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SENATE

{ REPORT
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VETERANS ENTREPRENEURSHIP AND SMALL BUSINESS DEVELOPMENT ACT OF 1999

AUGUST 4, 1999.—Ordered to be printed

Mr. BOND, from the Committee on Small Business,
submitted the following

REPORT

[To accompany H.R. 1568]

On July 15, 1999, the Committee on Small Business considered H.R. 1568. The Committee adopted a substitute amendment offered by Chairman Bond and Ranking Democrat Kerry. As amended, the bill provides technical, financial, and procurement assistance to veteran-owned small businesses. H.R. 1568, as passed by the House of Representatives, and the substitute amendment incorporated the “Military Reservists Small Business Relief Act of 1999” (S. 918), which had previously been approved by the Committee on June 9, 1999. Having considered H.R. 1568, as amended, the Committee reports favorably thereon with an amendment and recommends that the bill do pass.

I. DESCRIPTION OF THE BILL

The Veterans Entrepreneurship and Small Business Development Act of 1999 (H.R. 1568) seeks to provide assistance to veteran-owned small businesses to enable them to start-up and grow their businesses. The bill places a specific emphasis on small businesses owned and controlled by service-disabled veterans.

Under Title II of the bill, a federally chartered corporation called the National Veterans Business Development Corporation (Corporation/NVBDC) is established. The purpose of the corporation is to improve assistance provided to veterans who wish to start-up or expand small businesses. The Corporation is directed to establish a network of information and assistance centers for use by veterans and the general public. The Corporation will be governed by a board of directors appointed by the Administrator of the Small

Business Administration (SBA), after considering recommendations from the Chairmen and Ranking Members from the Committees on Small Business and Veterans Affairs of the Senate and House of Representatives. Funds are authorized for four years to support the start-up activities of the Corporation, and the Corporation will provide matching funds raised from non-Federal sources during the last three years of the authorization. The Committee expects that the Corporation will become self-sufficient and will no longer need Federal funding after its initial four years of Federal support. Two years after the first board of directors is appointed, the Comptroller General is directed to complete a study on the effectiveness of the Corporation in carrying out the purposes of the Act.

Title III of H.R. 1568 directs SBA to make better use of its resources to help small business owned and controlled by veterans. SBA is required to insure that the SCORE Program and the Small Business Development Center Program work directly with the Corporation so that veteran entrepreneurs receive technical assistance and other needed support. In addition, Title III incorporates a part of the "Military Reservists Small Business Relief Act of 1999," (S. 918) which the Committee approved unanimously on June 9, 1999. This provision directs SBA to use its existing entrepreneurial development programs to assist small businesses that are impacted when a military reservist is called to active duty. SBA and its private sector partners are required to advertise their entrepreneurial development and management assistance programs, such as Business Information Centers, Women's Business Centers, Small Business Development Centers and SCORE, and to make them available to small businesses that are losing or have lost an essential employee to a military call-up.

Title IV places a special emphasis on the credit programs at SBA that can be helpful to veterans and especially to service-disabled veterans. The bill specifically targets veterans for the 7(a) guaranteed business loan program, the 504 Development Company Loan Program, and the Microloan program. In addition, this title incorporates key provisions from S. 918, which authorizes the SBA to provide loan deferrals, reductions in interest rates and low-interest economic injury loans to small businesses adversely affected by the call-up of certain military reservists. (For a more detailed discussion of S. 918, see Senate Report 106-84.)

The intention of Title V is to make Federal government contracts more readily available to service disabled veterans who own and control small businesses. The Committee adopted an annual goal of 3% and sees this goal as an incentive to Federal agencies to undertake a major effort to make their procurement activities more accessible to veterans who sacrificed their health and limbs for our Nation. In addition, the Committee included a requirement that the Office of Federal Procurement Policy (OFPP) collect data to be reported annually to Congress on the number and dollar value of contracts and subcontracts awarded by Federal agencies to veteran-owned small businesses and service-disabled veteran-owned small businesses.

II. NEED FOR LEGISLATION

Since 1997, the Committee on Small Business has considered and approved three bills to provide special help to veteran entrepreneurs, with a special emphasis given to service-disabled veterans. These actions became necessary as Federal support for veterans entrepreneurs, particularly service-disabled veterans, has declined. The Committee believes that the SBA has not provided enough assistance to veteran entrepreneurs.

When Congress approved the Small Business Reauthorization Act of 1997, the most recent 3 year re-authorization of SBA programs, it included a separate title to improve business opportunities for service-disabled veterans. The Committees on Small Business of the Senate and House of Representatives believed strongly that these individuals deserve better support from the Federal agencies than they had received historically. The 1997 Reauthorization Act required the SBA to undertake a comprehensive report on the needs of small businesses owned and controlled by service-disabled veterans. This report is still not complete, and Senator Kerry and I joined with Mr. Talent and Ms. Velázquez, Chairman and Ranking Democrat of the House Committee on Small Business, in sending letters to numerous Federal agencies urging them to cooperate with the investigator at the University of Massachusetts who is under contract with SBA to prepare this report.

In 1998, the Committee approved new initiatives to strengthen the mandate that SBA's programs be more responsive to all veteran small business owners. The "Year 2000 Readiness and Small Business Restructuring and Reform Act of 1998" (H.R. 3412) directed that veterans receive comprehensive help at SBA. This bill passed the Senate unanimously in September 1998; unfortunately, it was not taken up by the House of Representatives before the adjournment in the fall. The bill would have elevated the Office of Veterans Affairs at SBA to the Office of Veterans Business Development, to be headed by an Associate Administrator who would report directly to the SBA Administrator. This provision is contained in H.R. 1568.

In addition, H.R. 3412 would have established an Advisory Committee on Veterans' Business Affairs comprised of veterans who own small businesses and representatives of national veterans service organizations. The bill also would have established the position of National Veterans' Business Coordinator within the Service Corps of Retired Executives (SCORE) Program. This new position would work within the SBA headquarters to ensure that SCORE's programs nationwide included entrepreneurial counseling and training for veterans. Both initiatives from H.R. 3412 are included in H.R. 1568.

Most recently, on June 6, 1999, the Committee approved the Military Reservists Small Business Relief Act of 1999 (S. 918) to assist military reservists called to active duty and the small businesses that employ them. This bill complements the provisions of the Veterans Entrepreneurship and Small Business Development Act. Accordingly, the Committee voted unanimously to incorporate the full text of S. 918 into Title III (Technical Assistance) and Title IV (Financial Assistance) of H.R. 1568.

During and after the Persian Gulf War in the early 1990's, the Committee heard from reservists whose businesses were harmed, severely crippled, or even lost, by their absence. Problems faced by reservists called to active duty and their small businesses were of a varied nature and included cash-flow problems, difficulties with training an appropriate alternate manager on very short notice to run the business during the period of service, lost clientele upon return, and on occasion, bankruptcy. These hardships can occur during a period of national emergency or during a period of contingency operation when troops are deployed overseas.

To help such reservists and their small businesses, the Committee seeks to provide credit and management assistance to small businesses when an essential employee (i.e., an owner, manager or vital member of the business' staff) is a reservist called to active duty. The Committee believes that financial assistance in the form of loans, loan deferrals and managerial guidance are effective ways to minimize the adverse financial demands of the call to active duty. They not only ameliorate financial difficulties but also strengthen small businesses.

H.R. 1568 authorizes a deferral of loan repayments on any SBA direct loan, including a disaster loan, for an eligible small business. SBA is authorized to reduce the interest rate on the direct loans. SBA is also directed to publish guidelines within 30 days of enactment of the legislation to help its lending partners in the 7(a) guaranteed business loan program and the 504 Development Company program to develop procedures for providing loan repayment relief to small businesses that have been adversely affected by the departure of an essential employee to active military duty. Further, the bill establishes a low-interest economic injury loan program to be administered by the SBA through its disaster loan program. The purpose of these loans will be to provide interim operating capital to a small business that suffers substantial economic injury as a result of the departure of its essential employee to active duty and cannot obtain credit elsewhere.

To address the management needs of any small business whose owner or manager must depart suddenly to report to active duty, H.R. 1568 relies on existing entrepreneurial development programs at SBA. Since many small businesses are not aware these services exist and are available at little or no cost, SBA and its private sector partners are directed to advertise their entrepreneurial development and management assistance programs.

III. COMMITTEE VOTE

In compliance with rule XXVI(7)(b) of the Standing Rules of the Senate, the following votes on H.R. 1568 were recorded on July 15, 1999. A motion by Senator Bond to adopt the substitute amendment passed by unanimous voice vote. A motion by Senator Bond to adopt the Veterans Entrepreneurship and Small Business Development Act of 1999, with an amendment in the nature of a substitute, was approved by a unanimous recorded vote, with the following Senators voting in the affirmative: Bond, Kerry, Burns, Coverdell, Bennett, Snowe, Enzi, Fitzgerald, Crapo, Abraham, Levin, Harkin, Lieberman, Wellstone, Cleland, Landrieu, and Edwards.

IV. COST ESTIMATE

In compliance with rule XXVI(11)(a)(1) of the Standing Rules of the Senate, the Committee estimates the cost of the legislation will be equal to the amounts indicated by the Congressional Budget Office in the following letter.

U.S. CONGRESS,
CONGRESSIONAL BUDGET OFFICE,
Washington, DC, July 23, 1999.

Hon. CHRISTOPHER S. BOND,
Chairman, Committee on Small Business,
U.S. Senate, Washington, DC.

DEAR MR. CHAIRMAN: The Congressional Budget Office has prepared the enclosed cost estimate for H.R. 1568, the Veterans Entrepreneurship and Small Business Development Act of 1999.

If you wish further details on this estimate, we will be pleased to provide them. The CBO staff contacts for federal costs are Mark Hadley and Megan Carroll. The staff contact for the state and local impact is Shelley Finlayson.

Sincerely,

BARRY B. ANDERSON
(For Dan L. Crippen, Director).

Enclosure.

H.R. 1568—Veterans Entrepreneurship and Small Business Development Act of 1999

Summary: H.R. 1568 would expand federal assistance to small businesses owned by veterans. It would establish a federally chartered corporation to coordinate assistance to small business owners who are veterans. In addition, it would establish an Office of Veterans Business Development and an advisory committee on veterans affairs within the Small Business Administration (SBA). Section 402 would authorize the SBA to modify and expand certain loan programs to assist small business that employ military reservists who are called to active duty. Finally, the act would direct the SBA and the General Accounting Office to prepare several reports and would provide other forms of assistance to small businesses that are owned by veterans.

Assuming appropriation of the necessary amounts, CBO estimates that implementing H.R. 1568 would increase discretionary spending by about \$24 million over the 2000–2004 period. CBO also estimates that enacting the legislation would increase direct spending by about \$1 million in fiscal year 1999. Therefore, pay-as-you-go procedures would apply to this legislation. H.R. 1568 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA). Any costs to state, local, or tribal governments would be the result of complying with grant conditions.

Estimated cost to the Federal Government: For the purposes of this estimate, CBO assumes that H.R. 1568 will be enacted during fiscal year 1999. The estimated budgetary effects of H.R. 1568 are shown in the following table. In addition to the amounts shown in the table, CBO estimates that the provisions authorizing the re-

ceipt and use of gifts and donations would have a negligible effect on direct spending and governmental receipts over the 2000–2004 period. The costs of this legislation fall within budget functions 370 (commerce and housing credit) and 450 (community and regional development).

[By fiscal year, in millions of dollars]

	1999	2000	2001	2002	2003	2004
SPENDING SUBJECT TO APPROPRIATION						
Estimated Authorization Level	0	5	6	6	4	3
Estimated Outlays	0	5	6	6	4	3
DIRECT SPENDING						
Estimated Budget Authority	1	0	0	0	0	0
Estimated Outlays	1	0	0	0	0	0

Basis of estimate

Spending subject to appropriation

H.R. 1568 would authorize the appropriation of \$12 million over the 2000–2003 period for the National Veterans Business Development Corporation. For purposes of this estimate, CBO assumes that the corporation would receive and spend the entire amount appropriated for each year. Based on information from SBA, CBO estimated that implementing the other provisions of the act would increase administrative costs by an additional \$12 million over the 2000–2004 period.

Section 402 would expand the disaster loan program to include small businesses that suffer substantial economic injury as a result of an essential employee being ordered to active duty during a period of military conflict. The Federal Credit Reform Act of 1990 requires appropriations for the subsidy costs and administrative costs of credit programs. The subsidy cost is the estimated long-term cost to the government of a direct loan or loan guarantee, calculated on a net present value basis and excluding administrative costs. Implementing section 402 of the act could result in additional subsidy costs for making new loans. Although CBO cannot predict the number, timing, or extent of future military conflicts or the number of small businesses that would be affected, the costs are not likely to be significant in most years. We estimate that additional subsidy costs would average less than \$500,000 a year.

Direct spending

Section 402 would allow the SBA to defer principal and interest payments due on small business loans if a military reservist is called to active duty during a period of military conflict and the reservist is an essential employee of the small business. The deferral would last from the date on which the reservist is ordered to active duty until 180 days after the reservist is released. Section 402 also would allow the SBA to reduce the interest rate on loan qualifying for a deferral. The act would encourage lenders and intermediaries to grant similar deferrals for loans guaranteed by the SBA.

Section 402 would increase direct spending because it would raise the expected cost of existing loans to small businesses. CBO

estimates that enacting this provision would probably increase direct spending by about \$1 million in 1999, based on information from the SBA. We estimate that the deferral provision would affect fewer than 500 small business disaster loans (out of the 70,000 outstanding), with an average loan size of \$50,000, and that the deferment of principal and interest payments would increase the average subsidy costs on those loans by about 5 percentage points. The increase in subsidy costs would be recorded as an outlay in the year in which the legislation is enacted.

Revenues

Authorizing the advisory committee to accept and use gifts and donations would affect direct spending and governmental receipts. CBO expects that any contributions (recorded in the budget as revenues) would be spent in the same year as they were received. Therefore, we estimate that the net budgetary impact of the gift authority granted to the advisory committee would be negligible.

Pay-as-you-go considerations: The Balanced Budget and Emergency Control Act sets up pay-as-you-go procedures for legislation affecting direct spending or receipts. H.R. 1568 would affect direct spending and receipts by increasing the cost of existing loans and by allowing the new advisory committee to accept donations. CBO estimates that enacting H.R. 1568 would increase direct spending by \$1 million in 1999 and by less than \$500,000 in each subsequent year and would increase governmental receipts by less than \$500,000 a year.

Intergovernmental and private-sector impact: H.R. 1568 contains no intergovernmental or private-sector mandates as defined in UMRA. The act would modify existing programs that require matching funds from public or private entities, including state, local and tribal governments. Any cost to these governments from the requirements of the programs would be incurred voluntarily.

Previous CBO estimates: On June 29, 1999, CBO transmitted a cost estimate for H.R. 1568 as ordered reported by the House Committee on Small Business on June 23, 1999. That version of the legislation is similar to this version, and CBO's estimates of costs are identical.

On June 16, 1999, CBO transmitted an estimate of S. 918, the Military Reservists Small Business Relief Act of 1999, as ordered reported by the Senate Committee on Small Business on June 9, 1999. That bill is identical to section 402 of H.R. 1568; CBO estimated that enacting S. 918 would increase direct spending by about \$1 million in 1999 and spending subject to appropriation by less than \$500,000 a year—the same amounts estimated for section 402 of H.R. 1568.

Estimate prepared by: Federal costs: Mark Hadley and Megan Carroll; Impact on State, local, and tribal governments: Shelley Finlayson.

Estimate approved by: Paul N. Van de Water, Assistant Director for Budget Analysis.

V. EVALUATION OF REGULATORY IMPACT

In compliance with rule XXVI(11)(b) of the Standing Rules of the Senate, it is the opinion of the Committee that no significant addi-

tional regulatory impact will be incurred in carrying out the provisions of this legislation. There will be no additional impact of the personal privacy of companies or individuals who utilize the assistance authorized by this legislation.

VI. CHANGES IN EXISTING LAW

In the Opinion of the Committee, it is necessary to dispense with the requirement of rule XXVI(12) of the Standing Rules of the Senate in order to expedite the business of the Senate.

VII. SECTION-BY-SECTION ANALYSIS

Title I—General Provisions

Section 101. Findings

Describes Congressional findings regarding the sacrifices and efforts of veterans and their value to the American economy as small business owners.

Section 102. Purpose

Describes the purpose of the Act, to encourage the SBA and other agencies to implement further efforts to assist veterans, particularly service-disabled veterans, in the formation and growth of small businesses.

Section 103. Definitions

Establishes definitions of veteran owned and service-disabled veteran owned small business concerns. The term “service-disabled veterans” is based on the definition in Title 38 of the U.S. Code.

Title II—Veterans Business Development

Section 201. Office of Veterans Business Development

Establishes an Office of Veterans Business Development and the position of Associate Administrator for Veterans Business Development at the Small Business Administration. This position will be responsible for the formulation, execution, and promotion of programs to provide assistance for small businesses owned and controlled by veterans.

Section 202. National Veterans Business Development Corporation

Establishes a federally chartered corporation, the National Veterans Business Development Corporation (Corporation/NVBDC), for the purpose of guiding and monitoring public and private sector initiatives to assist the Nation’s veterans in their efforts to form and grow small businesses. The most significant single purpose of the Corporation will be to work with the public and private sectors to establish an independent nationwide network of business assistance and information centers for veterans. The Corporation will be managed by a Board of Directors appointed in a bipartisan fashion by the President based on recommendations from the Congress. It will have the power to raise and disburse funds, establish initiatives, and award grants in furtherance of its goal of establishing a cohesive assistance and information network for veteran owned business.

The Corporation will also establish an advisory board on professional certification to work on the problems service members with military technical training face as they transition to the private sector workforce. The board will be composed of representatives of professional certification organizations, such as the Coalition for Professional Certification and veterans organizations such as the American Legion. In addition, the Board of Directors of the NVBDC shall invite representatives of the Armed Services and the Department of Labor to participate.

The Corporation will have an initial authorization of \$2 million in the first year and \$4 million in the second and third years, dropping back to \$2 million in the fourth and final year. After the fourth year, the Corporation will be self funded from private donations and no longer be eligible for federal funds. The Corporation will be required to put up matching funds in the 2d through 4th years.

Section 203. Advisory Committee on Veterans Affairs

Establishes an eight member committee to provide independent advice and policy recommendations to the SBA, Congress, and the President. The committee will conduct hearings, collect information from federal agencies, develop, monitor and promote programs to aid veteran's business development, and issue an annual report to the Congress. The Committee will terminate on September 30, 2004 and its responsibilities will devolve onto the National Veterans Business Development Corporation.

Title III—Technical Assistance

Section 301. SCORE Program

Requires the Service Corps of Retired Executives (SCORE) and the SBA to establish a program for directing management and technical assistance to veteran-owned small business and veterans wishing to establish small business concerns.

Section 302. Entrepreneurial assistance

Requires the Small Business Development Center (SBDC) system and the SBA to establish a program for outreach and assistance to veterans and veteran-owned small businesses.

Section 303. Military reservists technical assistance

Establishes a program of technical and managerial assistance through the SBA for military reservists who are self-employed or are small business owners and are called to active military duty. Directs SBA to enhance its publicity of such assistance for the duration of Operation "Allied Force."

Title IV—Financial Assistance

Section 401. General business loans

Includes service-disabled veterans with handicapped individuals in provisions requiring that loan making decisions shall be resolved in favor of the prospective borrower. This provision applies only to

guaranteed loans and makes no requirement that the SBA re-institute the direct loan program.

Section 402. Assistance to active duty military reservists

Requires the SBA to establish a system for loan deferrals for small business owners called up for active duty. Also requires the SBA to make economic injury disaster loans available to self-employed individuals who are called to active duty for the National Guard and Reserves and have suffered, or are likely to suffer, substantial economic injury.

Section 403. Microloan Program

Makes veterans eligible for assistance under the SBA's microloan program which provides small loans (under \$25,000) to people seeking initial financing for small business start-up or expansion.

Section 404. Defense Economic Transition Loan Program

Includes veteran owned small businesses in the eligibility categories for assistance under the DELTA loan program at the SBA.

Section 405. State Development Company Program

Includes the formation and creation of veteran-owned small business in the public policy goals sought in the 504 loan program for construction and long-term equipment loans.

Title V—Procurement

Section 501. Subcontracting

Requires the inclusion of small business concerns owned and controlled by veterans in the mandatory subcontracting clause in all government contracts that establishes subcontracting plans.

Section 502. Procurement assistance

Requires the SBA to establish a three percent goal for contracting with small business concerns owned and controlled by service disabled veterans.

Title VI—Reports and Data

Section 601. Reporting requirements

Requires the heads of each federal agency to report to the Small Business Administration concerning contracting with veteran owned and service-disabled veteran owned small businesses.

Section 602. Report on small business and competition

Requires the SBA to include information on small business concerns owned by veterans and service disabled veterans in the annual report on small business participation and opportunities in federal procurement.

Section 603. Annual report

Requires the Administrator to submit an annual report to Congress on the needs of veteran owned small business and the progress of programs designed to aid and promote veterans small

business ownership. The Administrator shall also provide statistical information on veterans participation in SBA programs.

Section 604. Data and information collection

Requires that SBA collect procurement data on veterans and service-disabled veteran owned small businesses and information on the procurement practices of each federal agency. All such information is to be made available to any small business concern requesting it. The information is also to be distributed to federal procurement officers. Directs the SBA and VA to work to establish a database on veteran owned small business concerns. Requires a modification of the Federal Procurement Data System so that it collects data regarding the percentage and dollar value of prime contracts and subcontracts awarded to small business concerns owned and controlled by veterans and service-disabled veterans.

Title VII—Miscellaneous Provisions

Section 701. Administrator's order

Requires the administrator to strengthen and reissue the order implementing the provisions of P.L. 93-237 which requires the SBA to fully include veterans in all the programs, purposes and activities of the agency.

Section 702. Small Business Administration Office of Advocacy

Requires the Chief Counsel for Advocacy of the Small Business Administration to include an evaluation of the efforts of the federal government to assist veteran owned small business concerns as one of his primary functions. The Chief Counsel is also required to provide statistical information on veterans utilization of federal programs. Requires the Chief Counsel to make recommendations to the Administrator of the SBA and Congress on programs and efforts to assist veteran owned small business concerns.

Section 703. Study of fixed-asset small business loans

Requires the Government Accounting Office to conduct a study of the feasibility of using the VA home ownership loan program as a source of fixed asset financing for veteran-owned small businesses.