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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

October 12, 2011

The Honorable Jeb Hensarling, Co-Chair
The Honorable Patty Murray, Co-Chair
Joint Select Committee on Deficit Reduction
Washington, DC 20510

Dear Co-Chairmen Hensarling and Murray,

I write in regard to the on-going deliberations of the Joint Committee on Deficit Reduction, established under the Budget Control Act of 2011 (P.L. 112-25) and to put forth recommendations on behalf of America's small businesses. As you are well aware, the U.S. economy faces challenges on several fronts, the greatest of which is a need to create new jobs. Historically, small businesses, which have generated 64 percent of net new jobs in the last 15 years, have driven such growth. Ensuring this is realized is part of the mandate of the Small Business Administration (SBA), which is the singular federal agency designed to serve small firms and promote entrepreneurship.

As the Committee with legislative jurisdiction over the SBA, this letter provides broad guidelines and specific proposals that would ensure the agency can carry out its mission in a balanced manner that would reduce the federal deficit, while maximizing its role in job creation. These are objectives that Committee Democrats unequivocally support.

Unfortunately, this letter is all the more necessary as the Committee on Small Business Republicans failed to convene a hearing on its recommendations pursuant to section 401(b)(3)(ii) of the Budget Control Act of 2011 or the American Jobs Act, as proposed by the Administration, which contains several critical provisions that are widely supported by small businesses and would generate job growth.

Guidelines for Deficit Reduction at the SBA

As the Committee reviews the expenditures and operations of the SBA, there are several key guidelines it should consider as it looks to reduce the federal deficit.

Streamlining Agency Organization and Structure

Since its inception on July 30, 1953, the SBA has provided small businesses with three primary services: securing capital and credit, procurement assistance, and business development counseling. As the economy has evolved so too have the agency's offerings in these areas. Unfortunately, while new tools and resources have been added, those that are antiquated have not been jettisoned from the agency's footprint. Additionally, the promulgation of new activities has often been added in a haphazard manner that has produced bureaucratic inefficiencies and duplication, particularly in regard to administrative overhead.

In order to increase efficiencies and reduce the taxpayer cost of operating the SBA, steps should be taken to consolidate services within the agency's three core areas of access to capital, contracting assistance, and entrepreneurial development. Programs that serve similar purposes, populations, and demographics should be combined to the extent possible and unnecessary layers of management should be eliminated. The focus should remain on providing quality services to small businesses, while limiting duplicative administrative costs. In addition, the agency operates in each state and U.S. territory, as do resource partners in each of its core areas. Reducing geographic overlap presents another opportunity to increase efficiencies, while helping cut overall costs.

Eliminating Agency Pilot Initiatives

In recent years, the agency has created several new programs without legislative authorization that cost taxpayers millions of dollars. Within its budget for FY 2012, the SBA requested funding for several such programs across a wide spectrum of activities, including lending, investment, and entrepreneurial development. The cost of its three largest requests alone equal more than $15 million and constitute nearly 10 percent of the SBA's non-credit programs budget. Eliminating these and other unauthorized agency pilot initiatives would result in immediate savings.

Oversight

One area in which the Committee should forgo reductions is with regard to oversight and fraud reduction. The SBA operates several programs that put at risk billions of dollars in federal contracts and loan guarantees. Unfortunately, in the last decade, several major abuses have occurred that have resulted in multi-million dollar losses to taxpayers. In addition, the Government Accountability Office (GAO) has found in numerous reports that SBA's programs are vulnerable to fraud. As a result, taxpayers are well-served by an efficient, but adequately staffed oversight authority in this regard. Overall, such expenditures would likely minimize losses due to waste, fraud, and abuse.

Proposals

In order to further promote job creation at the SBA, we offer several specific proposals that would advance job creation efforts nationwide. These proposals can be implemented at no-cost to the taxpayer and are supported by the Committee on Small Business' oversight and examination activities over the last decade.

Contracting

The large amount of federal dollars spent on combating terrorism, providing international security and resultant rebuilding efforts in Iraq and Afghanistan, have underscored the international opportunities that exists for the business community, both large and small. However, federal agencies do not often look to small businesses for these types of awards, although they have the skills, resources, and experience necessary to carry them out.

Reversing this trend and increasing the amount of contracting dollars that flow to small businesses is one way that the government can increase job creation. This can be accomplished readily and at no-cost to the taxpayer by requiring prime contractors to submit subcontracting plans for overseas procurement awards. In addition, including overseas contracts in the base for determining federal small business contracting goals would also incentivize agencies to use small firms in these circumstances. By doing so, small businesses would be able to secure valuable economic opportunities, while also expanding and adding jobs at a higher rate than their larger corporate counterparts.

Lending

Typically, startup companies drive job growth, particularly in recoveries. Unfortunately, according to empirical research, the recent economic slowdown has yielded lower startup rates than at any time in the last three decades.

One key reason is the challenges would-be entrepreneurs face in securing small dollar loans. Such smaller loans are critical tools for economic growth. While the SBA offers such loans through the microloan program, the interest rate can often exceed double-digits. Additionally, its conventional 7(a) loan program, which offers smaller loan sizes through its SBA Express program, has grown more expensive.

To address this, the SBA should increasingly focus on providing smaller dollar loans through the 7(a) loan program. By levying a new fee on loans above $500,000, the SBA could both save taxpayer money while ensuring that its financing efforts were focused on younger firms, which have high-rates of job growth. A portion of the surcharge on larger loans could be used to reduce the cost of smaller loans. This incentive structure would produce a 7(a) loan program that is cost-efficient and more likely to increase employment.

Credit Enhancements

The recent financial crisis has significantly affected real estate prices, which are typically used by small businesses as collateral to secure a loan. For many, this deprecation in asset prices has impeded or in some cases blocked their ability to qualify for loans or credit. The result has been depressed economic activity and a lower level of job creation in our communities.

In order to tackle this problem, a new program could be established within the SBA that would mitigate this depreciation for small firms by permitting them to apply for and receive a credit enhancement. This enhancement would have the effect of restoring businesses' credit rating to the level prior to the recent decline in asset prices. By doing so, entrepreneurs would be able to apply for private sector financing with the same standing they had prior to the financial crisis. This would not only increase lending demand, but also generate economic activity and the hiring that comes with it.

Conclusion

With regard to the SBA, it is important that the Committee keep in mind that while deficit reduction is imperative, across-the-board budget reductions could ultimately reduce job creation. Instead, savings should first be taken from inefficient and duplicative areas. The guidelines and proposals provided above would accomplish this, permitting the Committee to accomplish its goal of deficit reduction, while also improving employment conditions.

Thank you for your efforts and hard work on these issues of critical importance to all of America's entrepreneurs.

Sincerely,

Nydia M. Velázquez
Ranking Member

cc:

Honorable Max Baucus, Member
Honorable Xavier Becerra, Member
Honorable Dave Camp, Member
Honorable James Clyburn, Member
Honorable John Kerry, Member
Honorable Jon Kyl, Member
Honorable Rob Portman, Member
Honorable Pat Toomey, Member
Honorable Fred Upton, Member
Honorable Chris Van Hollen, Member