summer but the backlog has been reduced and processing times are coming down in that area. We believe the Investment Division is adequately staffed for current and projected workload.

Ewing Marion
KAUFFMAN
Foundation





Source: Calculations from Census Bureau's Business Dynamics Series

Additional discussion in Starting Smaller; Staying Smaller. Available at http://www.kauffman.org/uploadedFiles/job_leaks_starting_smaller_study.pdf

November 2012

Quick Overview of RFP-EZ

* Website that will make it easier for small businesses to find, bid on, and win government contracts.

* Focused primarily on technology professional services: web design, web programming, content management and social media.

* Only for acquisitions under the simplified acquisition threshold: $150,000 and below

* Software is open source and free for anyone to use and implement. Cities are implementing the software to help change their own procurements as well.

Small Businesses Can Discover Opportunities to Contract with the Federal Government

The language of technology businesses and the language of government are very different. RFP-EZ has created a new way to write Statements of Work that are easier for small businesses to find and understand.

Maximize Value of Taxpayer Dollars

Federal IT spending in FY13 is slated to be nearly $80 Billion Dollars. RFP-EZ can help reduce this cost in three ways. First, the increased competition will result in lower bids. This allows government to buy technology for less money. Second, the RFP-EZ buying process take less time, due to a simplified workflow and cross-agency sharing of successful project templates. Finally, by building tools to help contracting officers automate small tasks, they can focus more effort on high-value tasks like contract negotiation and market research.

Government Can Provide Better Services to Citizens

By opening the door to more innovators and reducing the cost of technology to government, government can provide more innovative, cost effective citizen services online. As the Presidential Innovation Fellowship program has shown, small scale technical talent inside of government can have a huge impact. RFP-EZ allows for agencies to acquire that kind of innovation at low cost and with low risk.

Create Jobs

New and growing small businesses create jobs in America. By improving access to government contracts for small businesses, RFP-EZ helps these small businesses find a new customer in the Federal Government.

COUNTERPOINT: RFP-EZ Is Duplicative of Existing Programs

"Government is already spending millions of dollars on systems like Sam.gov, Fedbizopps.gov, and the countless numbers of award systems. Why is government spending time and resources on building yet another independent system?"

The RFP-EZ is a pilot project and experiment intended to help government understand where improvements can be made in the procurement process, and as-is, isn't intended to be either a complete or permanent solution. Rather, it's a step towards imagining a more streamlined and easier process. The lessons government learns from the procurements through RFP-EZ will help inform government where there are opportunities for improvement in existing platforms like FBO.gov and the IAE.

COUNTERPOINT: RFP-EZ enables government to circumvent existing regulations like set-asides for minority, women, and veteran owned small businesses'

RFP-EZ makes no changes to existing regulations. All set-asides applicable to a procurement are still intact if they're run through RFP-EZ. All procurements must be under the simplified acquisition threshold of $150,000.

Current procurement regulation states that a non-registered small business may bid on a procurement that has been set-aside for small business as long as the small business is a registered entity at the time of award.

The Innovation Network

Robert F. Weiss, ScD*
Laura Weiss, MBA**

Prepared for the
United States Senate Committee on Small Business and
Entrepreneurship Innovation EcoSytem Hearing

Chaired by Sen. Mary Landrieu and Sen. Olympia Snowe
Thursday, 29 November, 2012

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The Innovation Network

Robert F. Weiss, ScD
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Introduction

Thank you, Chair Landrieu and Ranking Member Snowe for holding today's hearing. Much has been made of the "Innovation Ecosystem", an organic metaphor for the imagined process that is responsible for creating new products and services for existing or totally new markets [1]. While the word "innovation" means different things to different people, it is most often coupled with technological advances and the high tech industry. The participants in this industry, large and small, academic and corporate, are identified with economic growth and social progress [2].

In this paper, we will use a more tangible model, that of a highly coupled network. Whereas "ecosystem" connotes ecology, including the "food chain", where smaller organisms are consumed by larger ones and feedback is primarily long-term, often with damaging consequences (e.g., deforestation, destruction of coral reefs), the Innovation Network is characterized by inter-dependence and dynamic feedback that can be positive as well as negative. Each element, or node, of this network is, by definition, connected to every other node, as depicted in Fig. 1 below.

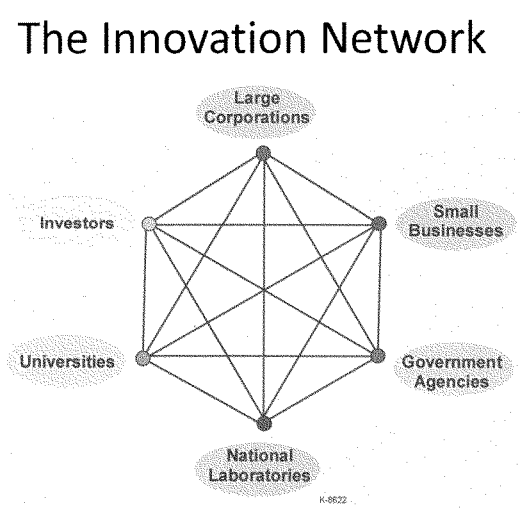

Fig. 1 – Nodes and links in The Innovation Network

Because of the feedback between nodes in both directions, the dynamics of the coupling between nodes are not only variable, but also highly nonlinear. In the discussion that follows, we provide examples of the feedback mechanisms that determine the overall behavior of the network. Depending on economic motivations, social policies and external stimuli, the network may be predictable and stable, unpredictable and unstable, or even chaotic [3]. The cyclic behavior of government funding cycles, national priorities, venture capital "manias" and other irrational and unsustainable exuberance, are not that different from gypsy moth population growth cycles and predator-prey interdependencies: simply replace "food" with "investment capital" and "predator" with "venture capital firms" and you get the idea. At the federal level, the many "Energy Independence" programs that have come and gone in response to international or imagined crises are other examples.

A well-designed Innovation Network, optimized for steady and stable economic progress, is presumably the goal. This goal can only be achieved with a ***balanced investment in near- term and long- term research and development, a stable and highly trained workforce, and reasonable financial rewards for success***. It also requires the right balance between public and private investment in research, development, and, critically, products and services that people or organizations will actually buy. At the end of the day, the investments in R&D must pay for themselves in profitability from products and services that would not have existed without such investment [4].

Each node of the network is basically characterized by "capital", of either the financial or human variety. Each node provides either financial capital ("investment") or human capital ("talent"). Typically, the nodes that provide the latter consume the former, and vice-versa. This is illustrated in Fig. 2 by the directions of the arrows. In addition to generic flows of capital, any such network has limits in the amount of capital available, as well as regulatory and market restrictions, and other "friction" that inhibits its flow. These limits will vary from node to node and link to link, and would be critical components of any mathematical model of a network that illustrates feedback mechanisms (again, think gypsy moths, which periodically eat themselves into starvation if disease spread by over-population doesn't do the trick).

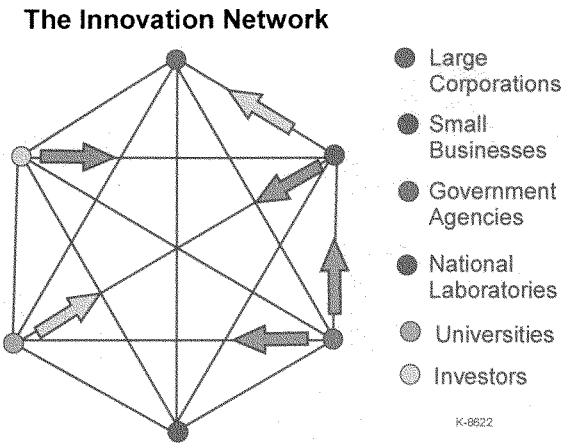

Fig. 2 – Flows of funding (green arrows) and talent/technologies (blue arrows)

We start our description of the network nodes with the source of much science and technology, the major research universities; we then move on to the government and industrial laboratories, and complete our survey with high technology companies and the financial community that invests in them. The interactions between network nodes are briefly described in terms of inputs and outputs, and are summarized in Table 1 that follows.

Research universities

It is universally recognized that the major research universities in the US have been responsible for the discovery or development of technology platforms that have provided the basis for countless innovative products and services. The organic coupling of MIT and Harvard with "Route 128" companies and venture capital firms, Stanford with Silicon Valley, Duke/UNC/NC State with Research Triangle Park, the University of Washington with Seattle software companies, and UC San Francisco with biotech are all well known. The licensing offices of these institutions continue to play a role in the creation of start-ups while generating badly needed income. As of 2005, US universities had issued a total of 4,201 active licenses, 1,203 of them to large companies, with the University of California system generating licensing revenue of $94M annually. A new survey released by the American Association of Technology Managers provides more detailed data on the economic impact of university and nonprofit inventions from 1996-2010 [5]. However, it is clear that the major functions of a research university are the production of talented scientists and engineers and the generation of new ideas. They are therefore net producers of "talent" and net consumers of "investment", both public and

private. ***It is also clear that research universities should be receiving growing levels of federal investment, not less.***

In a period of declining federal discretionary budgets, support from large corporations and venture capital firms is more important than ever, but the former has grown modestly in recent years, from 5% to 6% of academic R&D in 2009 [6] . Subcontracting from small businesses is also important, with the SBIR and STTR programs playing a central role, as discussed below. An excellent example of what can be done to increase coupling of research universities with local industry for their mutual benefit can be found at Stanford University, under the leadership of John Hennessy [7]. Although large corporations and venture capital firms will ultimately profit from the innovative technologies discovered in academia, they actually provide minimal financial support (not counting major gifts from wealthy alumni), and the linkage is primarily one way. While some universities "manage" the DoE National Laboratories, this role involves limited technical collaboration due to national security.

Federal Government Laboratories

The Department of Energy has maintained a National Laboratory system for over sixty years. While their purpose was clear during and after World War II, the missions of these laboratories have been continuously re-directed in their search for relevance each year since. Their primary purpose is to provide direct support for the maintenance of nuclear weapons, with virtually no coupling to the private sector. However, their extraordinary facilities are sometimes made available to universities and small technical companies under special arrangement. Technologies developed at the National Laboratories are also licensed and co-developed through Cooperative R&D Agreements (CRADAs). Unfortunately, the laboratories are a very expensive enterprise, costing more than $10B a year and consuming human resources that could be better utilized by other components of the Innovation Network. The National Laboratories have the distinction of being consumers of ***both*** funding and talent. A way should be found to free their research staffs to work with the outside R&D community, and thereby contribute to the Innovation Network in a more direct and accountable manner.

On the other hand, a core capability must be maintained in the Department of Defense labs, which have been allowed to decline in the mistaken belief that defense support contractors can perform these tasks at lower cost and higher efficiency. There is certainly a role for the Department's support contractors, but these consultants are not known for developing innovative technology or quantum improvement of advanced military systems. In earlier times, defense labs, universities and corporations both large and small had a highly interactive and productive relationship. What we have now is a "pseudo-lab" system that is overly expensive, under-achieving and borderline competent. The DoD service labs, together with those maintained by NASA and the DHS, are at a critical point in their history, and should either be revitalized or shut down. In any event, for reasons of national security and specialization, they are not the sources of innovation that will favorably impact the economy. Like the DoE labs, they are consumers of both

funding and talent. Unlike the DoE Labs, they are still intimately involved with small defense contractors, including some of the most innovative technical companies.

Large Corporations - Industrial Laboratories

The era of central, vertically integrated industrial laboratories such as AT&T Bell Labs is long past, and corporate America has instead adopted an "Open Innovation' strategy. This strategy is probably driven more by cost-cutting and short-term gains to support stockholder expectations than by a fundamental belief in outsourcing of research and development. Open Innovation is not an entirely new idea, and is periodically suggested as the optimum partnership between large corporations and small technical companies [8], but there is little documented evidence that it has been seriously practiced to the benefit of either corporate innovation or product development.

The Open Innovation strategy is perhaps understandable in the pharmaceutical industry, which depends on thousands of smaller biotechnology firms and their venture capital patrons to invent the future of medicine. This segment of the Innovation Network, with strong coupling of industry to universities and the private sector, is the singular positive example of outsourced R&D, with, for example, over 900 biotech companies generating almost $10B in annual revenues in Massachusetts alone [9]. Sanofi SA, the giant French pharmaceutical company, just announced that it is "separating the R from the D" in drug discovery, so that its scientists "can work in alliance with the area's smaller firms and academic researchers" [10].

Outsourced R&D could, in principle, be applied to the automotive, communications, aerospace and other industries but this would require real corporate leadership with reduced concern for near term profitability. It would seem that the aerospace industry in particular would be open to "open innovation" and strong collaboration with small, high tech firms in view of their common dependence on government funding. Certainly, a small portion of the $4 billion dollars reimbursed by the DoD to prime contractors each year in support of their "Independent Research and Development (IRAD)" programs [11] could be directed to smaller, innovative firms, as opposed to near term funding gap-filling and generic services. The linkages between large corporations and small high tech firms are far less robust than they should be. Like the national laboratories, the remaining few corporate labs consume their own revenues in the development of incrementally superior products and services.

Investment community

The fortunes of the venture capital industry wax and wane with the IPO market as much as shifts in technology. Return on investment by this community has been relatively mediocre in recent years, and major meltdowns have resulted from fads, manias and a lack of professional discipline in the industry. Recent "flavors of the month" have included the optical telecom and "clean tech" booms (and busts), in which many billions of investor dollars have been lost with little economic growth to show for it. The current VC fascination with "social networks", once again touted as a paradigm shift that will

change the course of human events, will also end with disappointment, as evidenced by the recent Facebook IPO. Nevertheless, "angel" investors and VCs are essential nodes in the Innovation Network; less important than they think they are, but more important in terms of tolerance of innovation risk than their financial performance would suggest. In the life sciences, Boston is described as "a rich ecosystem of research institutions, venture capital, entrepreneurs and companies of all sizes" [12]. This mix is essential for the broader innovation economy as well.

With reduced tolerance of investment risk in recent years, fewer venture firms engage in ground-breaking "seed' investments. This is a life-threatening problem for small high tech firms dependent on early stage capital for serious commercialization of their technologies. The annual investments in venture capital have declined from the recent boom years, and even more of a concern is the almost total absence of "seed" investors. It is not at all clear what will re-invigorate the vision and effectiveness of this financial sector, but there would seem to be a great opportunity to start new firms with university and corporate capital, possibly aided by reduced capital gains taxes and other initiatives. Recent "crowd-funding" legislation is directed at generating "angel" levels of equity funding from large numbers of very small (and often unsophisticated) investors. The SEC has yet to issue its Policy Directive in this area, but must do this by the end of 2012.

Small Technology Companies

There are basically two types of small technology companies: those performing research and development under contract to federal agencies (and, to a lesser extent, large corporations), hoping that their innovations lead ultimately to products, and those primarily or exclusively focused on new products and services and engaged in related technology development, funded either externally or internally.

The $2.6 B Small Business Innovation Research (SBIR) and companion Science and Technology Transfer (STTR) programs, reauthorized by Congress in December, 2011 for an additional six years and increasing to 3.2% of federally funded research and development, have been the cornerstones of federal support to both types of companies, while simultaneously addressing mission requirements of the funding agencies. With SBIR and STTR acting as a catalyst, or "public venture capital", over 77,000 inventions have been patented, more than 800 corporate acquisitions have occurred, and over 1.5 million jobs have been created [13]. There is little doubt that SBIR and STTR are highly successful federal programs, but their consumer output and relevance to the national economy can be greatly improved by returning to the original premise of the SBIR program: ***creation of innovative enabling technologies with broad application***, as opposed to incremental gains in response to highly focused agency mission needs.

This would be best accomplished through a major expansion of the STTR program, with each participating university expanding its own network of small technical companies with which it collaborates. In a survey taken by the New England Innovation Alliance (NEIA), a sample of 17 companies reported on over 100 joint

projects with 60 colleges and universities across the country. What mattered most to these companies was not the location or prestige of the academic institution, but the talent and science that they could access. It would be interesting to see how the NEIA experience translates to other regions.

Today, more scientists and engineers are employed by small firms than all universities and large corporations combined, and over 6,000 such firms compete annually for SBIR and STTR funding. Despite this remarkable success, relatively few of the innovations enabled by these programs find their way into the commercial sector or the federal procurement bureaucracy, even that of the Department of Defense, due to the lack of "Phase III" funding in the sponsoring agencies. The pilot "Rapid Innovation Program" at the DoD is a first, small step in the right direction, but it still does not address the "valley of death" that must be crossed by all high tech companies. ***A larger and permanent Rapid Innovation Program should be created to provide Phase III funding to promising technologies emerging from Phase II SBIR and STTR projects in both the DoD and the Department of Energy. Cost-sharing, currently required in all but basic research and SBIR/STTR contracts with the DoE, should be eliminated.***

These relationships should be strengthened with smaller universities, as well as the well-known examples mentioned earlier, with each geographic region capable of sustaining at least one "innovation cluster". In Cambridge, MA, close to M.I.T., the Cambridge Innovation Center is home to 450 high tech start-ups, possibly the largest concentration of such companies anywhere in the world. Small companies are consumers of financial capital, both private and federal, and producers of talent as well as innovations, products and services. They are more often than not required to license these technologies to large corporations with a strong market presence and the requisite manufacturing infrastructure, but those with adequate financing can go the distance. Advanced manufacturing technology itself can, and should, be a focus of a dedicated federally funded program.

Each node of the Innovation Network can also be categorized in terms of the two dimensions that drive innovation: Technology and Markets (innovative business models could be a third dimension). Both are important, but each component has strengths and weaknesses that determine its location in the "Innovation Drivers" matrix, illustrated in Fig.2. As already discussed, there are two-way linkages among all the nodes, but the strongest ones are indicated by the two-way arrows.

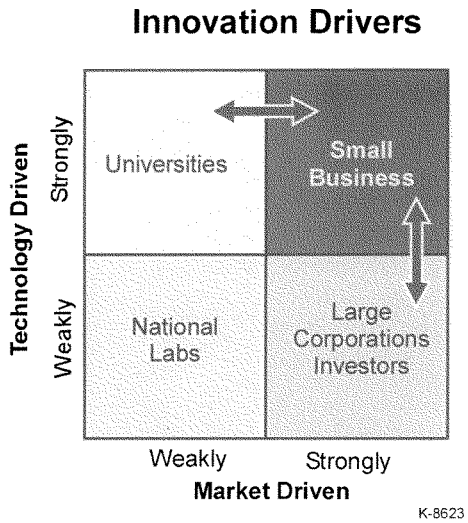

Fig. 2 – Innovation drivers of network components

Only small businesses occupy the upper right hand quadrant, as it is essential to their survival. This quadrant has been termed "Pasteur's Quadrant" by the late Donald Stokes, in recognition of Louis Pasteur's simultaneous founding of the field of microbiology while simultaneously saving the French fermentation industry with this knowledge [14]. While not a small business, except in its earliest days, we can place Bell Labs as a mid-20th century occupant of Pasteur's Quadrant. Mervin Kelly, one of Bell Labs' founders, observed that "innovation was a matter of economic imperatives", and Jack Morton, a leader of the solid state electronics revolution there, said "if you haven't sold anything, you haven't innovated" [15].

Most private sector jobs in the US reside in large corporations, and in good economic times most are naturally created there. However, in poor business conditions, and during economic recoveries, more private sector jobs and innovations are created by smaller companies [16]. Clearly, the industries of the future begin as small companies, not as spin-outs of larger corporations. ***The obvious observation is that we should not have to depend on recessions for innovation to occur, new products developed, and new jobs created. Instead, large corporations should receive targeted tax benefits for capital investment in small companies. These could be coupled to a new Small Business Innovation in Manufacturing (SBIM) initiative via large-small company partnerships and joint ventures.***

Summary and Recommendations

To summarize, the following table attempts to illustrate the strength of each of these network links: strong (green), moderate (yellow), or weak (red). It is also noted that

there are important regional differences in the link strengths due to historical factors such as the location of federal facilities (military bases or national labs), financial centers, or university research clusters.

	Research Universities	*National Laboratories*	*Industrial Laboratories*	*Small Technology Companies*	*Investor Community*
Research Universities					
National Laboratories					
Industrial Laboratories					
Small Technical Companies					
Investor Community					

Table 1 – Strength of links between innovation nodes

It should be noticed that research universities, small companies and the investor community each have three green-shaded boxes, one of which involves collaborations with similar organizations (e.g., in scientific teams, business relationships, and syndicates, respectively). The National Labs (and many other Federal labs) are almost entirely shaded red, and other than the university consortia that manage many of them and the shared use of specialized facilities, are uncoupled from the rest of the network. Industrial labs, the few that remain, are as poorly coupled, having similar characteristics of secretive in-house research and a sense that they must reach out to the broader innovation network only out of dire necessity, treating small companies and universities as vendors and consultants, rather than innovation partners.

Robustness of the Innovation Network

We now ask three questions: ***1) Does the Innovation Network really work? 2) What are its weakest and strongest links? and 3) How can federal policies and programs strengthen and optimize the Innovation Network?*** To answer these questions, we must take a hard look at Table 1, and decide which links are most essential for innovation and economic and social progress.

We believe that the Innovation Network exists today in a truncated form, but that it functions not nearly as efficiently as it should. The Network is far from "robust", and its most successful regional examples are not easily replicated on a national basis. However, much can be done to increase the effectiveness of existing and new networks. Rather than try to strengthen "weak links" such as those connected to the National or large Corporate Labs, ***we recommend focusing on the strongest links and making them even stronger.***

We believe that research universities and closely coupled small technology companies, supported by local venture capital firms, are the strongest links, and that government agencies provide critical "transitional" or "seed" capital, via SBIR and STTR funds, as a link to private sector investment. As suggested above, the research universities should be incentivized to become the hubs of local small technical company and venture capital networks, as illustrated below in Table 2 (imagine a venture capital network as the third dimension of this matrix). Note that each university in this simple example is collaborating with only four companies, and each company is working with only two to three universities. Based on the NEIA experience mentioned earlier, each of these networks is at least an order of magnitude larger in both dimensions. ***Finally, it is noted that the innovation network will perish if the next generation of scientists and engineers is not trained. The most direct mechanism to accomplish this is a major expansion of federally funded scholarships and fellowshipsthat would be funded through the National Science Foundation.***

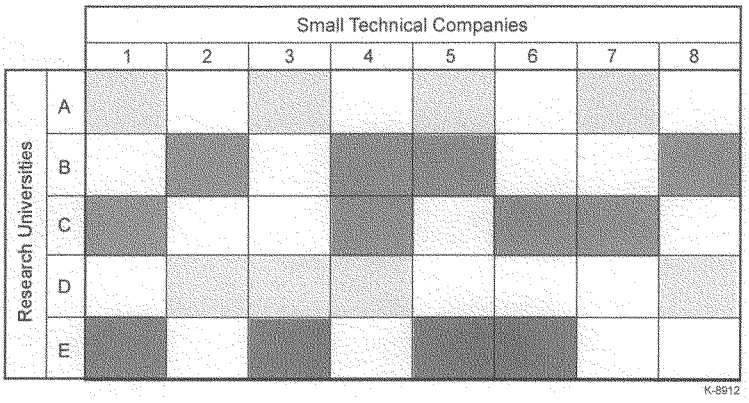

Table 2 – Schematic representation of university – small technical company interaction matrix (venture capital firms would be represented in the third dimension of this matrix, since venture capital investment is also a local enterprise).

In summary, The Innovation Network and its impact on the national economy would benefit from the following policies:

1. Reverse the trend of diminished funding for university research; increase it significantly beyond inflation

2 .Couple universities with nearby small research firms, aided by an enhanced STTR program

3. Create a continuing, fully funded Phase III SBIR program at the Department of Defense

4. Establish a fully funded Phase III SBIR program at the DoE, and eliminate all cost-sharing requirements

5 .Provide tax incentives to large corporations to invest in high risk, small technical companies

6. Create a $1B Small Business Innovative Manufacturing (SBIM) program over the next five years

7. Provide new federal fellowships to graduate students in the physical and life sciences and engineering.

Almost all of these initiatives represent substantially increased funding or significant loss of tax revenues. It is our opinion that a) re-deployment of resources currently spent in the federal laboratory system alone are sufficient to fund these initiatives, b) sufficient resources are also available in large corporations to fund these initiatives, and c) the long-term payoff in economic and national security more than justify these expenditures.

Innovation is driven first by individuals, then by teams of individuals, and finally companies that sell real products and services, but adequate funding is needed at each stage to fuel the innovation engine. ***The Innovation Network is an abstraction, but its components and links are real and understandable to the individuals, teams and small firms that are the innovators. As a nation, we must encourage and reward these individuals and groups, and strengthen the links of the Innovation Network.***

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Talking Points Memo: Republicans Twist Flawed Study To Claim Higher Taxes On Wealthy Would Harm Economy

BRIAN BEUTLER JULY 19, 2012

Republicans are citing a new report (PDF) by economists at the accounting firm Ernst & Young to claim that President Obama's plan to allow Bush tax cuts benefitting high-income earners to expire could have serious macroeconomic consequences, including 710,000 job losses.

Major business trade associations, including the Republican friendly Chamber of Commerce and the National Federation of Independent Businesses, commissioned the analysis. And according to independent economists, there's reason to be skeptical of its assumptions, and of the way the findings are being portrayed in the political realm.
"Seems odd that the researchers didn't consider the scenario in which the additional tax revenues are used for deficit reduction," said Moody's chief economist Mark Zandi. "It seems to me that is the more relevant scenario. And my sense is that if they did, the results would be very different."

Indeed, the Ernst & Young study forecasts based on two different assumptions: That the higher revenues are either used to finance across the board tax cuts, or to finance new government spending. It's only in the latter scenario that the analysts forecast significant economic contraction.

"It is telling that when the additional tax revenues are used for across the board tax cuts, then the negative GDP impact is largely washed out and the employment impact is positive," Zandi says.

The authors of the report did not respond to a request for comment Thursday morning.

Dean Baker, co-founder of the liberal Center for Economic and Policy Research offered a similar observation. "It calculated the impact of a tax increase that is used for higher government consumption spending. It does not measure the impact of a tax increase that is used either for deficit reduction or investment in infrastructure and education," Baker wrote. "The model used in this analysis would likely to show that either of these two uses of higher tax revenue would lead to increases in output, jobs, and wages, not decreases."

In a followup email, Baker also noted that one of the report's key assumptions is ahistorical.

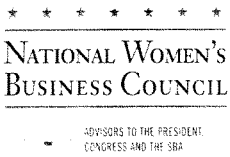
"The [projected] reduction in output is due to the fact that with a lower real wage people will opt to work less — thereby less output," Baker writes. "The empirical support for effects of the size described in the study is pretty weak. If we get this big a loss with tax rates at 39.6 percent, imagine the hit when we had tax rate at 70 percent or even 90 percent. Working backward from the projections in the study, we could say that annual growth would have been 1-2 percentages points higher in the 50s, 60s, and 70s, if we had the current tax rates. I doubt anyone believes that."

But the reports also being interpreted as if it concludes that the shock to the economy would be immediate. That's false.

"The projections discussed in the article are long-run projections, not effects that would be felt in the next year or two," Baker writes.

And then there's a timing issue. The report was released earlier this week, before Senate Democrats had unveiled the legislative details of their plan to extend the Bush tax cuts for everyone's first $250,000 of income. The report assumes that Democrats propose to increase the tax on dividends for those with income above $250,000 to 39.6 percent. In reality, the Democrats' proposal is much more modest.

According to an official summary of the plan, "For income in excess of $200,000 (individual filers), $225,000 (heads of households) and $250,000 (married filing jointly), the rate for both capital gains and dividends will be 20%."



December 7, 2012

The Honorable Mary L. Landrieu
Chair, U. S. Senate Committee on Small Business and Entrepreneurship
United States Senate
428A Russell Senate Office Building
Washington, D.C. 20510

Dear Senator Landrieu:

On behalf of the National Women's Business Council (NWBC), we want to express our strong support for S.3442, the Success Ultimately Comes from Capital, Contracting, Education, Strategic Partnerships and Smart Regulation (SUCCESS) Act of 2012. In support of this legislation, we submit this letter as a part of the official record of your recent hearing, "Creating Jobs and Growing the Economy: Legislative Proposals to Strengthen the Entrepreneurial Ecosystem" convened on November 29, 2012.

NWBC is always supportive of policies and programs to advance women's entrepreneurship. We believe that addressing current limitations on the Women-Owned Small Business (WOSB) Federal Contract Program and reauthorizing the women's business center program are two key elements of a successful federal strategy to support women business owners across the country.

While there has been good progress on the implementation of the WOSB Federal Contract Program, the dollar thresholds attributed to the program may be artificially creating disincentives for women to compete for those contracts within the set-aside program. NWBC applauds the Senate's bipartisan inclusion of an amendment to lift these dollar thresholds in the National Defense Authorization Act for FY 2013 (S. 3254). We believe lifting the dollar thresholds will encourage women business owners to compete for larger contracts within the 300 industries covered by the program. We also support allowing contracting officers to award sole-source contracts to WOSBs. Positive trends in the growth of women-owned businesses and their contribution to the overall health of the economy would be further enhanced if market access to government procurement were put at parity with other set-aside programs.

NWBC also recognizes that support of women-owned businesses requires direct engagement with entrepreneurs through local training and counseling services. To ensure the demand for these kinds of services from women entrepreneurs is met, we continue to support the women's business center program and the provisions within the SUCCESS Act to reauthorize and advance that program's performance, which will have positive impacts in the communities served by these centers.

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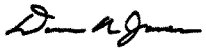
As a diverse council of women business owners and members of women's business organizations, NWBC is uniquely positioned to provide independent, non-partisan counsel based in rigorous research on issues of women's entrepreneurship and economic participation. We are honored to have the privilege of advising this committee, and look forward to working closely with you in the 113th Congress. Please do not hesitate to let us know if we can be of assistance.

Sincerely,



Donna James
Chair, NWBC

Anie Borja
Executive Director, NWBC

cc:

Senator Richard Blumenthal, Co-Sponsor

Senator Barbara Boxer, Co-Sponsor

Senator Benjamin Cardin, Co-Sponsor

Senator Kirsten Gillibrand, Co-Sponsor

Senator Joseph Lieberman, Co-Sponsor

Senator Jeff Merkley, Co-Sponsor

Senator Jeanne Shaheen, Co-Sponsor

Senator Sheldon Whitehouse, Co-Sponsor

Donald Cravins, Staff Director and Chief Counsel, Senate Committee on Small Business and Entrepreneurship

Kevin Wheeler, Deputy Staff Director, Senate Committee on Small Business and Entrepreneurship

Ami Sanchez, Counsel, Senate Committee on Small Business and Entrepreneurship

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Testimony of The Association for Enterprise Opportunity
Before the Senate Committee on Small Business and Entrepreneurship

Hearing Titled "Creating Jobs and Growing the Economy: Legislative Proposals to Strengthen the Entrepreneurial Ecosystem"

November 29, 2012

Office 202.650.5580
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1111 16th Street NW
Suite 410
Washington, DC 20036

The Association for Enterprise Opportunity (AEO) is pleased to take this opportunity to share our views with the Committee in response to the November 29, 2012 hearing, titled "Creating Jobs and Growing the Economy: Legislative Proposals to Strengthen the Entrepreneurial Ecosystem." On behalf of the nation's 25.5 million microbusinesses, which generate receipts totaling $2.4 trillion (17% of GDP) and employ more than 31 million people, AEO applauds the Committee for its continued engagement with the small business community. We hope this testimony will help guide these and future efforts to assist our nation's job creators.

AEO believes that the proposals contained in the SUCCESS Act would strengthen the entrepreneurial ecosystem for our nation's microbusinesses, and help drive business growth. In addition to addressing the SUCCESS Act, however, this testimony is also intended to share with the Committee an innovative small business lending pilot program that AEO launched in October 2012.

Entrepreneurship: An Important Tool to Close the Wealth Gap

AEO is committed to entrepreneurship because it is a key driver behind wealth creation, especially in underserved communities. According to *The Power of One in Three*, a report released by AEO in 2011, the median net worth of business owners is almost two and a half times greater than for all non-business owners.[1] For an African American male, the difference is nearly eight times higher for business owners compared to non-business owners. For an African American woman, the difference is more than ten times. For a Latino male, the difference is five-fold.

The benefits of entrepreneurship are evident, and yet, these individuals are especially challenged to access credit due to low household net worth. We consider this to be at the crux of the access to capital challenge: if an individual does not own anything, they have no collateral against which to back a loan. If an individual does not own anything, his/her credit scores will reflect it. That is why, earlier this year, AEO took a novel approach to help meet the needs of these entrepreneurs.

TILT Forward™

The private sector, as well as the public sector, can help. AEO launched a private initiative called TILT Forward™, which is an online lending platform designed for entrepreneurs and microbusinesses who have struggled to secure capital from mainstream lending institutions. TILT Forward™ is an innovative underwriting technology platform powered by On Deck Capital, in partnership with AEO, that allows microbusinesses to apply for working capital loans of up to $150,000 and lower. Loans of this size, as the Committee knows, are typically too small, too risky, and too expensive for mainstream lending institutions using traditional commercial

[1] The Association for Enterprise Opportunity, "The Power of One in Three," http://aeoworks.org//pdf/one_in_three.pdf.

underwriting standards. Once approved, borrowers can then customize their loan package to fit their unique needs.

In addition to applying for loans, approved business owners are also able to access an online portal that pairs them with nonprofit business assistance organizations that provide business counseling services to help them build their businesses. Mainstream financial institutions do not provide this sort of business assistance, mostly because it is too expensive. In effect, the platform has been designed to serve as a virtual "one-stop shop" for entrepreneurs and budding microbusinesses that face significant barriers to entry.

TILT Forward™ was launched in St. Louis, Missouri, on October 24, 2012, and is operated locally by Justine PETERSEN, a local nonprofit lending and business assistance organization and AEO strategic partner.[2]

The federal government can also help by providing support to the organizations that offer business assistance to entrepreneurs. The U.S. Small Business Administration (SBA) provides support to many of these nonprofit organizations in the form of grants, including through the Program for Investment in Micro-Entrepreneurs (PRIME) and the Microloan Program. AEO found that businesses that receive counseling from one of these organizations have median annual revenue growth 30 percent higher than businesses that did not. They also tend to be more successful: 88 percent are still in business after five years, compared to a 50 percent success rate among businesses that did not.[3] In addition to the programs mentioned above, Women's Business Centers (SBA), Small Business Development Centers (SBA), the Community Development Financial Institutions Fund (Treasury), the Rural Microentrepreneur Assistance Program (USDA), and the Department of Labor's Employment & Training Administration provide critical business assistance services to entrepreneurs nationwide.

Much can be done at the state level as well. Assisting local nonprofit organizations bolster their capacity to provide counseling services is a smart, efficient means of getting services to those that need them. Capacity building includes initiatives to allow organizations to build upon successful models by increasing reach, providing online services – such as long-distance learning programs – and targeted outreach. AEO launched the Southeast Initiative to build the capacity of business assistance organizations in a region of the United States with the largest representation of microbusiness. The Southeast is home to nearly seven million microbusinesses, representing 88 percent of all businesses in that region. AEO is working with these organizations to improve their ability to reach more of these individuals in their

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[2] The Association for Enterprise Opportunity, Press Release, October 19, 2012, http://www.aeoworks.org/index.php/site/press_single/justine_petersen_steers_st._louis_entrepreneurs_to_new_online_lending_tool/

[3] FIELD/The Aspen Institute, "Facts About Business Ownership," http://fieldus.org/Stories/FastFacts.html.

communities despite the significant constraints that make capacity building a challenge.

The SBA's PRIME Program allows grants for capacity building and has a strong track record of effective results. For example, AEO member Renaissance Entrepreneurship Center, located in San Francisco, CA, used a PRIME grant to scale its award-winning curriculum by creating a long-distance learning model for entrepreneurs located outside the Bay Area, as well as for persons with disabilities for whom online training was a more effective option.

SUCCESS Act

The Power of One in Three found that if just one in three microbusinesses hired just one employee, the U.S. would be at full employment.[4] Provisions included in the SUCCESS Act will go a long way in strengthening the entrepreneurial ecosystem for microbusinesses looking to start, operate, and grow their firms. In particular, AEO supports the following provisions:

Expanding Entrepreneurship (Sec. 411) AEO supports the creation of a comprehensive job creation strategy within the Small Business Administration's (SBA) Office of Entrepreneurial Development (ED). However, AEO believes that any such effort should also include input from the heads of other SBA programs designed to assist entrepreneurs that are not currently a part of the Office of Entrepreneurial Development. Specifically, the PRIME and Microloan Programs should be included in efforts to develop a comprehensive entrepreneurship plan for FY2013-2014.

In addition, AEO wholeheartedly supports the data collection provisions within Sec. 411 that direct the SBA to develop a streamlined collection process, as well as establish a publicly accessible database of all SBA service providers. Reliable data is essential for making informed policy decisions. In particular, data concerning microbusinesses, defined as those with five or fewer employees, is sparse. AEO has commissioned a first-of-its-kind economic impact study of this sector of the economy, the results of which are expected to be announced shortly. Nonetheless, AEO encourages the Committee to work for the reinstatement of the U.S. Census Bureau's Survey of Business Ownership (SBO). The SBO is a survey of business measures conducted in the years ending in -2 and -7. Unfortunately, the 2012 SBO was cancelled due to lack of Congressional appropriations. This has left policy makers and advocates to rely on data collected in 2007, well before the recession and ongoing recovery began.

Incentivizing Business Growth Through The Tax Code (Small Business Tax Extenders, Title I) Extending tax credits and deductions that encourage business

[4] The Association for Enterprise Opportunity, "The Power of One In Three," http://aeoworks.org//pdf/one_in_three.pdf.

ownership is a smart idea as economic growth continues to churn along slowly. These include: the 100 percent exclusion of capital gains for investments in small firms, an increased deduction for start-up expenditures, extending the Section 179 expensing provision at $500,000, extending the carryback unused general business credits for five years and limiting the S-Corp holding period from 10 to five years. AEO supports the extension of these tax policies because every dollar that a business owner can keep in his or her pocket is another dollar that can be invested into growing their business.

In that same vein, AEO encourages the Committee to consider maintaining the enhanced Earned Income Tax Credit (EITC), a federal tax credit for low- and moderate-income workers. The EITC allows entrepreneurs and microbusinesses in underserved communities to reinvest their EITC credit back into their business. The EITC was increased in 2009 as a part of the Recovery Act, which assisted an estimated additional 500,000 individuals, but will revert back to its original rates at the end of this year without Congressional action.

Women's Business Center Program (Sec. 424) As noted above, Women's Business Centers (WBCs) play a decisive role for the 7.8 million women-owned businesses in this country, 90 percent of which are non-employer firms. Reauthorizing the WBC Program is a top priority for AEO and our members, because WBCs are a vital resource for women entrepreneurs, especially those in underserved areas.

TEAM Act

AEO supports the Today's Entrepreneurs are America's Mentors (TEAM) Act (S. 3214), introduced by Chair Mary L. Landrieu (D-LA), which would allow the SBA's Office of Entrepreneurial Development to make grants to nonprofit business assistance organizations to provide counseling to educational institutions interested in developing and teaching entrepreneurship courses. As noted above, evidence shows that entrepreneurial training and business assistance correlate with higher business success rates.

Enhance Credit Union Rules to Spur Lending

Earlier this year, Congress came together to enact the bi-partisan JOBS Act (H.R. 3060), which included a novel means to accessing capital: crowd funding. By removing disclosure requirements for small firms, small businesses will now be able to raise smaller amounts of capital on the open market. Another proposal pending in Congress that would immediately free up capital is the Small Business Lending Enhancement Act (H.R. 1418/S. 2231), which would increase the credit union lending cap to 25.7 percent (from the current 12.5 percent), allowing the private sector to fund small business growth.

In 2011, despite tight credit markets, credit unions saw an increase of 4.29 percent in demand for small business lending. And yet, despite their track record of funding

America's cash-starved entrepreneurs, credit unions are being held back by an outdated, arbitrary rule. Currently, credit unions face a cap on loans to small firms that, if increased, would inject an extra $13 billion into the economy, giving small businesses the fuel they need to create 140,000 new jobs in the first year alone.

Conclusion

AEO is dedicated to helping individuals create wealth through entrepreneurship. Starting a business is job creation. Entrepreneurship remains one of the best ways to help create wealth. Collaboration between the public and private sectors can play a critical role in creating jobs, both through models such as the TILT Forward™ platform and government programs such as those at the Small Business Administration. Furthermore, the SUCCESS Act contains proposals that will strengthen the delivery of services to our nation's job creators, especially those in underserved communities. Proposals designed to increase access to capital, such as those in the SUCCESS Act as well as the Small Business Lending Enhancement Act deserve immediate consideration in the Congress.

We applaud the Committee for its continued leadership, and look forward to assisting Members of the Committee with creating strong policies that support our nation's job creators.

About

AEO is the national member organization and voice of microbusiness in the United States. For more than two decades, AEO and its members – 400 nonprofit lenders and business assistance organizations – have helped more than two million entrepreneurs contribute to job growth and economic growth as they support themselves, their families, and their communities.

The Committee on Small Business and Entrepreneurship
Thursday, November 29, 2012 at 10:00 a.m.
"Creating Jobs and Growing the Economy: Legislative Proposals to Strengthen the Entrepreneurial Ecosystem."

Mid-Tier Advocacy (MTA) is pleased to submit this statement to register our collective support for the Advanced Small Business (ASB) Pilot program that will increase jobs, promote growth and increase competition in federal contracting. The legislative language for the ASB was developed by the Members of the House Armed Services Committee (HASC) and was included in the National Defense Authorization Act (NDAA). We strongly encourage the members of the Senate to consider taking a similar approach to help address the disappearing mid-size firm in federal government procurement.

The MTA coalition consists of members who are advanced small and medium-sized firms that provide employment for thousands of people across the United States and across multiple industries. Further, they are the country's top veteran-owned, service disabled, hub-zone certified, minority-owned and woman-owned firms who do business with the federal government, and who are greatly concerned about growth, and remaining viable and competitive in an increasingly restrictive environment. They believe that this ASB pilot program that received bi-partisan collaboration and support in the House should be enacted because it provides a much needed growth path for small and emerging mid-size businesses.

As Executive Director of MTA , we have focused on have raising awareness through testifying before congress and providing data to support our concerns regarding problems associated with inadequate size standards, contract-bundling and access to capital which are all contributing factors to the disappearance of a group of federal businesses often termed "mid-size" or "mid-tier" . In reality these small businesses have outgrown their NAICS revenue/employee ceilings, but are not large enough to successfully compete in an unrestricted competition against the largest integrators in

the federal market place. Some say that graduation from small business size standards is like "falling off a cliff" – and as a result unfortunately far too many mid-tier firms either sell, or fold.

The Problem With the Middle

We often hear from economists and government officials that small business is the backbone of our economy. Perhaps a broader and more accurate view is that small business and "mid-size" business are the backbone of the economy. Yet, government policy often proves to be a barrier to small and mid-size business growth rather than encouraging a logical growth path. The small business set-aside program is doing well for very small businesses, however the very large companies are continuously gaining presence and are dominate in every field putting the squeeze on the mid-size firm.

A small business normally grows into mid-size where additional infrastructure is added for internal strength. This mid-size phase of growth is where sufficient resources for individual and team training are available, as well as the use of improved methods, strategic planning and the development of more competitive personnel, operations, and information systems. While there are a few notable examples of a small business developing into a sustainable large business within a relatively short period of time, the usual small business life cycle includes this intermediate mid-size phase.

At this point in their life cycle, the business owner faces a choice, sell out, or due to size standard impediments reverse to small business status or disappear altogether from the marketplace. If, however, the choice is to grow and compete these companies are thrust into the full and open competition with - $30+ Billion multinational companies with thousands of employees that have huge business development infrastructures. Unlike small businesses, their staffs may include a variety of marketing researchers, business capture specialists and proposal writing experts. Imagine a $30 Million company competing against a $30 Billion company for the same contract. It usually turns out to be a one-sided contest with the small business spending more than it can afford to write the proposal and the large business being awarded the contract.

The alternative is to cut its losses and agree to be acquired by a large business. More often than not, the decision is to sell rather than fight a losing battle. The economy loses a mature and proven small. The Advanced Small Business Pilot would provide the needed growth path and transitional period for a small mid-sized firm that is growing, but requires capacity and infrastructure in order to compete.

The Highlights of the Advanced Small Business Pilot

The Advanced Small Business Pilot (ASB) will create a trial program within the Department of Defense or other agencies to allow advanced small business concerns (mid-tier businesses) to continue to grow. This program will allow a business that has exceeded size standards defining small businesses, to compete in the procurement arena as prime contractors with limited competition from large corporations. It will do this by promoting balanced competition at all levels of business and ensure that large companies do not push the advanced small businesses out of the federal government market.

Specifically, companies participating in the pilot would be allowed to grow twice the number of employees the Small Business Administration has assigned as a size standard to the North American Industrial Classification Standard code in which the entity is operating; or three times the average annual receipts the Small Business Administration has assigned as a size standard to the North American Industrial Classification Standard code in which the entity is operating.

We believe this single step in creating a transition option for advanced small and emerging mid-size firms will increase jobs, improve conditions for greater competition at all levels and dramatically enhance small business growth and sustainability over time.

The House of Representatives has already passed their version of the NDAA, which includes the Advanced Small Business Pilot in Section 1611.

We encourage the Chair of the Senate Committee on Small Business and Entrepreneurship to increase jobs and strengthen small businesses chance to grow by introducing a bill with similar language on behalf of all maturing small businesses.

Respectfully submitted,

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Women Impacting Public Policy Testimony to the Senate Committee on Small Business and Entrepreneurship

"Creating Jobs and Growing the Economy: Legislative Proposals to Strengthen the Entrepreneurial Ecosystem"

November 29, 2012

Women Impacting Public Policy (WIPP) is pleased to offer its views to the Committee on legislative proposals to strengthen the entrepreneurial ecosystem resulting in business growth. WIPP is a national nonpartisan public policy organization, advocating on behalf of nearly 1 million women-owned businesses representing 67 business organizations.

As the title of the hearing suggests, business growth for women-owned businesses involves more than any single component of running a business. While it is true that women business owners face many of the same barriers as their male counterparts, parts of the ecosystem are more difficult to navigate. Take for example, access to capital. Forty-eight percent of our members reported that their greatest obstacle to growth and innovation is insufficient capitalization.[1] With respect to federal contracting, an American Express survey, "Women and Minority Small Business Contractors: Divergent Paths to Equal Success," found that the price for women owned companies to do business with the government is up 23% from 2009. [2]

Faced with these challenges, women-owned businesses welcome legislation that improves the relationship between small businesses and their communities, industries and the government will create a healthier ecosystem that will allow America's entrepreneurs to grow and thrive, moving the national economy forward with them.

WIPP wholeheartedly supports The SUCCESS Act of 2012 (S. 3442) sponsored by the Chair of this Committee, Mary Landrieu (D-LA), and The Small Business Lending Enhancement Act (S. 2231) sponsored by Senator Mark Udall (D-CO), which will help unleash the power of America's job engine. Successful passage of these two bills will put us one step closer to fiscal health and prosperity reaching from Pennsylvania Avenue to Main Street.

One area of growth potential for women-owned businesses is the public sector. Small businesses have historically been the leaders in the path to recovery, creating 65 of every 100 new jobs. Fostering partnerships between government and the entrepreneurs who act as the nation's economic heartbeat benefits small businesses and the government as well as the taxpayer. Small firms often provide better value for goods and services and are far more nimble; all the while creating more jobs with the revenue from the contract awards they receive.

The procurement reforms in the SUCCESS Act will reduce obstacles to small business contractors. Without these provisions, federal agencies will continue to fail to meet their small business goals and small firms will continue to struggle to win federal contracting work. Failure to pass these reforms will effectively shortchange the government and the taxpayer as well as our nation's small businesses.

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[1] Women Impacting Public Policy (2010). Workforce Survey.
[2] American Express OPEN (2011). Victory in Procurement Survey—Women and Minority Small Business Contractors: Divergent Paths to Equal Success

We particularly encourage support for the Women-Owned Small Business (WOSB) contracting program provisions contained in the SUCCESS Act. After eleven long years of fighting for the Women-Owned Small Business Federal Contracting Program, $21.1 million—less than the cost of one drone—was awarded during FY11, the first fiscal year of this program's implementation. We understand that the government likely did not meet its goal in FY12. The SUCCESS Act makes some important changes to the program that we believe will increase its effectiveness. It would eliminate the limits placed on WOSB contract awards and give sole source authority to contracting officers when considering women owned small firms. This would greatly improve a program that is an important growth sector for women-owned small businesses in today's economy.

In addition to improving the WOSB program, the SUCCESS Act strengthens federal advocacy for small businesses through the Office of Small and Disadvantaged Business Utilization (OSDBU). WIPP supports these changes because OSDBUs, who are our advocates in the federal agencies, will have the status within the agency to affect acquisition decisions. The women construction owners in our membership support increasing the size of the SBA surety bond guarantee from $2 million to $5 million, a provision contained in the bill.

Another vital component of this bill is the reauthorization of the Women's Business Center program. WIPP, since its inception, has supported this program because it is a vital resource for women entrepreneurs, especially those in underserved areas.

While federal contracting is integral to small business growth, access to capital continually tops the list of concerns for WIPP members. Whether it is growth or operating capital, our members have been suffering through one of the worst lending droughts in modern history.

A bright spot in the 112th Congress was passage of crowdfunding legislation which removes barriers to this funding source. Another option that would immediately free up capital, with the potential to yield hundreds of thousands of jobs while not costing the taxpayer one single dime, is passage of S. 2231.

While community bank loans to small businesses decreased by nearly 2 percent in 2011, credit unions saw an increase of 4.29 percent. Yet even with the track record of funding America's cash starved entrepreneurs, credit unions are being held back by an outdated and nonsensical rule. There is currently a cap on loans to small firms that, if increased, would inject an extra $13 billion into the economy, giving small businesses the fuel they need to create 140,000 new jobs in the first year alone. The Small Business Lending Enhancement Act, S. 2231, would increase the credit union lending cap to 25.7 percent, allowing the private sector to fund small business growth.

Beyond expanding contracting opportunities and increasing access to capital, we believe exporting is another avenue for growth. The success of small businesses, which would be aided by legislation found in the SUCCESS Act, is not contained within our borders. American small businesses are desperate to send their goods and services—the gold standard of the world—to the nearly 7 billion consumers living somewhere else. Small businesses need these provisions to improve federal export coordination between myriad agencies, consolidating the wealth of information often trapped in overlapping resources.

Of particular importance to small businesses is gaining the know-how to export via the Internet, navigating websites such as export.gov. The site is full of resources that can map out a path towards successful international trade, but it is in need of an overhaul called for in this legislation. Additionally, the increased promotion of exporting as a method to grow small businesses would open the eyes—and doors—of many small business owners desperate to access the over 95% of consumers outside the United States that account for two-thirds of global purchasing power. Educating small businesses to consider exporting is an important part of federal assistance.

Similar to the growth of small businesses in this arena, WIPP is proud of the accomplishments already achieved by women-owned businesses in the exporting world. According to the U.S. Census Bureau's "Survey of Business Owners Special Report," nearly twenty thousand women-owned companies sent their products beyond our borders in 2007, generating receipts in excess of $15 billion.[3] Exporting has been good to women-owned businesses—with revenues more than ten times that of non-exporting women-owned businesses and three times the per employee productivity.[4]

At WIPP, we know the tremendous potential that exists in the millions of women-owned businesses that exist across the country. That is why WIPP recently launched ExportNOW, a program designed to educate our members and the broader women's business community about the vast potential for enterprise that exists beyond our borders. We believe our educational efforts through ExportNOW will be greatly complimented by a streamlined government support resource and increased exposure of exporting to American businesses.

Included in the SUCCESS Act are five tax provisions which we believe are critical to encouraging startups, growth and investment in small businesses. Those include: 100% exclusion of capital gains for investments in small firms, an increased deduction for start-up expenditures, extending the 179 Expensing provision at $500,000, extending the carryback unused general business credits for five years and limiting the S-Corp holding period from 10 to 5 years. While we understand that every tax deduction and credit has a price tag, these investments in small business will pay off long term.

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[3] United States Census Bureau (2012). Ownership Characteristics of Classifiable U.S. Exporting Firms: 2007—Survey of Business Owners Special Report.
[4] Ibid.

The women-owned small business ecosystem is composed of many ever-evolving components, making it vital for legislation to focus on giving entrepreneurs all of the tools they need to successfully navigate such a demanding system. Chief among those tools are access to capital, federal contracting, export assistance and resources such as Women Business Centers. Both the SUCCESS Act (S. 3442) and the Small Business Lending Enhancement Act (S. 2231) will help foster a healthier relationship between small business and the government while establishing a more fertile foundation on which businesses can grow and thrive. We encourage this Committee and the entire Senate to stand with our nation's leading job creators and support these bills.