

MINUTES OF THE SENATE COMMITTEE ON AGRICULTURE & SMALL BUSINE

Held in Room 423-S, at the Statehouse at 10:00 a.m. a. m./p. m.,

on Thursday, February 19, 1981, 19 .

All members were present ~~except~~
~~xxxxx~~

The next meeting of the Committee will be held at 10:00 a.m. a. m./p. m.,

on Monday, February 23, 1981, 19 .

These minutes of the meeting held on Thursday, February 19, 1981, 19 were considered, corrected and approved.



Chairman

The conferees appearing before the Committee were:

Kenneth N. Hotard
Senior Research Analyst
State Services
Ntl. Conf. of State Legislatures
125 Seventeenth Street
Denver, Colorado 80202
(303 623-6600)

Leonard Schaeffer, SBA, K.C.Mo.
Lona Birch, Regional Advocate
Small Business Administration
Region VII (Ks., Mo., Nebr., Iowa)
Federal Office Bldg.
911 Walnut, 23rd Floor
K.C., Mo. 64106 (816) 374-3607

Senator Kerr called the meeting to order. Senator Thiessen moved, seconded by Senator Allen, that the minutes of the February 18, 1981 meeting be approved. Motion carried.

Senator Kerr introduced Mr. Hotard who read his testimony as contained in Attachment "A" to the original minutes. He also stated he had two publications relative to the Small Business Administration and the NCSL report of March, 1980 on state legislative activities through the 1979 sessions. They are now making a current survey. Fourteen state legislatures have established standing committees and/or subcommittees to deal specifically with small business issues; and answering Senator Montgomery's question, Mr. Hotard stated half of the states have loan programs. Connecticut has a Production and Development Corporation with products marketed within the state. That state receives royalties rather than time payments. Answering Senator Thiessen's question as to the reasons so many small businesses go out of business, Mr. Hotard stated it was for financial reasons as well as lack of good management.

Mr. Hotard stated it was risky but necessary for states to invest in small businesses. Quoting his last statement: "The growing interest in new state small business assistance programs and strategies shows that legislators are beginning to envision a new and expanded state role in the private market place. The challenge to state legislators is to design policies and legislative programs to meet the particular social and economic needs of their individual states, while providing and promoting fair competitive conditions under which the entire business community can function more effectively."

(MORE)

CONTINUATION SHEET -2-

Minutes of the Sen.Ag & S.B. Committee on Thurs., February 19, 1981

Senator Kerr called on Leonard Schaefer who works with the surety bond guarantee program in the Kansas City Regency Office. Mr. Shaefer stated he favors Senate Bills 230 and 231. He summarized how the surety bond program works (See Attachment "B" to the original minutes), stating that the loss rate is about 1% or less, and that they have no direct underwriting privilege. In such business it is important that they move quickly and give answers within one to five days, so they have close relationships with surety companies. Fees charged are set out in the attachment.

After introduction, Lonah Birch, Regional Advocate of the Small Business Administration Regional Office, referred to Attachment C (part of original minutes) and the folder, reading briefly therefrom. (Senate Bill 201 relates to the establishment of a small business energy act.) Quoting from her paper, "I urge you to analyze each of the bills to determine whether you might be duplicating an existing program or service. If not as duplicative service, then prioritize programs to determine which critical programs will enhance the viability of small business..."

Senator Kerr stated considerable work had been done on an agri bond bill and he called on Senator Gannon to present some brief remarks in regard thereto. Senator Gannon stated the bill (assigned the number 327 in today's legislative session) is AN ACT enacting the Kansas family farm development act and is much like the Iowa law. He felt since it is such a complex bill it should now be introduced and then perhaps assigned to an interim study committee with some possible action taken next year. The state legislature would create an authority which would issue bonds; these bonds would be income tax exempt--sold to the general public, and be guaranteed by FHA. He suggested that the figure of \$100,000 be inserted in item (i) on page 2; and that on page 3, Sec. 3, line 10 after "No more than five" insert the word appointed before the word "members. Senator Gannon moved that the bill be introduced, seconded by Senator Karr. Motion carried.

Meeting adjourned.

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STATE LEGISLATURES AND SMALL BUSINESS

TESTIMONY BEFORE THE
SENATE AGRICULTURE AND SMALL BUSINESS COMMITTEE
KANSAS STATE LEGISLATURE
TOPEKA, KANSAS

FEBRUARY 19, 1981

BY

KENNETH N. HOTARD
SENIOR RESEARCH ANALYST
STATE SERVICES

NATIONAL CONFERENCE OF STATE LEGISLATURES
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EXECUTIVE DIRECTOR
EARL S. MACKAY

STATE LEGISLATURES AND SMALL BUSINESS

INCREASINGLY, STATE LEGISLATORS, AROUND THE COUNTRY, ARE VIEWING SMALL BUSINESS DEVELOPMENT AS ESSENTIAL TO AND INSEPARABLE FROM THE EFFECTIVE DEVELOPMENT OF THEIR STATES' ECONOMIES. SMALL BUSINESS DEVELOPMENT IS NO LONGER VIEWED AS AN "OPTIONAL" ACTIVITY OF STATE LAWMAKERS.

WILL ROGERS IS FREQUENTLY CREDITED WITH STATING THAT "EVERYBODY TALKS ABOUT THE WEATHER, BUT NO ONE DOES ANYTHING ABOUT IT." SMALL BUSINESS PEOPLE FREQUENTLY FEEL THE SAME WAY. PAST NEGLIGENCE WAS NOT PREDICATED ON DISCRIMINATORY ATTITUDES, HOWEVER. IT IS CLEAR THAT THIS HAS BEEN, MORE THAN ANYTHING ELSE, A CASE OF BENIGN NEGLECT. IN RECENT YEARS THIS SITUATION FOR SMALL ENTERPRISES HAS CHANGED DRAMATICALLY. STATE LEGISLATORS FROM AROUND THE COUNTRY ARE TALKING, LISTENING AND TAKING ACTION.

WHY THIS SUDDEN INTEREST IN SMALL BUSINESS DEVELOPMENT? SMALL FIRMS CREATE BILLIONS OF DOLLARS WORTH OF PRODUCTS AND SERVICES; THEY COME UP WITH MORE NEW IDEAS AND PUT MORE OF THEM ON THE MARKET THAN DO BIG BUSINESSES; THEY EMPLOY MORE PEOPLE THAN DO BIG BUSINESSES; THEY CREATE MORE NEW JOBS THAN DO BIG BUSINESSES; BECAUSE THEY MUST COMPETE VIGOROUSLY FOR CUSTOMERS, THEY HELP KEEP PRICES DOWN; AND, NO LESS IMPORTANT, THE VERY EXISTENCE OF SMALL BUSINESS KEEPS ALIVE THE POSSIBILITY THAT ANY AMERICAN WHO WANTS TO BE HIS OR HER OWN BOSS CAN STILL REACH THAT GOAL.

THE STANDARD LITANY OF SMALL BUSINESS STATISTICS INCLUDES:

- THERE ARE APPROXIMATELY 10 MILLION SMALL BUSINESS IN AMERICA (NEARLY 98% OF ALL BUSINESSES);
- SMALL BUSINESSES ACCOUNT FOR 43% OF THE GROSS NATIONAL PRODUCT;
- SMALL BUSINESSES ACCOUNT FOR 75% OF ALL NEW JOBS IN AMERICA;
- SMALL BUSINESSES ACCOUNT FOR 60% OF EXISTING JOBS IN AMERICA;
- SMALL BUSINESSES ACCOUNT FOR MORE THAN HALF OF THE MAJOR TECHNOLOGICAL INNOVATIONS OF CONTEMPORARY LIFE.

AT THE SAME TIME, HOWEVER, PRELIMINARY RESULTS OF A SMALL BUSINESS ADMINISTRATION STUDY INDICATE THAT THE SMALL BUSINESS SHARE OF THE GROSS NATIONAL PRODUCT IS DECLINING AT THE RATE OF NEARLY .3% PER YEAR. ALONG WITH THE ATTRACTION OF SMALL BUSINESS GOES A HIGH LEVEL OF RISK--AND A LARGE NUMBER OF FAILURES. ALTHOUGH A LARGE NUMBER OF SMALL BUSINESSES SURVIVE AND GROW, AN AVERAGE OF 1000 SMALL BUSINESSES GO OUT OF BUSINESS EACH DAY. OF THE 500,000 NEW OWNERSHIPS DEVELOPED ANNUALLY, HALF DO NOT SURVIVE MORE THAN TWO YEARS AND ONLY 125,000 LAST AS LONG AS FIVE YEARS.

NO ONE ARGUES THAT IT IS GOVERNMENTS' JOB TO INSURE THE SECURITY OF SMALL

BUSINESS, BUT, INCREASINGLY THE VIEW IS BEING EXPRESSED THAT IT IS GOVERNMENTS' RESPONSIBILITY TO AVOID PLACING UNDUE BURDENS ON THIS SOURCE OF AMERICAN JOBS AND INNOVATION, AND TO RELIEVE BURDENS IT HAS ALREADY CREATED. STATE LEGISLATORS HAVE EXPRESSED SEVERAL REASONS WHY THEY FIND IT DIFFICULT TO HELP SMALL BUSINESSES. THESE INCLUDE:

- SMALL BUSINESSES ARE USUALLY TIED TO THE CITY WHERE THE ENTREPRENEUR LIVES, MAKING ONE STATE SMALL BUSINESS DEVELOPMENT OFFICE LOCATED IN THE STATE CAPITOL OF LITTLE USE TO MOST SMALL BUSINESSES IN THE STATE;
- ECONOMIC DEVELOPMENT PROGRAMS ARE USUALLY JUDGED ON THE NUMBER OF JOBS THEY CREATE, AND IT IS EASIER TO ATTRACT--AND TO DOCUMENT--A FEW LARGE PLANTS THAT EMPLOY SEVERAL HUNDRED PEOPLE THAN A MULTITUDE OF SMALL FIRMS EMPLOYING JUST A FEW (PERHAPS ONLY THE OWNER'S FAMILY);
- IT IS DIFFICULT TO FIGURE OUT HOW TO HELP SMALL BUSINESS. WHEN A SMALL BUSINESS OPERATOR ASKS FOR STATE ASSISTANCE, HE OR SHE USUALLY NEEDS SPECIFIC TECHNICAL AID OR SOPHISTICATED EXPERTISE BEYOND THE CAPACITY OF MANY STATE ECONOMIC DEVELOPMENT STAFFS; AND,
- HELPING INDIVIDUAL SMALL BUSINESSES IS RELATIVELY EXPENSIVE AND RISKY. THE HIGH FAILURE RATE OF BEGINNING ENTERPRISES--AND THE POTENTIAL FOR SHORT-TERM JOB CREATION FOLLOWED BY SUDDEN UNEMPLOYMENT--MAKES LARGE EXPENDITURES OF STATE FUNDS QUESTIONABLE.

IN 1979, THE NATIONAL CONFERENCE OF STATE LEGISLATURES (NCSL) CONDUCTED THE FIRST NATIONAL STUDY OF THE STATE LEGISLATURE/SMALL BUSINESS RELATIONSHIP, AND HAS MONITORED STATE LEGISLATIVE ACTIVITY IN THIS AREA SINCE THAT TIME. THE NCSL STUDY FOCUSED ON THE IDENTIFICATION OF STATE LEGISLATIVE STRUCTURES FOR DEALING WITH SMALL BUSINESS ISSUES, THE COLLECTION OF INNOVATIVE STATE LEGISLATION DESIGNED TO ASSIST SMALL BUSINESSES, AND THE ANALYSIS OF SUCCESSFUL STATE LEGISLATIVE INITIATIVES DESIGNED TO ENHANCE THE SMALL BUSINESS CLIMATE IN THE VARIOUS STATES.

AS A RESULT OF THE SURVEY, 3 KEY FACTORS EMERGED THAT SEEM TO BE AT WORK ON THE STATE LEGISLATIVE CONCIIOUSNESS IN THIS AREA. FIRST, AND MOST IMPORTANT, IS THE PERCEPTION THAT ECONOMIC PROBLEMS WILL DOMINATE THE EIGHTIES. MANY STATE LEGISLATORS HAVE APPARENTLY CONCLUDED THAT SMALL BUSINESS WILL PLAY A VITAL ROLE IN THE ECONOMIC GROWTH AND STABILITY OF INDIVIDUAL STATES AND THE NATIONAL ECONOMY AS A WHOLE. PROMOTION OF SMALL BUSINESS IS INCREASINGLY VIEWED AS NECESSARY TO STRONG STATE ECONOMIES. SECOND, ATTENTION TO SMALL BUSINESS PROBLEMS BY THE FEDERAL GOVERNMENT AND THE MEDIA HAS HIGHLIGHTED AND GIVEN GREATER EMPHASIS TO THE ENTIRE AREA SMALL BUSINESS DEVELOPMENT. THIRD, STATE LEGISLATURES ARE COMPOSED OF A CROSS-SECTION OF CITIZENS. MANY ARE SMALL BUSINESS OWNERS, OPERATORS AND EMPLOYEES. THEY LIVE EACH DAY

WITH THE MULTITUDE OF PROBLEMS FACING SMALL BUSINESSES.

SEVERAL GENERAL OBSERVATIONS CAN BE DRAWN FROM THE NCSL SURVEY RESULTS. THE ISSUE OF PROMOTION OF SMALL BUSINESS BY GOVERNMENT ACTION IS AN ISSUE WHOSE TIME HAS COME. IN VIRTUALLY ALL CASES, RESPONDENTS WERE WELL ACQUAINTED WITH THE SIGNIFICANT CONTRIBUTION OF SMALL BUSINESS TO THE STABILITY AND GROWTH OF THE NATIONAL AND STATE ECONOMIES. MOST OF THE MAJOR INITIATIVES IN THE SMALL BUSINESS AREA HAVE BEEN DEVELOPED BY THE LEGISLATURES IN THE VARIOUS STATES. EQUALLY IMPORTANT, STATE LEGISLATURES HAVE PLAYED A MAJOR ROLE IN REPEALING, MODIFYING OR ALTERING LEGISLATION OR OTHER STATE GOVERNMENT ACTION WHICH NEGATIVELY IMPACTS ON SMALL BUSINESS.

OTHER FREQUENT COMMENTS MADE DURING THE NCSL STUDY WOULD SUGGEST THE FOLLOWING OBSERVATIONS.

- MOST STATE LEGISLATURES HAVE NO SPECIFIC STRUCTURAL MECHANISM FOR DEALING WITH SMALL BUSINESS MATTERS PER SE; ACCORDINGLY, MOST DO NOT DISTINGUISH BETWEEN SMALL BUSINESS MATTERS AND GENERAL BUSINESS MATTERS IN HANDLING LEGISLATION. (IN 1979, 7 STATES HAD ESTABLISHED STANDING COMMITTEES AND/OR SUBCOMMITTEES ON SMALL BUSINESS. IN 1981, 14 STATES HAVE SUCH COMMITTEES).
- THERE IS NO STANDARD OR UNIFORM DEFINITION OF WHAT A SMALL BUSINESS IS IN STATE LEGISLATIVE MATTERS. (SEVERAL STATES HAVE ADOPTED THE FEDERAL SMALL BUSINESS ADMINISTRATION DEFINITIONS, HOWEVER, MOST STATES DEFINE SMALL BUSINESSES DIFFERENTLY FOR EACH PROGRAM WHICH ALLOWS FOR MORE ACCURATE TARGETING OF BENEFITS).
- A MAJOR PROBLEM IDENTIFIED BY STATE LEGISLATURES IS THAT THERE IS NO VOICE FOR SMALL BUSINESS AT THE STATE LEGISLATIVE LEVEL. MOREOVER, MOST LEGISLATORS BELIEVE THAT SMALL BUSINESS PEOPLE DO NOT UNDERSTAND THE STATE LEGISLATIVE PROCESS. THEY FEEL THAT INSTEAD OF THE NEGATIVE APPROACH (ANTI-GOVERNMENT), SMALL BUSINESS SHOULD ADOPT A MORE CONSTRUCTIVE APPROACH OF ANALYZING HOW ITS PROBLEMS DIFFER FROM THOSE OF LARGE FIRMS AND PRESENTING THIS INFORMATION TO THE LEGISLATURES. (IN THE PAST TWO YEARS, MAJOR EFFORTS HAVE BEEN MADE TO FACILITATE THIS PROCESS. AT THE FEDERAL LEVEL, THE 1980 WHITE HOUSE CONFERENCE ON SMALL BUSINESS; AT THE STATE LEVEL, NUMEROUS SMALL BUSINESS CONFERENCES HAVE FACILITATED INFORMATION SHARING. ALSO, MANY GROUPS HAVE SPRUNG UP TO REPRESENT SMALL BUSINESS AT THE STATE AND FEDERAL LEVELS).
- MINORITY BUSINESSES HAVE BEEN MORE EFFECTIVE, COMPARED TO SMALL BUSINESS GENERALLY, IN REPRESENTING THEMSELVES AT THE STATE LEGISLATIVE LEVEL, BECAUSE THEY HAVE EFFECTIVELY ORGANIZED AND PUSHED FOR CONSTRUCTIVE, NEW PROGRAMS.
- MANY STATE LEGISLATORS ARE CONVINCED THAT STATE LEGISLATURES CAN AID AND ASSIST SMALL BUSINESSES. THEY TEND TO BELIEVE

THAT REDUCING GOVERNMENT REGULATION AND TAXATION IS PARTICULARLY IMPORTANT. (AN INCREASING NUMBER OF STATES ARE ACTING TO REDUCE THE REGULATORY AND TAX BURDENS ON SMALL BUSINESSES).

- EACH STATE IS UNIQUE IN ITS BUSINESS CLIMATE AND, THEREFORE, NO ONE PROGRAM IN THE SMALL BUSINESS AREA IS THE ULTIMATE ANSWER; WHAT IS REQUIRED ARE ALTERNATIVE MODELS AND OPTIONS TAILORED TO EACH STATES' NEEDS. (THIS OBSERVATION SEEMS REASONABLE IN LIGHT OF DIFFERENCE IN STATE INDUSTRIAL COMPOSITION, ECONOMIC BASE, RESOURCE AVAILABILITY, MARKET AVAILABILITY, ETC.).
- FEW LEGISLATORS CONCERNED WITH SMALL BUSINESS MATTERS IN THEIR PARTICULAR STATE KNOW WHAT OTHER STATES ARE DOING IN THE AREA. (NCSL HAS BEEN INSTRUMENTAL IN FACILITATING THE EXCHANGE OF SMALL BUSINESS LEGISLATIVE INFORMATION SINCE 1979 THROUGH RESPONSES TO INFORMATION REQUESTS, PROVIDING TECHNICAL ASSISTANCE, COMMITTEE TESTIMONY AND HOLDING WORKSHOPS ON THE STATE LEGISLATIVE/SMALL BUSINESS RELATIONSHIP).

A NUMBER OF STATE LEGISLATURES HAVE TAKEN SIGNIFICANT ACTION IN THREE AREAS OF DIRECT CONCERN TO THE SMALL BUSINESS COMMUNITY. SPECIFICALLY, THESE ACTIONS INCLUDE THE ENACTMENT OF LEGISLATION DESIGNED TO INCREASE THE AVAILABILITY OF CAPITAL TO SMALL BUSINESSES, THE ENACTMENT OF LEGISLATION DESIGNED TO REDUCE THE GOVERNMENT REGULATORY BURDEN ON SMALL ENTERPRISES, AND THE ESTABLISHMENT OF LEGISLATIVE COMMITTEES TO DEAL SPECIFICALLY WITH SMALL BUSINESS ISSUES. THESE LEGISLATIVE ACTIVITIES HAVE HAD SIGNIFICANT IMPACT ON THE SMALL BUSINESS CLIMATE IN THOSE STATES WHERE THE ACTIVITY HAS OCCURRED. EXAMPLES OF STATE LEGISLATIVE ACTIVITY IN THE SMALL BUSINESS AREA INCLUDE:

CAPITOL FORMATION

ENACTMENT OF LEGISLATION (1)SUPPORTING THE AUTHORIZATION OF PRIVATE DEVELOPMENT CORPORATIONS, (2)CREATING PUBLIC DEVELOPMENT CORPORATIONS, (3) CHANGING CONSTITUTIONAL RESTRICTIONS AND ADMINISTRATIVE LIMITATIONS ON THE USE OF STATE INVESTMENT FUNDS, (4)ESTABLISHING TARGETED LOAN PROGRAMS DESIGNED TO ASSIST SMALL BUSINESSES, AND (5)ESTABLISHING TARGETED LOAN PROGRAMS DESIGNED TO ENHANCE INNOVATION AND PRODUCT DEVELOPMENT.

*Primarily
Pension
Funds*

REGULATORY REFORM

ENACTMENT OF LEGISLATION (1)CREATING ONE-STOP LICENSING PROGRAMS WHICH INCLUDE THE FILING OF A MASTER APPLICATION FOR MOST BUSINESSES, (2)CREATING A CENTRALIZED, COMPUTERIZED INFORMATION SERVICE ON FEDERAL, STATE AND LOCAL LICENSING AND PERMITTING REQUIREMENTS, (3)CREATING A SYSTEM THAT PROVIDES A "WALK-THROUGH" SPECIAL ASSISTANCE TO BUSINESS LICENSE APPLICANTS, (4)PROVIDING FOR REGULATORY FLEXIBILITY WITH LESS STRINGENT REQUIREMENTS FOR SMALL BUSINESSES, AND (5)REDUCING THE BURDENS OF STATE GOVERNMENT PAPERWORK ON SMALL BUSINESSES.

STRUCTURAL MECHANISMS

FOURTEEN STATE LEGISLATURES HAVE ESTABLISHED STANDING COMMITTEES AND/OR SUBCOMMITTEES TO DEAL SPECIFICALLY WITH SMALL BUSINESS ISSUES. AS A RESULT, SEVERAL BENEFITS HAVE BEEN REALIZED. FIRST, ESTABLISHING A SPECIFIC LEGISLATIVE STRUCTURE TO DEAL WITH SMALL BUSINESS MATTERS SIGNIFICANTLY RAISES THE VISIBILITY OF SMALL BUSINESS ISSUES BEFORE THE LEGISLATIVE AND EXECUTIVE BRANCHES. SECOND, IT GIVES SMALL BUSINESSES A VISIBLE, IDENTIFIABLE PLACE IN GOVERNMENT TO BRING THEIR CONCERNS. THIRD, IT GIVES THE LEGISLATURE A VIABLE STRUCTURE FOR DEALING WITH SMALL BUSINESS MATTERS, WHICH SOMETIMES ARE ROUTED THROUGH "HOSTILE" COMMITTEES.

IT SEEMS CLEAR THAT STATE LEGISLATURES, IN RECENT YEARS, HAVE SUBSTANTIALLY INCREASED THEIR EFFORTS TO ENACT LEGISLATION AND DESIGN PROGRAMS THAT ENHANCE THE ECONOMIC POSITION OF SMALL BUSINESSES IN THEIR STATES. IN THE INTRODUCTION TO THE 1980 EDITION TO THE U.S. SMALL BUSINESS ADMINISTRATION'S DIRECTORY OF STATE SMALL BUSINESS PROGRAMS, MILTON D. STEWART, CHIEF COUNSEL FOR ADVOCACY IS QUOTED ON THE ADDITION OF A "LEGISLATIVE ACTIVITY" CATEGORY TO THE SURVEY REPORT, "THIS IS IN RECOGNITION OF THE ADVANCES STATE LEGISLATURES HAVE MADE IN DEALING WITH THE CONCERNS OF SMALL BUSINESS."

THE GROWING INTEREST IN NEW STATE SMALL BUSINESS ASSISTANCE PROGRAMS AND STRATEGIES SHOWS THAT LEGISLATORS ARE BEGINNING TO ENVISION A NEW AND EXPANDED STATE ROLE IN THE PRIVATE MARKET PLACE. THE CHALLENGE TO STATE LEGISLATORS IS TO DESIGN POLICIES AND LEGISLATIVE PROGRAMS TO MEET THE PARTICULAR SOCIAL AND ECONOMIC NEEDS OF THEIR INDIVIDUAL STATES, WHILE PROVIDING AND PROMOTING FAIR COMPETITIVE CONDITIONS UNDER WHICH THE ENTIRE BUSINESS COMMUNITY CAN FUNCTION MORE EFFECTIVELY.

**SURETY BONDING GUARANTEE PROGRAM
SURETY BONDING LINE**

A Surety Bonding Line is a commitment to a surety company by the SBA that allows the surety to issue bid, payment, and performance bonds to an eligible small business already established in the Surety Bond Program, within preapproved limitations.

A surety's request for a SBA Guaranteed Bonding Line for a contractor must include the usual material as follows:

I. A. Current Information On

1. SBA Form 912, "Statement of Personal History" (to be updated every two years only).
2. SBA Form 994, "Application for Surety Bond Guarantee Assistance."
3. SBA Form 994 B, "Surety Bond Guarantee Underwriting Review."
4. SBA Form 994 F, "Schedule of Uncompleted Work," or acceptable surety substitute.
5. Financial Statements (year-end and Appropriate Interim Financial Statements, as required by SBA).
6. Any other data deemed necessary by the SBA underwriter.

B. Surety's Request Letter (Sample Available)

Information Specific to the Surety Bonding Line (to include the following):

1. Current information, above.
2. Maximum number of SBA-guaranteed

contract bonds recommended for contractor.

3. Maximum size of each contract recommended for contractor.
4. Total value of all outstanding bids and uncompleted work on hand (bonded or unbonded) recommended for contractor.
5. Specific type of work to which the contractor may be restricted.
6. Specific geographic area to which the contractor may be limited.

Standard Limitations

1. As set forth in Part 115 (Surety Bond Guarantee) of the Small Business Administration's Rules and Regulations, 13 C.F.R.
2. Contracts exceeding \$500,000 in face amount are not eligible under this bonding line program.
3. The establishment of a Surety Bonding Line between the Surety and SBA for any particular small business concern does not mean that the SBA will not consider surety submissions on behalf of this concern which exceed the limits of the SBL agreed upon. These agreed upon limits pertain only to what SBA agrees to let the Surety do, on our mutual behalf, under the auspices of the SBL's streamlined procedures. Applications for contracts exceeding the above-agreed upon limitations and restrictions are acceptable as full, separate submissions for our consideration on an individual basis, subject to specific SBA approval prior to issuing a bond.

We believe that a SBL should be conservative by design in the best

interest of the program, but present arbitrary limitations might not be in the best interest of the SBL contractor, or allow us (Surety and SBA) the flexibility needed in the SBL Program.

4. Though SBL is an arrangement between the Surety and SBA and carries with it no obligation on either of our parts to apprise the subject contractor of its existence, limitations, or restriction, neither should this information be withheld from the subject concern if he/she requests such information. This can be invaluable management data for the contractor, so that he knows reasonably well where he stands and what he can or cannot expect/plan to do.
5. Other limitations that may be set at the discretion of SBA.

SPECIAL TERMS AND CONDITIONS APPLICABLE TO SBA's SURETY BONDING LINES

1. Surety may issue any number of bid or final bonds (negotiated or bid), within stated limitations, and in accordance with Part 115 (Surety Bond Guarantee) of the SBA Rules and Regulations, 13. C.F.R.
2. Once a Surety Bonding Line has been mutually agreed upon by both the Surety and SBA for a particular contractor, the Surety may issue bonds to the contractor, within the agreed upon bonding line's limits, providing SBA only with a properly executed SBA Form 994 for each such bond issued, along with the \$10.00 application fee. This fee will be collected by the Surety and forwarded to SBA with the SBA Form 994.

If there is a final contract awarded to the applicable contractor, SBA's contractor processing fee plus the Surety's guarantee fee are due and payable.

3. Final bonds and bid bonds (which are low bid) must be confirmed and approved by SBA within 15 calendar days of issuance (or contract award date, whichever comes first) by submitting SBA Forms 990, 994, 994 B, 994 F (or acceptable substitute) and any other appropriate information as set out in paragraph 7, below, to the appropriate SBA Field Office.
4. This Bonding Line may be set on monthly terms, with the maximum not to exceed twelve months, at which time it may be renewed by receiving written approval from the SBA. The Bonding Line is cancellable at any time unilaterally by SBA or Surety upon written notice.
5. That the Surety has determined that there is reasonable expectation that the contractor will perform the contract(s); and that the costs, in its opinion, are reasonable.
6. The term "total contracts" is the sum total (number and value) of all outstanding bids and uncompleted work-on-hand, whether bonded or unbonded, including contracts under consideration, at the time the application is submitted to the SBA by the Surety.
7. The Surety is required to furnish the SBA with appropriate and authenticated financial data, bank letter, fees, power(s) of attorney, indemnities, completed SBA Forms as required, and any other data deemed necessary by the appropriate SBA Field Office.
8. Applications that represent contracts over \$250,000 should be accompanied by a quarterly interim financial statement (if FYE not audited) or a semiannual interim financial statement (if FYE audited). Financial Statement for contractors competing for contracts of \$250,000 or more in value must be accompanied by an acceptable "opinion audit" rendered by a qualified, independent public accountant (not necessarily a

CPA), effective as of the contractor's current FYE anniversary date, to be presented within 90 days subsequent therefrom. Applications that represent contracts of less than \$250,000 should be accompanied by a six-month interim financial statement, prepared inhouse or, preferably, by an independent accountant.

9. Any intentional false statement in an application or willful misrepresentation relative thereto is a violation of federal law, which may subject the applicant, agent, or Surety to criminal and civil prosecution, 18 U.S.C. § 287, 371, 1001; 15 U.S.C. § 645; 31 U.S.C. § 231, carrying fines up to \$10,000 and imprisonment.

FACT SHEET 21-A
APRIL 1978



Fact Sheet

U.S. Small Business Administration Washington, D.C. 20416

Surety Bonding Guarantee Program

Surety Bonding Line

(ATTACHMENT "B")

F & I

FACT SHEET
Surety Bond Guarantee

Who Can Benefit:

The Surety Bond Guarantee Program can benefit any small business that is required to have a bid, performance, or payment bond in order to obtain a contract-including but not limited to firms in construction, repair, maintenance, service, supply and janitorial work.

Definition of Small Business:

Determination of whether an applicant is eligible with respect to the SBA's size standards, shall be in accordance with Part 121.3-10 of SBA's published Rules and Regulations, with the following exception: Construction: Any construction concern, including affiliates, is small if its annual receipts for its preceding fiscal year or its average annual receipts for its preceding 3 fiscal years, do not exceed amounts as specified in Part 121.3-15 of SBA Rules and Regulation. If there are any questions as to your concern's eligibility, please contact your nearest SBA office.

Types of Bond Covered:

Any bid, payment or performance bond issued by a surety company included on the Treasury Department's list of approved sureties. The only exceptions are efficiency and fidelity bonds. The bond situation must be covered

in the Contract Section of the Surety Association of America's Rating Manual.

Contract Size Limitation:

Contract of \$1,000,000 or less are eligible for SBA's bond guarantee. There is no limit to the number of bonds that can be guaranteed for any one contractor.

What Does SBA Guarantee:

SBA can guarantee up to 90 percent of any loss incurred by a surety company as a result of their issuance of bond, less \$500.00 deductible, as set forth in SBA's Rules and Regulations (Part 115.2).

How to Apply:

1. Applicant contacts nearest SBA office which would furnish him the following:
 - a. SBA Form 994, "Application for Surety Bond Guarantee Assistance",
 - b. SBA Form 912, "Statement of Personal History:", on first application only, or as required. (Good for two calendar years.)
 - c. SBA Form 994F, "Schedule of Uncompleted Work," on each application. These are to be monthly reports.
2. SBA Form 994 shall not be processed by SBA until/unless a surety company, or its representative has submitted a bond guarantee request to SBA for this particular contract.

3. Applicant proceeds to the surety agent of his choice and furnishes that agent with the following:
 - a. Credit information and work experience history normally required by surety underwriters.
 - b. Completed SBA Form 994, and Contractor Application Fee (\$10.00 non-refundable.)
 - c. Completed SBA Form 912, as required.
 - d. Completed SBA Form 994F, as required.

What the Agent Does:

Agent will forward to surety company:

- a. A duplicate copy of the SBA Forms 994, 994B, 994F and 990, keeping copy for his own records.
- b. All other information normally required by surety company to underwrite a bond applicant.
- c. Surety agent will forward the original of the SBA Form 994 and the SBA Form 912 (all copies) directly to: Small Business Administration, Surety Bond Guarantee, Regional City SBA Office, or as otherwise directed.

What the Surety Company Does:

Assuming favorable decision to proceed by the underwriters, the surety will forward a summary of underwriting information (SBA Form 994B) and a signed and completed Guarantee Agreement (SBA Form 990), for the

case in hand directly to the Small Business Administration, Surety Bond Guarantee, Regional City Office, or as otherwise directed.

What SBA Does:

1. The SBA's Surety Bond Guarantee underwriting review staff will make final determinations as required. Within a reasonable time of receipt of summary underwriting information from the surety, SBA will notify the surety of approval (or disapproval) and return the countersigned Guarantee Agreement to the surety. For those contracts or projects valued at more than \$500,000, the SBA field office's SBG underwriting review staff will make recommendations to the applicable SBG staff for disposition. This procedure will require allowing additional SBA processing time.
2. Assuming the applicant is low bidder, and before entering into a contract to perform the work, applicant will return to the Surety and/or its representative to request payment and performance bonds as required, and pays the appropriate SBA's Contractor Processing Fee.

What Does this Cost:

1. An application fee of \$10.00 is required with each application, whether bid bond or final bond. This fee is non-refundable regardless of final result.
2. All final bond applications, and all bid bonds resulting in awards, require a processing fee of two-tenths of one percent (\$2.00 per

thousand dollars) of the contracts face value. (Note: Contract, not bond amount.) The processing fee is paid by the contractor. In the case of partial bonds, the contractor shall pay SBA either two-tenths of one percent of the contracts face value or 20 percent of the premium charged by the Surety, whichever is less. In the event of cancellation, or if for some reason the bond is not issued, the processing fee may be refunded.

3. When the bond is issued, the contractor will pay the Surety company's bonding premium. The Surety company will, in turn, pay SBA a percentage of the premium as a guarantee fee.

Help SBA Can Provide:

Counseling is available on request from our Management Assistance Division, SCORE program, and our Minority Small Business personnel. This assistance may be requested at the SBA District Office serving your area.

It is indeed a pleasure to share with you observations regarding Advocacy and PUBLI
LAW 94-305

THE OFFICE OF ADVOCACY SUPPORTS DEVELOPMENT OF A STATE
ENERGY ACT. KANSAS COULD BECOME A PIONEER IN THIS AREA. NO
OTHER STATE HAS SHOWN THE FORESIGHT.

SMALL COMPANIES INCLUDE PRODUCERS AS WELL AS CONSUMERS OF
ENERGY, WHICH MAKES ENERGY A VITAL ISSUE ON TWO COUNTS. SMALL
BUSINESSES ARE OFTEN THE FIRST BUSINESSES TO BE HIT, AND THE
ONES HIT THE HARDEST BY FUEL SHORTAGES, PRICE INCREASES, AND
REGULATORY ACTIONS. A STUDY BY THE NATIONAL FEDERAL OF INDE-
PENDENT BUSINESS (NFIB) DEMONSTRATES THAT A SMALL COMPANY WITH
\$50,000 IN ANNUAL SALES SPENDS FOUR TIMES AS MUCH PER SALES
DOLLAR FOR ENERGY AS COMPANIES WITH \$1 MILLION OR MORE IN SALES -
WHICH MEANS THAT THE SMALL COMPANY HAS A DIFFICULT TIME RAISING
PRICES TO ABSORB THE ADDITIONAL COST WITHOUT MAKING ITS PRODUCTS
UNCOMPETITIVE.

I enter into the record a condensation of recent report on Small Business and Energy
Crisis Challenges and Opportunities and call your attention. I have a complete text also

ALSO, SMALL PRODUCERS PLAY PROMINENT ROLES IN AMERICA'S
ENERGY INDUSTRIES. DESPITE WIDESPREAD PUBLICITY ABOUT THE

DOMINANCE OF MAJOR OIL COMPANIES, SMALL COMPANIES DRILL 90% OF THE WILDCAT WELLS, DISCOVER 75% OF NEW DOMESTIC FIELDS, AND ACCOUNT FOR 55% OF NEW OIL AND GAS RESERVES. MORE THAN THREE-QUARTERS OF THE NATION'S GASOLINE IS DISTRIBUTED BY 12,000 OIL JOBBERS AND 175,000 INDEPENDENT SERVICE-STATION OPERATORS, WHILE HOME HEATING OIL IS ALMOST ENTIRELY MARKETED BY COMPANIES WITH FEWER THAN 20 EMPLOYEES.

SMALL BUSINESSES ARE SIGNIFICANT FACTORS, AS WELL, IN THE PRODUCTION OF ENERGY FROM OTHER SOURCES AND IN THE DEVELOPMENT OF ENERGY-SAVING TECHNIQUES. SMALL COMPANIES HAVE ALWAYS BEEN CRUCIAL TO INNOVATION IN ENERGY FIELDS. SINCE BEN FRANKLIN DISCOVERED ELECTRICITY, INDIVIDUAL ENTREPRENEURS HAVE INVENTED THE ROTARY DRILLING BIT, THE PETROLEUM REFINING PROCESS, GASOLINE, AIR CONDITIONING, AND THE ELECTRIC TRANSFORMER, AMONG OTHER EXAMPLES.

THE SMALL BUSINESS ECONOMY SHOULD ACCOUNT FOR AT LEAST HALF OF THE GROSS NATIONAL PRODUCT BY THE END OF THE DECADE. IT MUST CREATE MORE JOBS AND INNOVATIONS. IT MUST MULTIPLY ITS RESOURCES BY DRAWING MORE PEOPLE INTO THE CURRENT ENTREPRENEURIAL ACTIVITY.

AND IT MUST CONTRIBUTE MORE TO THE U.S. BALANCE OF TRADE.

CURRENT ECONOMIC POLICIES AND GOVERNMENT PRACTICES, HOWEVER, UNDERMINE SMALL BUSINESS' ABILITY TO PRODUCE. BUT BY AND LARGE, WHAT POLICYMAKERS MUST DO IS ELIMINATE DISINCENTIVES AND INEQUITIES THAT NOW DISCOURAGE PRODUCTIVE INVESTMENT AND INDIVIDUAL UNDERTAKINGS.

THE FIRST INVOLVES THE NATION'S DWINDLING POOL OF SAVINGS. THE SECOND IS THE QUESTION OF WHERE SMALL AND NEW COMPANIES CAN GET LOANS OR FIND SEED MONEY BY SELLING SHARES OF STOCK. THE THIRD IS HOW EXISTING COMPANIES CAN RETAIN MORE EARNINGS FOR REINVESTMENT - WHICH IN TURN EXPANDS THE SAVINGS POOL.

INFLATION IS ALSO SQUEEZING SMALL COMPANIES' CASH FLOWS BY PUSHING UP COSTS, INFLATING THE VALUE OF INVENTORIES, AND EXPANDING ACCOUNTS RECEIVABLE. SMALL COMPANIES' TRADITIONAL RECOURSE IS TO BORROW, BUT CURRENT CREDIT POLICY HAS PUSHED INTEREST RATES TO HISTORIC HIGHS THAT FEW SMALL COMPANIES CAN AFFORD.

SMALL BUSINESSES ARE BEING RAVAGED BY BOTH THE ILLNESS AND THE CURE - BOTH INFLATION AND MEASURES TO FIGHT IT.

I WOULD SHARE WITH YOU THE TOP ENERGY RECOMMENDATIONS FROM THE WHITE HOUSE CONFERENCE ON SMALL BUSINESS:

#31. THE FEDERAL GOVERNMENT SHOULD OPEN PUBLIC LANDS TO ENERGY EXPLORATION AND PRODUCTION UNDER REGULATION WHICH PROVIDE REASONABLE ENVIRONMENTAL PROTECTION WITH: (A) A 30% SMALL BUSINESS SET-ASIDE; (B) FIXED TIME LIMITS FOR STATUTORY ENVIRONMENTAL ANALYSIS; AND (C) A 5-YEAR LIMIT ON LEASE TERMS TO ENCOURAGE RAPID DEVELOPMENT.

#32. GOVERNMENT MUST USE ANY NEW TAX INCOME FROM ENERGY PRODUCTION AND DEVELOPMENT FOR THE FUTURE PRODUCTION AND DEVELOPMENT OF ENERGY IN THE PRIVATE SECTOR, UNTIL THE U.S. IS ENERGY SELF-SUFFICIENT. SMALL BUSINESS SHOULD HAVE TAX EXEMPTIONS AND APPROPRIATE SET-ASIDES.

#33. THE U.S. GOVERNMENT SHALL ENCOURAGE THE IMMEDIATE EXPANSION OF NUCLEAR AND COAL-POWERED ELECTRIC GENERATING CAPACITY. RESEARCH EFFORTS DIRECTED TOWARD POWER TECHNOLOGY SHOULD BE EXPANDED.

#34. CONGRESS SHOULD ENCOURAGE SUBSTANTIAL DIRECT AND INVESTMENT TAX CREDITS FOR THE IMPLEMENTATION OF ALL FORMS OF CONSERVATION AND ALTERNATIVE ENERGY. ADDITIONALLY, INVESTMENTS OF UP TO \$150,000 PER YEAR SHOULD BE EXPENSED.

#35. ACTION SHOULD BE TAKEN TO IMMEDIATELY REMOVE PRICE AND ALLOCATION CONTROLS ON CRUDE OIL AND ALL PETROLEUM PRODUCTS.

FROM THE ATTACHED REPORT, I WOULD CITE THAT SMALL BUSINESS PLAYS A CRITICAL ROLE IN ENERGY DEVELOPMENT AND NEEDS SPECIAL CONSIDERATIONS.
ON WHY A DATA BASE ON THE STATEWIDE BASIS???????

THE SMALL BUSINESS ECONOMY IS SO IMBEDDED IN EVERYDAY EXISTENCE THAT IT IS EASILY OVERLOOKED. LIKE THE ECOSYSTEM OF THE PROVERBIAL POND, IT IS HARD TO SEE YET TEEMING AND COMPLEX. THERE ARE ABOUT 12 MILLION SMALL-BUSINESS OPERATIONS IN THE U.S., OR MORE THAN 97% OF ALL AMERICAN COMPANIES. NINE MILLION ARE SOLE PROPRIETORSHIPS, TWO MILLION ARE CORPORATIONS, AND ONE MILLION ARE PARTNERSHIPS. THEY PROVIDE LIVELIHOODS FOR MORE THAN 100 MILLION AMERICANS AND ACCOUNT FOR ROUGHLY 40% OF OUR

GROSS NATIONAL PRODUCT.

SMALL BUSINESS IN THE 1980'S WILL HAVE TO TAKE OVER MORE AND MORE OF THE RESPONSIBILITY FOR CREATING NEW EMPLOYMENT IN THE U.S. ECONOMY, AS GROWTH AMONG MEDIUM AND LARGE COMPANIES BECOMES MORE STAGNANT AND GOVERNMENT STRUGGLES TO SLOW ITS OWN EXPANSION.

THE FUTURE OF SMALL BUSINESS IN OUR COUNTRY IS GOING TO HAVE A GREAT DEAL TO DO WITH HELPING THE U.S. ECONOMY REMAIN STRONG AS WE COME DOWN AFTER 25 YEARS OF ABSOLUTELY CORNUCOPIAN GROWTH TO A RATHER SLOW-GROWING ECONOMY. WE ARE GOING TO HAVE TO LOOK TO SMALL BUSINESS TO PICK UP SOME OF THE SLACK TO PROVIDE NOT ONLY MORE JOBS, BUT JOBS WHICH OVER THE NEXT DECADE ABSORB ALL THE ENERGY AND TALENTS OF THE BIGGEST, BEST-EDUCATED, AND POTENTIALLY THE MOST CAPABLE LABOR FORCE IN U.S. HISTORY.

GOVERNMENT'S CONTRIBUTION TO NEW EMPLOYMENT IN THE U.S. CLIMBED AS HIGH AS 35.2% IN THE EARLY 1970'S, BUT SINCE 1975

HAS DROPPED TO ABOUT 9% AS GOVERNMENT'S GROWTH HAS SLOWED.

AS FOR THE PRIVATE SECTOR, THE NATION'S 1,000 LARGEST CORPORATIONS CONTRIBUTED ONLY HALF OF 1% OF THE NEW JOBS CREATED FROM 1969 TO 1976. MEDIUM AND LARGE BUSINESSES TOGETHER ACCOUNTED FOR ABOUT 9% OF THE TOTAL, OR 13.3% OF THE PRIVATE SECTOR'S SHARE.

IN THE SAME PERIOD, BUSINESSES WITH FEWER THAN 500 EMPLOYEES GENERATED 86.7% OF THE PRIVATE SECTOR'S NEW JOBS, AND THE MAJORITY CAME FROM VERY SMALL COMPANIES. DUN & BRADSTREET RECORDS BY MIT'S DAVID BIRCH SHOWS THAT 66% OF EMPLOYMENT GROWTH CAME FROM BUSINESSES WITH 20 OR FEWER EMPLOYEES. AND MOST OF THOSE COMPANIES WERE LESS THAN FIVE YEARS OLD - THAT IS, FRESH ENTREPRENEURIAL VENTURES.

BY CURRENT ESTIMATES, THE U.S. WILL NEED 11.8 MILLION NEW JOBS IN THE 1980'S TO ACCOMMODATE NET INCREASES IN THE WORKFORCE, PLUS ANOTHER 2.3 MILLION TO TAKE UP THE SLACK OF THE 1970'S AND PUSH THE UNEMPLOYMENT RATE DOWN TO 4%, THE

LEVEL THAT MOST ECONOMISTS CONSIDER A HEALTHY TARGET. THAT ADDS UP TO 14.1 MILLION NEW JOBS OVERALL.

IF THE CONTRIBUTIONS FROM GOVERNMENT AND LARGE COMPANIES CONTINUE AT PRESENT LEVELS, HOWEVER, SOME 11 MILLION NEW JOBS WILL HAVE TO COME FROM SMALL BUSINESS, OR AN AVERAGE OF 1.1 MILLION EVERY YEAR.

ONE THING SMALL BUSINESS NEEDS IS CAPITAL TO CREATE MORE AND MORE NEW BUSINESSES. ANOTHER IS GREATER RETAINED EARNINGS FOR EXISTING SMALL COMPANIES SO THEY CAN REINVEST AND GROW. A THIRD IS MANAGEMENT TRAINING TO REDUCE THE NUMBER OF BUSINESS FAILURES.

SMALL BUSINESS RECEIVES AN INEQUITABLY SMALL SHARE OF THE GOVERNMENT'S \$99.2 BILLION PROCUREMENT BUDGET. IT WAS 17.2% IN 1969, FOR INSTANCE. TODAY IT IS 22.2%.

THE HOUSE COMMITTEE ON SMALL BUSINESS INDICATES THAT SMALL COMPANIES HAVE BEEN RECEIVING LESS THAN 3.5% OF FEDERAL R & D DOLLARS, WHICH TOTALLED \$28 BILLION IN 1978. IN SOME INSTANCES,

R & D BUDGETS BORDER ON THE IRRATIONAL. EXPERIMENTATION IN SOLAR ENERGY DEVICES, FOR INSTANCE, IS ALMOST THE EXCLUSIVE PROVINCE OF SMALL COMPANIES AND INDIVIDUAL INVENTORS. YET ONLY 1.6% OF FEDERAL FUNDS FOR SOLAR ENERGY DEVELOPMENT WENT TO SMALL CONCERNS IN 1979.

SMALL BUSINESS HAS DEMONSTRATED INCOMPARABLE INNOVATION FERTILITY. A NATIONAL SCIENCE FOUNDATION STUDY DISCLOSED THAT FOR EVERY R & D DOLLAR, SMALL COMPANIES PRODUCE FOUR TIMES MORE INNOVATIONS THAN MEDIUM-SIZED COMPANIES AND 24 TIMES MORE INNOVATIONS THAN LARGE COMPANIES.

OFFICE OF MANAGEMENT AND BUDGET SHOWS THAT MORE THAN HALF OF THE MAJOR TECHNOLOGICAL ADVANCES THIS CENTURY ORIGINATED FROM INDIVIDUAL INVENTORS AND SMALL COMPANIES, SUCH AS: XEROGRAPHY; DDT; INSULIN; VACUUM TUBE; PENICILLIN; TITANIUM; CYCLOTRON; SHRINK-PROOF KNITTED WEAR; ZIPPER; AUTOMATIC TRANSMISSION; GYROCOMPASS; JET ENGINE; FREQUENCY MODULATION RADIO; SELF-WINDING WRISTWATCH; HELICOPTER; MERCURY DRY CELL; POWER STEERING; KODACHROME; AIR-

CONDITIONING; POLAROID CAMERA; BALL-POINT PEN; CELLOPHANE;
TUNGSTEN CARBIDE; AND BAKELITE.

FOREIGN INTERESTS HAVE BEEN BUYING CONTROL OF SEVERAL OF OUR SMALL HIGH TECHNOLOGY COMPANIES. MOREOVER, FEDERAL R & D EXPENDITURES RELATIVE TO GNP HAVE SLIPPED GRADUALLY FROM 2.9% IN 1967 TO 2.3% IN 1975, THE LATEST FIGURE AVAILABLE, WHILE THE R & D RATIOS OF SUCH COUNTRIES AS JAPAN AND WEST GERMANY HAVE BEEN RISING. ONE REFLECTION OF THIS IS THAT FOREIGN COMPANIES AND INVENTORS HAVE BEEN CLAIMING A RISING PROPORTION OF U.S. PATENTS. IN 1964, ONLY 22% OF THE PATENTS ISSUED BY THE U.S. PATENT AND TRADEMARK OFFICE WENT TO FOREIGN APPLICANTS. IN 1979, THAT SHARE REACHED 38%.

INNOVATION HAS ALWAYS BEEN A HALLMARK OF AMERICA'S STRENGTH. "TECHNOLOGY TRANSFER" TO OTHER COUNTRIES HAS BEEN A BULWARK OF OUR INTERNATIONAL TRADE. YET THE NATION RISKS LOSING ITS LEADERSHIP IN INNOVATION.

THE MOST PRODUCTIVE TARGET FOR R & D DOLLARS IS UNQUESTIONABLY

SMALL BUSINESSES. POLAROID, XEROX, AND COUNTLESS OTHER GROWTH COMPANIES OF THE 1960'S AND 1970'S WERE, AFTER ALL, ONCE SMALL ENTITIES THEMSELVES. A MORE RECENT SUCCESS STORY IS SMALL BUSINESS' DEVELOPMENT OF THE MICROELECTRONIC INDUSTRY.

IN THE FUTURE, NEW FORMS OF DATA COMMUNICATIONS, LASER TECHNOLOGY, ULTRASONIC SCANNING, MEDICAL INSTRUMENTS, BIO-GENETICS, CANCER-FIGHTING TECHNIQUES, WATER AND RESOURCES CONSERVATION, ENERGY FROM RENEWABLE RESOURCES SUCH AS SUN, TIDES, AND WIND, UNFORESEEABLE DISCOVERIES TO RETARD THE AGING PROCESS - THESE, AND MORE, WILL BE TRANSFORMED INTO COMMERCIAL INDUSTRIES IN THE SMALL BUSINESS ECONOMY. IF HISTORY IS ANY GUIDE, THE GROWTH COMPANIES OF 1990 AND BEYOND WILL MOST LIKELY HAVE NAMES UNKNOWN TODAY.

ACCORDING TO SOME GUESSTIMATES, SMALL BUSINESS' SHARE OF THE GNP WAS CLOSE TO 55% AFTER WORLD WAR II. THE SBA TODAY USES TWO FIGURES BASED ON DIFFERING STANDARDS OF WHAT A "SMALL" BUSINESS IS, AND NEITHER FIGURE IS MORE RECENT THAN 1972. ONE

INDICATES THAT SMALL BUSINESS' SHARE OF GNP HAS FALLEN TO 40%.
THE OTHER SAYS THE SHARE IS 36.5%.

MEASUREMENTS OF INDIVIDUAL BUSINESS SECTORS SHOW THE SAME
TREND. MANUFACTURING, WHERE THE GREATEST INDUSTRIAL CONCENTRA-
TION HAS OCCURRED, HAS RECEIVED THE MOST ATTENTION. ACCORDING
TO DATA FROM THE FEDERAL TRADE COMMISSION (FTC), THE SHARE OF
MANUFACTURING ASSETS HELD BY SMALL COMPANIES - THOSE WITH \$10
MILLION IN ASSETS OR LESS - FELL DRAMATICALLY FROM 18.6% IN
1960 TO 11.1% IN 1976.

IN 1963, COMPANIES WITH 500 OR FEWER EMPLOYEES CAPTURED
29¢ OF EVERY SALES DOLLAR FROM MANUFACTURING. 10 YEARS LATER,
THEIR SHARE HAD DROPPED TO 23-1/2¢. THE SAME PATTERN APPEARS
IN RETAILING AND WHOLESALING.

I WOULD LIKE TO CALL YOUR ATTENTION TO THE FACT THAT
KANSAS RANKS AMONG THE TOP TEN MINERAL-PRODUCING STATES IN
THE NATION. THERE IS AN ABUNDANCE OF PETROLEUM AND NATURAL
GAS - KANSAS RANKS 7TH IN THE NATION IN PETROLEUM PRODUCTION.

LEADING MINERAL RESOURCES IN KANSAS, BY TOTAL DOLLAR VALUE
OF PRODUCTION ARE: PETROLEUM; NATURAL GAS; PROPANE, HELIUM;
CEMENT; SALT; COAL; BUILDING STONE; SAND & GRAVEL; CLAY &
SHALE PRODUCTS.

I COMMEND YOUR AMBITIOUS PROPOSAL TO STUDY THE FEASIBILITY OF SENATE RESOLUTIONS #1623 TO CREATE A DATA BASE. KEEP IN MIND THAT AS A DATA BASE DEVELOPS IT WILL BE OF GREAT SERVICE IN TERMS OF MINIMIZING THE REPORTING DUPLICATIONS. THE FEDERAL GOVERNMENT SIMPLY CAN NOT GENERATE A DATA BASE FOR ANY STATE. THE FEDERAL GOVERNMENT POSTURE IN THE NEXT FOUR YEARS WILL BE TO MOVE TO THE STATES AS MANY PROJECTS AND SERVICES AS POSSIBLE SBA'S DATA BASE IS PROJECTED TO BE AVAILABLE in 1990, IF FUNDING CONTINUES. A STATEWIDE DATA BASE IS AN EXTREMELY EXPENSIVE UNDERTAKING. IT IS NOT UNUSUAL TO COST \$200,000 TO ESTABLISH AND ANOTHER \$150,000 TO MAINTAIN ANNUALLY. ONCE A DATA BASE IS ESTABLISHED, YOU THEN HAVE THE PROBLEM OF UPDATING. IT IS AN EXTREMELY EXPENSIVE EFFORT TO GET STARTED. DEFINITIVE BENCHMARKS NEED TO BE ESTABLISHED INITIALLY ON WHERE TO ESTABLISH THE HISTORY AND HOW TO MAINTAIN. SBA NATIONALLY CANNOT SHARE INDIVIDUAL LISTINGS OF BUSINESSES AS THIS IS LEASED. SBA'S DATA BASE IS HIGHLY EXPENSIVE BECAUSE AS A POLICY ANALYSIS IS INVOLVED. YOU MAY APPROACH THE DATA BASE OF MAILING LISTS FROM THE STANDPOINT OF GENERATING NAMES AND ADDRESSES WHICH IS RELATIVELY EASY. CERTAINLY, ANY BUSINESS WHICH PAYS STATE SALES TAX HAS ITS NAME AND ADDRESS ON FILE. FOR ANY BUSINESS WHICH HAS A LICENCE HAS ITS NAME ON FILE IN THE STATE OF KANSAS. ANOTHER SOURCE, UNEMPLOYMENT INSURANCE STATISTICS ON NUMBER OF EMPLOYERS HIRED IS ON FILE. MORE THAN 50% OF THE STATES HAVE A MANUFACTURING DIRECTORY. THE QUESTION IS IN ANY SUCH DIRECTORY...HOW FAR DOWN HAS THE EFFORT BEEN MADE TO REACH THE SMALLEST OF SMALL BUSINESSES. IF YOU WANT TO DETERMINE THE NUMBER OF GENERAL MOTORS PLANTS IN KANSAS, THIS TYPE OF RESEARCH COULD BE ACHIEVED IN 30 MINUTES. SBA WILL SHARE WITH YOU THE FINDINGS OF ITS DATA RESEARCH AS IT RELATES TO THE STATES. REMEMBER THE IMPORTANCE OF WORKING WITH A SAMPLING. I AM ENTERING INTO THE RECORD THE STATE DATA ON SMALL BUSINESS AS DONE BY THE BROOKINGS INSTITUTE. ALSO, I CALL YOUR ATTENTION TO THE DEVELOPMENT OF A SMALL BUSINESS DATA BASE. SBA ECONOMISTS USE THE NUMBER OF EMPLOYEES AT 500 AS THE TOP OF THE SIZE FOR SMALL BUSINESS.

I URGE YOU TO ANALYZE EACH OF THE BILLS TO DETERMINE WHETHER YOU MIGHT
BE DUPLICATING AN EXISTING PROGRAM OR SERVICE. IF NOT AS DUPLICATIVE SERVICE,
THEN PRIORITIZE PROGRAMS TO DETERMINE WHICH CRITICAL PROGRAMS WILL ENHANCE
THE VIABILITY OF SMALL BUSINESS.

SBA HAS TWO DISTRICT OFFICES SERVICING THE STATE OF KANSAS. THE KANSAS CITY OFFICE IS
AT 1150 GRAND, 816-374-5868 MA. THE WICHITA DISTRICT IS AT 110 E. Waterman, 316-267-6311
LEONARD SCHAEFER IS A VETERAN SBA EXPERT WHO IS KNOWLEDGEABLE PARTICULARLY x. 273
OF THE LOAN PROCESSING AS WELL AS MANAGEMENT ASSISTANCE. I HAVE ASKED THAT
HE JOIN US TODAY TO REVIEW THE SPECIFICS OF TWO OF YOUR BILLS.

SENATE

AGRICULTURE AND SMALL BUSINESS COMMITTEE

DATE February 19, 1981 PLACE Room 423-S TIME 10:00 am

GUEST LIST

NAME	ADDRESS	ORGANIZATION
BUD GRANT	Topeka	KACI
[Signature]	"	Fleming Co.
[Signature]	"	Seed Phys. Inc.
Sen. Billy Mc Gray	Topeka	Legislature
C. Leonard Schaefer	Small Business Admn. K C MO.	Small Business Admn.
Louise Birch	Small Bz Adm - 911 Walnut K C MO	Small Bz Adm
Kenneth N. Howard	1185 17th St. Suite 1500 DENVER, CO 80202	National Conf. of State Legislatures
Elise Watkins	LeCompton	Kansas Rural Center

BRIEF OUTLINE OF MINORITY PROGRAM

1. Serves as an information source for business opportunities and resource available on a national level, state and local level.
2. Sponsors management and business seminars for locally-based business persons.
 1. Governor's Conference on Small Business in Wichita with the Wichita Chamber.
3. Provides assistance in securing government or private contracts.
4. Provides management and technical assistance to businesses in all phases of their development.
5. Prepares financial assistance proposals for new or existing businesses.