Statement by Donald Wilson
President and CEO
Association of Small Business Development Centers

For a Hearing On SBA Entrepreneurial Development Programs
In the Subcommittee on Rural and Urban Entrepreneurship of the
U.S. House of Representatives Committee on Small Business

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Chairman Shuler, Ranking Member Fortenberry, and members of the subcommittee, my name is Donald Wilson. I am the President and CEO of the Association of Small Business Development Centers (ASBDC). We appreciate this subcommittee giving ASBDC the opportunity to present its views at this important hearing on the SBA's entrepreneurial development programs.

The association's members are the 63 State, Regional and Territorial SBDC programs that serve all 50 states, the District of Columbia, Puerto Rico, the Virgin Islands, Guam and American Samoa. The nationwide SBDC network is a partnership that includes Congress, SBA, the private sector, and the colleges, universities, community colleges and state and local governments that help fund and host SBDCs across the nation.

The SBDC network provides some form of management and technical assistance to an estimated 1.2 million small business owners and aspiring entrepreneurs each year. This includes counseling, training and informational exchanges. Small business owners and aspiring entrepreneurs can go to their local SBDCs for free, face-to-face business consulting and at-cost training on writing business plans, accessing capital, marketing, procurement assistance, human resource management, regulatory compliance, international trade, business valuation, overall financial management and more.

Chairman Shuler, ASBDC has been deeply appreciative of the leadership of the House Small Business Committee, Chairwoman Velazquez, for her concerted efforts in recent years to secure at least sufficient funding for the SBDC national program to keep pace with inflation. Her efforts last year, including her budget views and estimates letter advocating $110 million for the SBDC national network, no doubt played an important role in the Congressional Budget Resolution proposing a funding level of $110 million for the SBDC program. Through her efforts and the efforts of Chairman Kerry, Ranking Member Snowe, Chairman Serrano, Chairman Durbin and a majority in both Houses of Congress, the SBDC national program received a desperately needed funding increase for FY 2008 after years of essentially level or reduced funding. And last month, Chairwoman Velazquez urged the Budget Committee to provide a significant increase in SBDC funding for FY 2009. With her continued support, and hopefully that of this subcommittee and key appropriators, we are hopeful that the loss of capacity that the network has experienced due to declining funding over the last seven years can be corrected

Let me elaborate for just a moment on what I mean by loss of capacity within the network. In 2001, the federal appropriation for the SBDC program was $87,877,000. In 2007, the appropriation would have needed to be $102,883,080 just to have kept pace with inflation. (In calculating that number the Department of Labor's Inflation Calculator was used.) Unfortunately, the appropriation level for FY 2007 was only $87,863,292, less than the 2001 appropriation. The appropriation for FY 2008 fortunately was $97.12 million. When these funds are ultimately distributed it will, for the most part, forestall additional center closings and additional pink slips for experienced and committed SBDC business consultants.

Regretfully, the Administration's budget for FY 2009 provides funding of only $87.12 million for SBDCs. This is $10 million less than Congress approved last December for SBDCs for FY 2008 when it passed and sent to the President the Consolidated Appropriations Act of 2008. Were Congress to accept the Administration's proposed FY 2008 budget figure for SBDCs, it would prove devastating to the SBDC national program and further reduce services available to our nation's small business owners at a time when our economy is likely contracting.

Let's put the Administration's budget proposal into perspective. Federal revenues increased by over 40 percent from 2003 to the end of 2007. During the same time period, appropriations for the SBDC program decreased. OMB was unable to find $10 million in a $ 3 trillion budget to sustain for FY 2009 the increase Congress gave the SBDC program for FY 2008 to help SBDCs begin to rebuild the decaying SBDC educational infrastructure. However, OMB apparently has had no problem finding $42 million to cover the cost of sending letters to taxpayers and others to remind them that they are going to get a tax rebate later this year; information that has been on every news outlet for weeks.

In 2001, SBDCs nationwide provided one on one consulting services to 254,490 clients. Last year consulting services were provided to only 197,588 clients. We submit to you that this is not due to declining demand but declining capacity.

Let me put this declining capacity issue in even starker terms. The SBDC State Director in Georgia advises me that between 2001 and 2007 " we have closed three locations (one urban, two rural), dropped 4 business consultant positions, 4 economic development/business consultant positions (which focused on entrepreneurial activity primarily in rural areas), and eliminated our Associate State Director, Director of Continuing Education, and head of women's outreach"

The Wyoming State Director writes that in the Wyoming network, "We have gone from 22.5 FTE to 18.5 FTE."

The Kentucky SBDC State Director writes "Since 1999 Kentucky SBDC has lost 13 counselor positions. Our staff has gone from 47 to 34. No centers have been closed but circuit rides to rural areas have been cut by 30%."

The Oklahoma SBDC State Director advises that "Oklahoma has reduced staff by 15.5 FTE in the past 7 years and closed 2 centers.

The SBDC State Director in Washington State writes that "In 2001 SBA funding provided 20.17 FTE Consultants. In 2007 SBA funding provided 17.67 FTE Consultants
In 2001 we had 23 counseling centers supported with SBA funds. In 2007 we had 21 counseling centers supported by SBA funds

The Tennessee SBDC State Director advises that “Due to flat funding and resulting regressive budgets over the past several years, we have laid off nine SBDC employees and are now robbing our variable expense line items to cover the fixed expenses in the SBDC operations…it is just a matter of time before this budgeting strategy will no longer sustain the program.”

The Nebraska SBDC State Director advises that, “ The Nebraska Small Business Development Center program has experienced significant reductions in its delivery capacity since 2002. This has been caused by no increase in SBDC funding at the federal level. We have taken most of these reductions in the Omaha metropolitan area so as to maintain our delivery services in rural Nebraska (which is in a continuing declining economic condition).”

“Staff Reductions: Associate State Director (1.0 FTE) his position provided supervision, continuing training and resource development to our consulting staff statewide. We no longer have this capacity. - Omaha Center Director (1.0 FTE) We had two consulting centers in Omaha, one downtown and one in the suburban western portion of the metropolitan area. We closed the downtown center. We now provide services to the older sections of town through a graduate assistant who visits minority outreach programs (Omaha Community Development Corporation for the African-American community and the Juan Diego Center for the Hispanic community) one afternoon per week. - Omaha Consultants (1.5 FTE) We eliminated one full-time business finance consultant and one half-time market research consultant in Omaha. We now rely on one director for Omaha and four graduate-assistants.
Support Staff (1.5 FTE)”

The State Director of New Hampshire writes: “We went from 6 centers to 3 and lost 1/2 our staff. Counselors - -11 to 4.”

These are the realities out in the states where ever rising SBDC operational expenses and declining federal appropriations have forced many SBDC state directors to downsize their operations at a time when more and more Americans appear to be looking to self-employment to sustain their families.

This subcommittee is familiar with the same economic headlines that I read every day. In January the economy lost 22,000 jobs. In February the economy lost another 63,000. The private sector lost 101,000 jobs n February, the biggest drop in five years. Retail stores shed 34,000 jobs, while the manufacturing sector lost 52,000 workers and construction firm payrolls shrank by 39,000 jobs. Indeed, the Bureau of Labor Statistic’s household survey showed 255,000 fewer Americans with jobs last month than in January. According to data released last week by the Federal Reserve, net household wealth declined by $900 billion in the fourth quarter.

I do not know whether we are in a recession and we will not officially know for a few more months. However, for those Americans who have given up looking for a job, I am sure it feels like a recession. If history is prologue, a meaningful number of those who have quit looking for work will begin to look to self employment to provide for themselves and their families.

One thing we know, the current credit crunch is worsening. Many small business owners and aspiring small business owners who may have been looking to a home equity line as a source of credit have seen that avenue close. Credit card lenders are tightening borrowing requirements and raising interest rates. Bank lending requirements have tightened significantly.

Consumer spending was essentially flat in January when adjusted for inflation. Energy costs are skyrocketing. Small business confidence dropped very sharply in the last quarter according to the Small Business Research Board.

If jobless rates increase, and I fear they will, it is almost inevitable that foreclosure rates will increase. If we are interested in staunching the anticipated rise in unemployment, all of us need to focus on helping the small business sector of our economy which for years has been responsible for the majority of net new jobs in our economy.

Millions of small business owners have never experienced the economic conditions we are now facing and will likely face in the months ahead. Millions of small businesses have only known a growing economy such as we have had for the last five years. It is not unlike a stock broker who has never known a bear market. With declining business confidence, tight credit, flat consumer spending, rising inventories and rising inflation and rising energy prices, we could be headed into the proverbial "perfect storm " in the small business sector of the economy.

The big question is, what kind of management decisions will these small business owners make in an economic and business environment with which they are unfamiliar? Dun and Bradstreet data suggests that the major reason small businesses fail is bad management decisions. Millions of small business owners have had no business management education at all.

As conditions worsen many small business owners will begin to seek advice and assistance from the very management and technical assistance programs that are struggling with declining service capacity due to years of flat or declining funding that has not kept pace with inflation.

Many of the small business owners who may face the most difficult prospects in a rapidly deteriorating economy are women business owners and minority business owners. SBDCs have been actively engaged in successful outreach to these segments of the small business economy for years and have earned the trust of women and minorities over the past quarter of a century. Forty percent of SBDC clients are women. This compares favorably to the one-third of small business owners who are women. Thirty-one percent of SBDC consulting clients are minorities, once again exceeding the percentage of business owners who are minorities.

The issue that ASBDC is most concerned about is, when a small business owner seeks assistance, will the SBDC infrastructure have the capacity to meet demand? As policy makers you have to decide whether small business management assistance should be a higher public policy priority.

The most recent study of the economic impact of SBDC services provides numbers that ASBDC believes justify an increased investment in SBDC management and technical assistance. In 2006, the nationwide SBDC network helped in-depth small business clients (that is, clients who received five our more hours of SBDC consulting during the year) to:

- **create 67,233 new full time jobs;**
- **save an additional 76,820 jobs;**
- **generate nearly $6 billion in new sales;**
- **preserve approximately $7 billion in sales;**
- **obtain nearly $3.4 billion in financing; and,**
- **generate approximately $201 million in new Federal revenues as a result direct economic growth generated by SBDC clients.**

These are not numbers calculated by SBDC counselors. These are numbers extrapolated from survey responses provided by SBDC clients themselves in a confidential survey of all in depth SBDC clients conducted by Dr. James Chrisman of Mississippi State University. The survey data are generated from figures clients themselves directly attribute to the assistance received from their local SBDC.

I urge members of the subcommittee to review closely the numbers above. As a result of a modest federal investment of approximately $88 million in management and technical assistance, SBDC in depth clients generated an estimated $200 million in additional Federal revenue due to increased economic activity that the small business owner attributed to SBDC assistance. That is approximately $2.28 in revenue for every federal dollar appropriated. Most of us, if we found a mutual fund or stock with that rate of return, would readily invest in it.

Moreover, SBDC in depth clients attributed an estimated 67,000 new jobs to the SBDC assistance they received. That works out to a cost of just over $1,300 per job created. If you will check out other federal job creation programs, I do not think you will find very many that compare on a cost per job created basis.

Chairman Shuler, last Fall ASBDC's Board Chair Jody Keenan, State Director of the Virginia SBDC testified before the full House Small Business Committee. At that time she expressed deep concern regarding the potential impact a myriad of newly proposed SBDC grant programs might have on the capacity of the network. At that time some Congressional staff felt our concerns were not well founded or were being adequately addressed.

In December, President Bush signed into law HR 6, the Energy Independence and Security Act of 2007. In February of this year the President signed into law HR 4253, The Military Reservist and Veteran Small Business Reauthorization and Opportunity Act. Both of these bills authorized new grant programs for SBDCs to enhance services in narrowly defined areas specifically veterans services and energy efficiency services. Please note that, traditionally, SBDCs have served between 50,000 and 60,000 self- declared veterans annually.

ASBDC staff and officers had discussed these and other recently proposed grant programs with numerous Hill staff. We were concerned that already scarce resources available for basic SBDC programs would be diverted to new programs which could prove costly to compete for while possibly creating grant management burdens for SBDC host educational institutions. Repeatedly, we were assured that funding for these new grant programs was not intended to come out of what is now commonly referred to as SBDC core funding. Core funding is that which is fairly distributed to the states on a population based formula for the network's historical congressionally mandated mission.

Section 1203 of HR 6 contains explicit language ostensibly designed to protect SBDC core funding. That language reads as follows: Subject to amounts approved in advance in appropriations Acts and separate from amounts approved to carry out section 21(a)(1) of the Small Business Act (15 U.S.C. 648 (a)(1), the administrator may make grants or enter into cooperative agreements to carry out this subsection." Unfortunately, many congressional staffers and legal counsel at the SBA now concede that the language intended to protect the $97.12 million appropriated may not have been sufficiently drawn to provide the protection we had been advised that Congress intended.

Section 104 of HR 4253 contains similar but less restrictive language, specifically "(4) Funding – Subject to amounts approved in advance in appropriations Acts, the Administration may make grants or enter into cooperative agreements to carry out the provisions of this subsection."

ASBDC received assurances from various congressional staff that the language immediately above was designed to prevent dollars appropriated for the traditional SBDC program from being utilized for the new grant programs. Unfortunately, it now appears the intended protections were not achieved.

Chairwoman Velazquez's Budget Views and Estimates letter asked for $140 million in funding for the SBDC national program for FY 2009. ASBDC is extremely appreciative of the confidence in the SBDC program that letter reflects. ASBDC believes that the interest of all small businesses can best be served by restoring the SBDC program to its former funding level in inflation adjusted dollars and, ideally, achieving the program's authorized level. We believe this should occur before funding new grant programs that could impose significant new costs in applying for grants and potentially increased costs in grant management both on the SBA and on the host institutions who are grant recipients.

The SBDC grants in HR 4253 are an excellent case in point. Many appropriators apparently believed in December that they were providing $97.12 million for the SBDC core program, not counting, of course, the funds for the DETA program, portability grants and historical funding for the SBDC accreditation program, SBDC Net and the SBA's SBDC Advisory Committee. Indeed, when the Consolidated Appropriations Act of 2008 was approved in December, appropriators could not have believed they were funding the Section 104 grants because HR 4253 had not even been approved by Congress.

The reality is that in order to fund the new HR 4253, Section 104 grants, every SBDC will lose some of its base program funding. As a result, many SBDCs may be forced to reduce their veterans outreach activities to enable a few states, (the Section 104 grant winners) to expand their veterans programs. This is in effect a zero sum game, with some SBDCs benefiting to the detriment of others. We do not see how it enhances the well being of the nation's veteran business owners to enhance services for veteran business owners in a few states while potentially reducing similar services in dozens of other states.

ASBDC is eager to work constructively with this sub-committee, the full House Small Business Committee, the Senate Small Business Committee and the Financial Services Subcommittees in both the House and Senate to try and address in an effective way what we believe to be unintended consequences flowing from the passage of the new grants programs contained in HR 6 and HR 4253. Moreover, with numerous other proposed new SBDC grants programs now pending before Congress, we foresee the possibility of unintended adverse consequences increasing almost exponentially.

We understand that resources for the SBDC program face budget and economic constraints. Under such circumstances, it would indeed be unfortunate if Congress's well intended efforts to try and better serve certain sectors of the small business community resulted in a depletion of the resources available to serve a broader spectrum of small business owners in need of management and technical assistance. Forcing SBDCs to compete against each other for narrowly drawn grants programs in an era of scarce resources while reducing funds for proven core services, and further burdening the grants management offices of SBDC host institutions, could potentially reduce the enthusiasm our hosts have for the program. This could be especially true for those hosts who, for one reason or the other, fail to compete successfully under a regimen of new grants initiatives that, by their very nature, offer no real financial stability to an SBDC program.

ASBDC believes more can be done for specific small business constituencies and that with enhanced resources new and more innovative approaches for addressing small business needs can and will be developed by individual SBDCs. ASBDC and its members are eager to launch new and innovative programs if the overall dollars available for SBDCs expands and the traditional programs which have proven so successful are not diminished

We are eager to enhance the quality and quantity of our service offerings and look forward to working with this subcommittee, the full House Small Business Committee and the SBA to strengthen and improve a program that has well served the small business community, the economy and the taxpaying public for over a quarter of a century.

Let me say in closing that ASBDC has had a significantly improved relationship in recent years with SBA in its oversight role for the SBDC program. The Office of SBDCs, headed by Antonio Doss, has been increasingly open to consideration of the views of ASBDC's members. Negotiations on the annual Program Announcement have been increasingly more open, candid, and constructive, even when we disagree. Associate Administrator Anoop Prakash and his predecessor, Cheryl Mills, have been readily accessible, as has Deputy Administrator Carranza. This is a tone I believe that is set from the top by Administrator Preston. These officials have met frequently with the Association's leadership to better understand the grant recipient's perspective. ASBDC's Board Chair and I met as recently as last week for over two hours with Associate Administrator Prakash. We certainly do not always agree. However, discussions are carried on at levels where issues can usually be amicably resolved. Furthermore, there is a concerted effort by both sides to keep in mind that the focus must always be on the best interest of the small business client that Congress intends us to serve.

Again, Chairman Shuler, I would like to thank you and this subcommittee for allowing me to present the association's views today. At this time, I would be pleased to respond to any questions that you or other members of the subcommittee may have.