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Congress of the United States
U.S. House of Representatives
Committee on Small Business

2361 Rayburn House Office Building
Washington, DC 20515-6315

March 1, 2013

The Honorable Paul Ryan
Chairman
Committee on the Budget
207 Cannon House Office Building
Washington, DC 20515

Dear Chairman Ryan:

Pursuant to section 301(d) of the Congressional Budget Act of 1974 and House Rule X, clause 4(f), I am writing to advise you of the dissenting views and estimates of the Committee on Small Business with regard to the fiscal year (FY) 2014 budget for the Small Business Administration (SBA). These views and estimates are in addition to those that will be submitted by the committee's Majority.

Undertaking this exercise at the present moment, as we have been asked to do by your committee, is at the same time curious and counterproductive. It is curious because views and estimates are traditionally meant to provide reaction to a budget submission. As you know, the administration has not yet transmitted its FY 2014 budget to Congress, making it impossible to provide insight into the SBA's spending proposal for next year. And it is counterproductive because of the looming sequestration, which will reduce spending levels, change agency operations in ways that we cannot fully predict, and alter budgetary baselines. In addition, due to Congress' inability to pass appropriations legislation last year, the government is operating under a Continuing Resolution through March 27th. With all of this uncertainty, providing views and estimates at this time is a pointless exercise. While we would rather submit such comments *after* a budget for the SBA is submitted to Congress, we are providing the below views and estimates reluctantly and only to comply with the long-standing tradition of our committee to file dissenting views.

ACCESS TO CAPITAL

The main component of the SBA's access to capital budget submission is the cost of operating its core 7(a) and 504 lending programs. The 7(a) and 504 programs provide federally-guaranteed loans to small businesses to fund operations, buy equipment, and purchase real estate. Since 2010, the SBA has made over 176,000 loans supporting $87 billion in lending. In that time, however, the costs of SBA lending programs have nearly doubled every year. At this rate, the cost of administering these programs could increase to as much as three-quarters of a billion dollars in FY 2014. This would exceed the funding provided for SBA lending under the stimulus legislation from FY 2009 to FY 2011.

7(a) Loan Program

The 7(a) loan program is the SBA's premier guaranteed lending program. These loans can be used as working capital, to buy inventory or purchase equipment and real estate. An analysis of SBA's current lending volume through January 2013 projects that the SBA will exceed its lending authority of $16 billion. In addition, estimates show that sequestration will reduce the SBA's 7(a) lending capacity by $800 million which could cost the economy over 10,000 jobs. If demand for SBA loans exceeds the lending authority, access to capital will be shut off for hundreds of promising small businesses. With many economic indicators showing a strengthening recovery and anticipated growth of 3.4 percent next year, it is recommended that the program level for 7(a) be returned to $17.5 billion in FY 2014, the FY 2012 level, and that appropriations as necessary be provided to accomplish this.

Furthermore, it is recommended that the maximum size of 7(a) loans be reduced to levels that existed prior to the passage of the Small Business Jobs Act (P.L. 111-240). Since passage of the Jobs Act, the average SBA loan has increased nearly 60 percent. Reducing maximum loans size will restore the program's historical focus to providing credit for small-dollar loans, which continue to be underserved by the conventional credit markets. It will also reduce the subsidy amount going to the growing segment of the market that is demanding multi-million dollar loans that do not foster job creation or economic growth.

504 Certified Development Company Program

The 504 program provides permanent, fixed rate financing for businesses to acquire industrial or commercial buildings or heavy equipment and machinery. In FY 2013, the SBA requested $121.2 million in loan subsidies for the purpose of operating the 504 program. This is a 100 percent change over the amount requested in FY 2012. If the costs of the program continue to double each year, it can be expected to exceed half a billion dollars in FY 2014. It must also be noted that as recently as FY 2010, the 504 program did not require a subsidy. This dramatic increase in cost is unsustainable. In FY 2014, the administration must prioritize lender oversight within the 504 program and emphasize the program's historical purpose of lending for the purpose of economic development. The administration should immediately implement a meaningful lender oversight and portfolio risk management program.

Pilot Lending Initiatives

In FY 2011, the SBA started several pilot lending programs, including, the Small Loan Advantage Initiative, and the Community Advantage Initiative. These programs have had little impact on increasing the number of small-dollar loans or the amount of credit for small businesses located in underserved communities. As stated earlier, average 7(a) loan sizes have increased dramatically while the number of small dollar loans[1] has steadily decreased. Furthermore, 11 states do not have an approved community advantage lender, and 22 more only have one which severely limits the SBA's ability to reach underserved communities. The increased lending and administrative costs demanded by these initiatives divert resources from more meaningful uses. In this regard, these programs should be discontinued for FY 2014 and no appropriations made available for their operation.

7(m) Microloan Program

The Microloan program focuses on providing small-dollar loans (up to $50,000) to entrepreneurs that have been underserved by conventional lenders. In FY 2013, the SBA reduced lending through the Microloan program by a total of $7 million. It is inappropriate to reduce the availability of microloans as lenders in the 7(a) program have shifted toward larger loans. As such, it is recommended that in FY 2014, this program be funded at levels that are consistent with FY 2012 to support $25 million in lending authority.

[1] Defined as 7(a) loans less than $150,000.

Small Business Investment Company Program

The Small Business Investment Company (SBIC) program was created by Congress to help small U.S. businesses meet their requirements for growth and operating capital not available through banks or other private capital sources. In FY 2013, the SBA did not request funds for the purpose of implementing the SBIC program and is unlikely to request funding in FY 2014. The agency will, however, continue implementation of the Impact Investing Initiative and Early Stage Investing Fund pilot programs introduced in 2011. These programs remain premised on the SBIC debenture program, which is very ill-suited for meeting the needs of early-stage or startup firms. This is because these businesses often lack positive cash flow that can be used to make regular payments on debt. As a result, the gap for investment in early stage and capital intensive small businesses will likely not be conducive to either the "Impact Investing" or "Innovation Fund" programs. As such, it is recommended that no appropriations be made to carry out either pilot program.

New Markets Venture Capital Program

Since FY 2005, the SBA has not requested any funding for the New Markets Venture Capital program. Given the cost-effective nature of the program, funding for SBA's untested and unauthorized programs should be reallocated to funding new leverage and operation assistance for this program.

Disaster Assistance Program

The Disaster Assistance program provides direct loans to homeowners and businesses to recover from natural disasters. In January 2013, the SBA received $520 million in emergency appropriations for the cost or direct loans under the Disaster Assistance program. At current subsidy rates, this funding will support $4.8 billion in disaster lending. This significant increase in funding was due, in part, to Superstorm Sandy which caused an estimated $60 billion in damage across the Northeastern United States. The SBA also received an additional $260 million for administrative costs associated with the Disaster program. In light of the critical need for funding to help home-owners and small businesses following devastating natural disasters, the committee supports appropriating any amounts necessary for FY 2014 to support the SBA disaster loan-making functions.

Entrepreneurial Development Programs

SBA's entrepreneurial development programs provide the foundation for the agency's small business development efforts. Unfortunately, in the past, the SBA has repeatedly funded unauthorized and unproven pilot programs at the expense of proven core programs. Doing so is an inappropriate use of taxpayer funds and, given the insufficient oversight of many of these pilots, may lead to further fraud and abuse within the agency. Further, while the pilot programs have made up at a minimum 10 percent of the agencies entrepreneurial program budget, no objective measures have been provided for Congress to evaluate their performance. Until these pilot programs are evaluated and authorized by Congress, these programs should not receive any funding. Instead, the agency should focus on strengthening its existing network of entrepreneurial development service providers.

Regional Innovation Clusters

This unauthorized program has already cost more than $25 million since its inception four years ago; however, there has been no objective full-scale evaluation of its impact on job creation by GAO or the SBA's Inspector General. In addition, the empirical evidence provided in the FY 2013 budget submission is not sourced in any manner, suggesting that the data is internal and could therefore be defective, as other SBA-collected performance data has been in the past. The goal of clusters is to increase collaboration among entities involved in a particular industry and no evidence has been presented to the committee that a government initiative can drive such cooperation. Until the SBA provides an evaluation of the cost-benefit of this initiative and the program is authorized by Congress, the agency's funding request should be denied. Therefore no funds should be expended on this initiative.

Business USA

Last year, the White House announced the creation of a Business USA web portal, which is supposed to serve as an on-line one-stop shop for all of the federal government's business programs. This is a laudable goal, given that the government's business-related websites are a confusing potpourri of useless resources and outdated information. This techno-jumble should be improved, but the Business USA website has not accomplished this goal. The website provides a crude search engine that links to agencies' existing webpages, making it basically just a really expensive Google search. Given the virtually non-existent justification for this initiative and its poor implementation, the committee has a difficult time understanding why any funding would be devoted to this project.

Emerging Leaders Initiative

The Emerging Leaders Initiative is a pilot training program that is duplicative of existing SBA programs. The SBA already operates three training programs, including SBDCs, WBCs, and SCORE chapters. Entrepreneurial development infrastructure is located in all urban areas as well as in many Native American communities, which are currently responsible for providing services to the businesses also targeted by the initiative. In addition, this imitative has no performance measures and, as a result, its ability to fulfill any policy goal is unascertainable. Therefore, this program should not be funded.

Distance Learning Portal

SBA's Distance Learning Portal (formerly named the Small Business Training Network) is another unauthorized SBA program that is relying on scarce taxpayer funds. Due to the lack of any justification of the program's value, the agency's request for funding this initiative should be denied.

Veterans Programs

Historical funding levels for the SBA's Office of Veterans Business Development (OVBD) have not been sufficient to meet the needs of veterans. Prior year's proposals to fund an unauthorized National Veterans Entrepreneurship Training (VET) program at $7 million made little sense, given that the number of Veterans Business Outreach Centers (VBOCs) stands at an insufficient level of 16. The committee hopes that this same mistake will not be duplicated this year and that any additional funding in this area be directed to increasing the number and breath of services provided by VBOCs.

Small Business Development Centers (SBDCs)

The SBDC program is the agency's largest and most successful entrepreneurial development initiative. At a time when the economy is attempting to regain its full strength, the SBDCs program should be funded at a level that will not result in the program reducing their permanent training staff, which would hamper small businesses' ability to receive assistance. Any proposal to reduce spending would exacerbate the already stressed conditions of the SBDC network and could lead to lower startup rates and job creation. As a result, the SBDC program should be funded at $117 million in FY 2014, a 4 percent increase over FY 2012 enacted levels.

Women's Business Centers

The Women's Business Centers (WBC) funding level should remain at 2012 levels. In allocating funding in FY 2014, the agency should give priority to both new and existing centers located in areas of high unemployment. In addition, the agency should ensure that all centers receiving funding in FY 2014 can demonstrate success in creating and maintaining jobs in their local communities.

Government Contracting Programs

SBA has continually failed to effectively operate and oversee its government contracting programs. As a result, the programs have become a prime target for fraud and abuse that deprive legitimate small businesses from contracting opportunities. Furthermore, the lapses in operation of these programs have contributed to the inability of the federal government to reach the small business contracting goals as the necessary funding has not been apportioned so as to provide these businesses with the necessary tools and resources to compete in the federal marketplace. Thus, it is the opinion of the committee that SBA is failing in its obligation to ensure that a fair proportion of federal contracting be placed with small businesses.

Procurement Center Representatives (PCRs)

Small businesses continue to complain about the consequences that the bundling and consolidation of contracts has on their ability to receive federal contracts. Yet, while the cost of government procurement has more than doubled between 2001 and 2012, from $223 to $515 billion, SBA has reduced their number of PCRs to 55, with many of these employees having to split their time between other duties and overseeing multiple contracting offices. In FY 2012, there were 161 bundled and consolidated contracts worth over $268 billion. If the 23 percent small business goal were enforced on these contracts, $61 billion would go towards these firms; additional contracting dollars could have been diverted to small businesses if the requirements were broken down into amounts that were within the capacity of smaller firms. The lack of oversight on these bundled contracts deprived hundreds of small businesses the ability to receive federal contracting opportunities. The committee expects that this deficiency in oversight will only continue as the SBA employees who act as PCRs will be terminated or furloughed as a result of the impending sequestration cuts.

With 5 percent cuts expected at all civilian agencies it is likely that PCRs will see a decrease of 3 employees only furthering the inability of SBA to oversee billions in federal contracting. Therefore, the committee recommends additional funds to combat the effects of sequestration and provide adequate supervision.

Commercial Marketing Representative (CMRs)

There are currently 33 employees at SBA that perform CMR duties, however, only 4 of these staffers spend 100 percent of their time on overseeing subcontracting plans of large prime contractors. Reports from GAO and SBA's Inspector General have indicated that CMRs are reviewing only a fraction of the contracts that they should be reviewing and when done, reviews occur from the desk of the CMR rather than with an on-site review. With many of these subcontracting plans not being properly monitored, large contractors are performing the work themselves and denying small businesses the ability to grow their capabilities to one day compete for a prime contract.

Sequestration will further reduce these numbers by at least 2 employees, possibly more as the vast majority of these staffers do not work on CMR duties exclusively. The committee recommends that funding be adjusted to maintain the level of staff currently employed.

8(a) Program

The committee recommends increasing the 8(a) budget allocation to meet the growing number of new participants that the program has experienced in the last two years. In FY 2011 alone, the 8(a) program accepted almost 1,000 new businesses. With a 5 percent decrease likely to the program as a result of sequestration, this number will be reduced by $400 per business. However, if the program continues to grow at the rate that it has in previous years, the amount spent on each business could be reduced by as much as $1,179.

Furthermore, with new systems of review for certifications for new applicants to the program as well as existing program participants' annual reviews, it is taking businesses even longer to receive their certification. Any further reduction in the program's budget would only further exacerbate this backlog. Therefore, the committee recommends that the budget for this program be increased to enable an increase in staff to reduce the certification backlog and ensure that this program has the funds necessary to aid new and existing participants as they navigate the federal marketplace.

7(j) Program

Any decrease in funding to the 7(j) Technical Assistance program is inappropriate as it provides essential services to 8(a) participants. From 2008 to 2011, the number of small businesses seeking assistance through this program increased from 2,021 to 3,550. With this upward trend only likely to continue, it is vital that the level of services does not decrease. This program has been proven to help create jobs throughout small businesses and at a time of high unemployment, job creation is vital.

HUBZone Program

The HUBZone program continues to be plagued with fraud and abuse. In numerous reports GAO has found that ineligible businesses easily "qualified" to win contracts under the program and received one hundred million dollars of contracts at the expense of other qualified small businesses. In its last investigation GAO was able to certify three bogus firms in the program. While the required information was requested to support the applications, SBA failed to verify that the firms had legitimate principle places of business in HUBZones. For example, one bogus firm certified by GAO was located in a HUBZone but the address given was for the Alamo. Although SBA has stated they have undertaken a re-engineering of the program that requires thorough document examinations, announced and unannounced on-site visits, and continued monitoring of program participants, ineligible businesses are still certified.

Additionally, GAO has previously reported that SBA had not yet developed outcome measures that directly link to the mission of its HUBZone program, nor had the agency implemented its plans to conduct an evaluation of the program based on variables tied to its goals. Furthermore, when GAO inquired about the effectiveness of the program, SBA provided a copy of an Office of Advocacy report from May 2008, which stated that the program has had limited effect. Thus, until this program can show progress in the elimination of fraud and develop metrics to show that it is effective in accomplishing its mission, the committee continues to believe that the program should be terminated.

Service-Disabled Veteran-Owned Small Business Program

In 2009, GAO found that tens of millions of dollars had been awarded to ineligible businesses in this program as a result of fraud and misrepresentation of the businesses' eligibility. The committee has pushed for SBA to work in collaboration with the Department of Veterans Affairs to develop a verification method to ensure that veteran contracts are awarded to veterans. However, despite a pledge from the agency to do so, SBA has taken no affirmative steps towards this measure. As a result, the committee recommends that SBA specifically set aside funds to improve oversight of this program.

Women's Procurement Program

After ten years of delays, SBA released its final rule for the Women's Procurement program in February 2011. The administration had previously requested $1 million for the development and maintenance of a data repository, eligibility examinations, and four employees processing protests. Despite the fact that these tasks are still performed, subsequent budgets have not made direct allocations to this program. Without dedicated funding to the program it is unclear how the administration plans on paying for the maintenance of the repository and the protests it must process. Therefore, the committee recommends that additional funds be allocated to increase the number of staff to ensure that this program does not succumb to the fraud and abuse present in other programs.

Size Standards

SBA is currently undertaking a complete review of all size standards that are used to determine eligibility in the various small business programs. The Small Business Jobs Act of 2010 required that every 18 months one-third of the size standards be updated to reflect the new market conditions in the industry with reviews occurring five years thereafter. As the process continues, the committee recommends that the FY 2014 budget include a specific line item for this task so as to ensure that funds are not diverted from other programs.

Conclusion

While this year's views and estimates are peculiar in that they are not based on any budget submission, it is clear that SBA's FY 2014 budget will be considered in a tight fiscal environment. This means defunding unauthorized pilot programs that have not been objectively evaluated and preventing the agency from using scarce funds on such initiatives in the future. Going forward, the SBA should refocus its priorities on its core statutory mission, rather than expanding its bureaucratic footprint through opportunistic land-grabs or the development of the latest flavor-of-the-day pilot programs. Doing so would help ensure that taxpayer dollars are being well spent, while small businesses have the resources that they need to grow stronger. Thank you for your consideration of our views on this matter.

With respect,

Nydia M. Velázquez
Ranking Member