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**United States Senate**

COMMITTEE ON SMALL BUSINESS
WASHINGTON, DC 20510-6350

March 2, 2000

The Honorable Pete Domenici
Chairman
Committee on the Budget
United States Senate
Washington, DC 20510

The Honorable Frank Lautenberg
Ranking Minority Member
Committee on the Budget
United States Senate
Washington, DC 20510

Dear Pete and Frank:

As Members of the Committee on Small Business, we are submitting the following views and estimates on the President's FY 2001 budget request for the Small Business Administration *(SBA/Agency) and other matters under the Committee's jurisdiction in compliance with Section* 301(d) of the Congressional Budget Act.

**FY 2001 Budget Request Overview**

The Administration's FY 2001 budget request for SBA calls for increased spending. The proposed budget seeks a total of $ 1.06 billion to fund Function 370 (general agency operations) and Function 450 (disaster loan program). Congress approved $827 million for SBA in FY 2000. The FY 2001 budget request for SBA would increase SBA spending by $235 million or 28% in one fiscal year. On the other hand, the WODI non-inflationary baseline for the SBA is $890 million, which includes funds for the Agency's salaries and expense, non-credit programs, business loan, Inspector General, surety bond and disaster loan accounts. We believe this amount is sufficient to allow the Agency to maintain its programs at optimum levels and avoid any unplanned staff reductions.

We are pleased that the President's budget request includes full funding for the HUBZone Program ($5 million), the Women's Business Center Program grants ($12 million), the Small Business Development Center Program ($88 million), and SBA's credit programs (7(a) Business Loan, 504 Development Company Loan, Microloan, and SBIC). In addition, we endorse the Administration's initiatives to expand its management assistance programs to Native Americans.

We are concerned that the Administration has failed over the past three years to dedicate adequate resources to meet the statutorily mandated procurement goals for small businesses. This failure has resulted in the failure of federal agencies to meet the 5% goals for women-owned small businesses, and it has severely handicapped the HUBZone program, which is designed to direct federal contracting dollars to the Nation's most distressed areas of poverty and unemployment.

During the past three years, Congress appropriated $24 million for SBA's Loan Modernization Program (LMS), which will provide SBA with the ability to manage credit risk, lender risk, and the cost of the 7(a), 504, and the Microloan programs. For FY 2001, SBA is requesting an additional $13 million. SBA has been unable to meet many of its self-imposed deadlines and goals and will begin to implement the first iteration of this new system in the future. The General Accounting Office has been monitoring SBA's efforts closely. We believe this SBA initiative needs additional attention, and the Committee intends to address the problems confronting the LMS when its marks up the 3-Year SBA re-authorization bill in March 2000.

**Historical Overview**

In 1995, the Committee sent you a bipartisan views and estimates letter on SBA's FY 1996 budget request. The Chairman and Ranking Minority Member called for the streamlining of the Agency and recommended that the Budget Committee adopt a ceiling of $586 million for Function 370 for FY 1996 and the following five fiscal years. This figure was a reduction of $120 million (17%) from the Function 370 level for FY 1995. At the same time, the CBO non-inflationary baseline for the Function 450 disaster program administrative expenses account was $78 million. Our 1995 recommendation was designed to produce six year savings of at least $720 million, with the understanding that SBA could contribute substantial budgetary savings as the Congress brought Federal outlays and revenues into balance, while continuing to serve the constituencies who rely on SBA's programs.

At the time of the 1995 views and estimates letter, the Committee believed that a thorough, top-to-bottom review of the SBA was necessary. The SBA needed to reevaluate the programs and activities in its purview to determine whether they were truly necessary programs and whether they are most appropriately handled at the Federal level.

Since 1995, the Committee on Small Business has originated numerous bills, which have been enacted into law. These bills made improvements to SBA's programs while contributing to reduced operating expenses and allowing SBA to collect significantly more user fees to offset amounts previously appropriated. It is our belief that additional savings over and above those accomplished over the past five years can be achieved as we debate the FY 2001 budget request.

While we remain vigilant in our support of the core mission Congress has given SBA, we believe SBA can achieve its mission much more efficiently, more effectively, and more economically than reflected in its current plans. Excessive costs necessitated by SBA's headquarters operation and unwieldy field office operation hampers the streamlining effort. The FY 2001 budget request, rather than proposing thoughtful and more efficient plans, adds significant funds to new programs. We are concerned, however, that new program initiatives shall continue hampering Agency staff from delivering the core SBA programs in an effective and efficient manner.

In FY 1996, SBA spent $605 million and carried 4,640 FTEs for disaster and non-disaster programs. The Agency was able to fund fully its key programs, such as the Women's Business Centers program, Small Business Development Centers program, 7(a) guaranteed business loan program and Small Business Investment Company (SBIC) program at their authorized levels.

The FY 2001 budget request includes 4,288 FTEs, 352 fewer than funded in FY 1996. However, the FY 2001 budget request includes a proliferation of new, expensive programs and the rapid expansion of other programs, at the same time that the Agency is struggling to provide adequate management and direction for its core programs that have historically made up the Agency's mission.

As Members of the Committee on Small Business, we have strongly supported efforts by SBA to turn to the private sector to take on more of the Agency's workload, which has shifted work away from hundreds of SBA staff who previously performed loan processing, servicing and liquidation functions under the 7(a) and 504 loans programs. The Agency has hired outside contractors to undertake new missions, such as the statutorily mandated annual examinations of the 7(a) Preferred Lenders. More recently, the SBA Inspector General and SBA's Office of Capital Access engaged the Farm Credit Administration to undertake examinations of the 14 Small Business Lending Companies (SBLCs), which are nonbank small business lenders that SBA licenses and regulates. SBA needs to be encouraged to continue these efforts to modernize and upgrade critical Agency functions.

The Committee's record of bipartisanship during the 104th, 105th, and 106th Congresses serves as ample evidence of our shared commitment to the important priorities of America's small businesses and entrepreneurs. We remain confident that the Committee can continue working with SBA to redirect and fine tune its priorities. It is our goal that SBA become increasingly more responsive to small business, more effective and efficient in its day-to-day operations, that it directs its resources to ensure that its core programs operate well, and that its LMS becomes fully operational before the introduction of new, unproven efforts.

We look forward to the opportunity to work with you to develop this portion of the Budget Resolution for FY 2001.

Sincerely,

Robert F. Bennett
Member

Christopher S. Bond
Chairman

Olympia J. Snowe
Member

Mike Enzi
Member

Spencer Abraham
Member