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BARRIERS TO MINORITY ENTREPRENEURSHIP

HEARING

BEFORE THE

SUBCOMMITTEE ON EMPOWERMENT

OF THE

COMMITTEE ON SMALL BUSINESS
HOUSE OF REPRESENTATIVES

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BARRIERS TO MINORITY ENTREPRENEURSHIP

TUESDAY, MARCH 23, 1999

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON EMPOWERMENT,
COMMITTEE ON SMALL BUSINESS,
Washington, DC.

The Subcommittee met, pursuant to notice, at 10:00 a.m., in room 2360, Rayburn House Office Building, Hon. Joseph Pitts [chairman of the Subcommittee] presiding.

Chairman PITTS. Ladies and gentlemen, the time of 10 o'clock having arrived, we will call this hearing to order.

This is a hearing of the Empowerment Subcommittee of the Small Business Committee.

Thank you for joining us, myself, the other members and the distinguished ranking member, Ms. Millender-McDonald, today to discuss the important issue of barriers to minority entrepreneurship.

This hearing represents the first meeting of the 106th Congress of the Empowerment Subcommittee, and I look forward to hearing from a wide range of speakers from the grassroots level to the academia, who will focus this panel on the ills that plague so many of this Nation's low-income communities.

Additionally, during this Congress, members of this Subcommittee will be able to hear from practitioners at the community level who are performing modern-day miracles by turning around neighborhoods that many in our society had written off as dead.

During the 104th Congress, the Subcommittee on regulation and paperwork held a similar hearing that discussed the impact of Federal regulation on minority entrepreneurship. Because small businesses are owned by and employ a large percentage of minorities, Federal regulations and taxes are said to fall disproportionally on minorities as well.

During the 1995 hearing, the witnesses emphasized the great importance of small business to the American economy and the many opportunities that small business provides for minorities, not only in ownership, but also in the many jobs that are created. The panel stressed that government programs, such as welfare and minority setasides, are solutions for the symptoms of poverty among minorities, but do not go to the root of the problem.

There is a lack of economic opportunities provided to minorities because small businesses are stifled with high taxes and oppressive regulation. Dr. Stewart Butler, of the Heritage Foundation, testified before the Small Business Committee two years ago and said, "It is the plethora of local taxes and red tape that frustrate owners

and drive up the cost of opening and continuing a business for small financially-strapped firms. These local obstacles can be business killers."

That is why it is necessary to encourage local authorities to streamline zoning, building codes, and other regulations and permits that can be enormous obstacles to a small firm. Business development is key in order for a community to renew itself and it is an important component of any serious discussion regarding the revitalization of some of America's most economically-distressed areas.

Minority groups represent 26.1 percent of the population, but own only 11.6 percent of the Nation's businesses. Although minority-owned businesses have grown explosively over the past 10 years, minority entrepreneurs are significantly more likely to be denied bank credit, and when successful, receive smaller loans relative to comparable non-minority businesses. Many potential minority businesses never get off the ground, because they are unable to assemble the needed financial capital. This lack of access is especially troublesome in light of the fact that minority firms are more likely to employ minority workers and, thus, provide them with an entry point into the labor market.

Today's panel consists of a fine cross-section of people who are working to cultivate minority entrepreneurs and help minority-owned business enterprises flourish. Dr. Stella Horton, the Director of Entrepreneurship Education for EDTEC, will discuss her company's movement to teach entrepreneurship education to minority youth. Yvonne Simpson, Vice President of the Greenville Chamber of Commerce, is here to discuss the chamber's efforts in increasing participation of minority-owned companies in the construction of major projects in South Carolina. Sheila Brooks, President and CEO of SRB Productions, Inc., will testify about her work in the media and communications consulting arena. William Mellor, the President and General Counsel of the Institute for Justice, will discuss his organization's battles to remove arbitrary barriers to enterprise. And, finally, Hector Ricketts, President of Queens Van Plan, will testify about his fight with the New York City Council to provide van service to low-income communities in New York.

I look forward to the enlightening testimony of our panel, and I will now like to turn to the distinguished ranking member, Ms. Millender-McDonald, for any opening statement that she would like to make.

Ms. MILLENDER-MCDONALD. Thank you so much, Mr. Chairman, and good morning to all of you.

I thank you, Mr. Chairman, for convening this very important hearing today, a hearing that will address the impediments and the barriers to small minority business owners.

I am very pleased to be participating with you today, and this is my first meeting, I suppose, as a ranking member. So I certainly look forward to many meetings of this sort.

However, Mr. Chairman, I must express my concern regarding the inadequate amount of time provided to the minority side to secure witnesses and the disproportionate ratio of witnesses for each side. In the future, I hope, Mr. Chairman, that we will be able to work together, especially coming out of Hershey this weekend and

talk about some of these things in preparing for our Subcommittee hearings.

I represent a part of the Los Angeles area that has thrived from numerous small business development opportunities, as well as other parts that are in dire need of some assistance. As you all know, the creation of successful small businesses in one neighborhood can completely transform a community and raise the living standards of many more individuals than just the business owners. It is of this critical importance that we recognize the vast positive ramifications for helping to launch new businesses in such communities.

Between 1987 and 1992, the number of minority-owned businesses grew by 62 percent. During the same period, minority-owned businesses with paid employees accounted for 16 percent of the total number of firms and 79 percent of gross receipts. Today, there are more than 2 million minority-owned businesses in the United States. These businesses have become a vital part of our growing economy. However, they continue to compete on a playing field that is not level.

According to the U.S. Census Bureau, African-American-owned businesses grew from 424,000 in 1987 to 621,000 in 1992. But the average African-American-owned firm generated receipts of just under $52,000, considerably less than the $192,000 in sales generated by the average firm in the national economy. Hispanic-owned firms also grew significantly between 1987 and 1992. And although their average sales are higher then that of the African-American counterparts, these sales are still well below the national average. In 1987, there were 422,373 Hispanic-owned businesses, and in 1992, the number grew to 771,706 businesses. Despite this growth, however, the average receipts for Hispanic-owned businesses was $94,000.

In 1992, California had the largest number of firms, at 541,414, and receipts of $61.8 million, of all the States, accounting for 28 percent of all minority-owned firms and 31 percent of their receipts. In Los Angeles and Long Beach metropolitan areas, they had 230,025 firms and $27.9 million in receipts in 1992, making it the metropolitan area with the largest number of minority-owned businesses.

As our witnesses will discuss, two of the biggest factors impeding this growth in sales and delaying the expansion of minority-owned businesses include obtaining access to capital and abiding by complex regulations. I agree these can serve as insurmountable obstacles for many small business owners and not just minority-owned business firms alone. But I am deeply concerned about other issues, including gaining entry into the Federal procurement market. That is why I will be introducing legislation to empower minority businesses in obtaining Federal contracts.

The real issue I want to address through this legislation, and throughout this Congress, is to find ways to find minority businesses spring from the edge of the business enterprise sphere into its core. The lack of real access to this core of boundless opportunities is what continues to tarnish and diminish the possibilities available to small businesses owners today.

I look forward to hearing from our witnesses today, Mr. Chairman, about the struggles they have endured and the successes they have achieved, despite the barriers facing the minority-owned and minority-women-owned businesses. I am particularly interested in hearing your recommendations on how to evolve our current Federal programs into a more equitable system that helps all small business owners.

I thank you Mr. Chairman.

Chairman PITTS. The Chair thanks the gentlelady.

Would any of the other members like to make opening statements?

You want to wait until the next witness, the gentleman from New Mexico?

If not, at this time we will call on our first witness, Dr. Stella Horton, Director of Youth Entrepreneurship, EDTEC. Welcome.

STATEMENT OF STELLA HORTON, DIRECTOR OF ENTREPRENEURSHIP, EDTEC, CAMDEN, NJ

Dr. HORTON. Good morning, Mr. Pitts, and also to the other members of the Committee, and I thank you for providing us with the opportunity to speak before you this morning.

As stated, I am Dr. Stella Horton and I am the Director of Entrepreneurship Education at EDTEC. We are a minority-owned firm, located in Camden, New Jersey, and we also have offices here in the District.

We, and I want to be clear, I am presenting the testimony this morning for the owners, Mr. George Waters and Mr. Aaron Bocage, who are in fact the founders of EDTEC. And we are pioneers in the movement relative to entrepreneurship education, specifically as it relates to bringing entrepreneurship to minority youth.

We consider this topic today probably one of the most important discussions that could be taking place in this Nation. There is no greater challenge than the challenge to remove the obstacles that are in fact preventing any American from participating in the free enterprise system. Since 1985, we are proud to say that we have fought to remove many of these barriers and obstacles because we see a lack of entrepreneurship education in the current American education system.

And, Mr. Chairman, your opening words regarding entrepreneurship being a kind of modern-day miracle certainly is indicative of what EDTEC has been doing throughout the years, not only on a local level, but also on a national level. And we have received national recognition as a provider of innovative training as well as innovative education and economic development. So we feel we are quite qualified to discuss, as well as present testimony before you today, because we have traveled the country for the past 14 years teaching others how to develop entrepreneurial programs, specifically, for minority youth.

At the very core of our philosophy is a belief that youth, if given the proper training and opportunities, those youth can in fact be contributors to the economic development in cities and towns across this country. We also believe that in order to help youth and others to fully participate in this free enterprise system, there needs to be an organized, systematic way for teaching entrepre-

neurship. Because we can talk about the number of businesses that currently exist, but no one is in fact teaching youth to become entrepreneurs where will they fit. We also know that the teaching of entrepreneurship must have basically three components. One, youth must be able to understand it; secondly, there must be a practical approach; and there has to be an inexpensive methodology of delivering entrepreneurship education.

Years ago, our solution to this problem was to develop a youth-oriented curriculum to teach young people how to start and manage small businesses. And we call our curriculum the new youth entrepreneur. This curriculum was developed in partnership with the Ewing Marion Kauffman Foundation. We are very proud and honored to have been selected by the foundation from numerous organizations that had developed similar kinds of curriculum material. Dr. Marilyn Kourilsky, who is vice president at the Foundation, testified before your Committee, I think, last year. So the foundation, being one of the experts recognized in the field, again, choose the curriculum that was written by EDTEC to endorse.

The goal of our new youth entrepreneurial curriculum is very basic, and we offer it in English as well as in Spanish. Primarily we want to provide youth the opportunity to learn about entrepreneurship through classroom as well as practical experiences. We also teach youth, through our curriculum, the very basic skills that are required to be entrepreneurs, and we help youth understand the relationship between entrepreneurship and core curriculum standards or academic subjects in the world of entrepreneurship.

We feel that we must prepare minority youth for the world of entrepreneurship, and we believe that the greatest obstacle and barrier to the minority enterprise and business development is education. We support the idea that youth must be exposed to entrepreneurship at all levels, not only in the educational arena, but also in the community. For many minority youth, the opportunity does not exist because entrepreneurship is not discussed at their breakfast table, if they are fortunate enough to be sitting at a breakfast table. The free enterprise system is often viewed by them and seen in underground illicit drug trade and prostitution. We, though, expect them to be ready to understand and take advantage of government-sponsored business opportunity programs when they reach adulthood, when they in fact have not even been exposed to the concept.

Ladies and gentlemen, learning about entrepreneurship for the first time as an adult is too late. Unfortunately, for many of these young people, the train has already left the station. If they had been exposed with a practical application component, several things would have happened. As I wrap-up, I will list them.

First of all, they will have learned about setting goals. They will have been able to have had their creative energies tapped and they will have begun to think logically and sequentially. They will have been able to explore entrepreneurship as a free option. They would have learned the importance of academic preparation in the context of entrepreneurship, and they will have experienced a sense of empowerment.

So, finally, I would like to offer this Committee a couple of recommendations. One, write and promote the legislation for manda-

tory entrepreneurship training. Secondly, encourage and support schools in your district to identify entrepreneurship curriculum materials. Three, work with local chambers of commerce and other business groups to develop outreach programs to minority youth in the community. And, finally, give young minority entrepreneurs the opportunity to get direct experience in a particular industry.

In the interest of time, the natural forces of the American free enterprise system will take care of the rest. As educators and legislators, our job is to get as many youth as possible to experience the starting of a small enterprise.

Thank you, Mr. Chairman.

[Dr. Horton's statement may be found in the appendix.]

Chairman PITTS. The Chair thanks the lady.

We will proceed with all of the witnesses before going to questioning.

I would like to explain, I am sorry I did not explain at the beginning, the series of lights that you will see before you are a time limit for the witnesses and the members. The green light will go on for four minutes, and then the yellow light will indicate you have one minute left. Then when you see the red light, if you could begin to wrap up, and we will appreciate that to keep everybody on time.

At this time, the Chair recognizes the gentleman from South Carolina, who would like to make a statement before the next witness.

Mr. DEMINT. Thank you, Mr. Chairman. And I particularly want to thank you for holding this hearing today. It is a crucial issue for everyone in business in our country. And I am very pleased that this is the first subject that we are considering on the Subcommittee.

I would also like to thank all of the witnesses who have agreed to discuss the barriers to minority entrepreneurship with us today, and we appreciate and value your insight, your experience, everything you bring to us today.

In particular, I want to thank Yvonne Simpson, who is Vice President of Small Business Services for the Greenville Chamber of Commerce in my home town, and with whom I have had the privilege of working, through the chamber, for many, many years, even back to when I started my own business, Yvonne. She has had tremendous impact in the small business community in our area and she is known around the State and the region for her expertise. She has especially worked very hard on minority business development in the upstate of South Carolina, and I know that her experience and insight will be invaluable to this hearing. I am grateful, Yvonne, for you agreeing to be here today.

We all know, and we have talked about, that small business is the engine of our economy. In the past 25 years, two-thirds of the new jobs that have been created, have been created by small business. And I believe that this is largely attributable to the fact that the spirit of small business, the entrepreneurial spirit, is really the original spirit of America.

As a small businessman myself, and a entrepreneur, I have experienced the joys and the trials of starting a new business. While I have been blessed with some success, I certainly empathize with

some of the barriers that all of us experience when starting a new business, barriers which anyone faces who is starting a new business. These include long hours of paperwork, burdensome regulations, a confusing tax code, access to capital, and complying with various Federal, State, and local requirements.

I remember my first experience opening a business was a late notice for a business license that I didn't know I had to get, and then a penalty for not filing my first quarterly Federal tax return, which I didn't know I had to do either. So it was a hard way to learn.

I look forward to this hearing on the barriers, which face all of us, which I said, especially minorities, because we know that one of the best ways to improve anyone's situation is not only a job, but a business and a career. We need to know what works and what doesn't. And we need to know what is the appropriate role of the Federal Government in stimulating more small business startups by minorities.

So I am particularly glad, again, for all of you to be here. I want to introduce Yvonne, as not only someone who has worked with the chamber, but at various points has actually been the interim president of the chamber when he needed her. Thank you, Yvonne, and I look forward to your comments.

Chairman PITTS. The Chair thanks the gentleman, and the witness may now proceed.

Welcome.

STATEMENT OF YVONNE SIMPSON, VICE PRESIDENT, SMALL BUSINESS SERVICES, GREENVILLE (SC) CHAMBER OF COMMERCE

Ms. SIMPSON. Thank you, Mr. Chairman, and thank you, Congressman DeMint.

Mr. Chairman and members of this Committee, good morning.

I am certainly happy to be here, and I welcome the opportunity to be with you this morning to make remarks to this House Committee on Small Business and the Subcommittee on Empowerment. I do hope that my comments this morning will offer you greater insight into the issues and challenges facing minority businesses as they try to develop or expand their businesses.

As a part of my testimony today, I could not begin unless you will allow me the opportunity to give a glimpse of Greenville County and the upstate region of South Carolina, a place, to quote our current chairman of the board, "located at the foot of the Blue Ridge Mountains, the lovely scenic Piedmont region where the lakes are crystal clear, where the orange sun sits at the bosom of the Blue Ridge Mountains, and where the temperature is always 72 degrees!" I am not quite sure about the last part—[laughter]—but I think that, Mr. Chairman, you and the members of the Committee can easily see why Congressman DeMint and I proudly call upstate South Carolina our home.

The upstate is also the business belt of the entire area. We are situated along the interstate 85 corridor, between Charlotte, NC and Atlanta, GA. This area is well recognized as the premier leader in economic development and growth, as evidenced by an array of national and international firms, such as Michelin, BMW, and GE, that have chosen the upstate as their home, and is also evidenced

by the distinction of enjoying a tremendous rate of growth of small businesses in this region.

Now let me give you a snapshot of minority business development in our area. As you know, minority businesses play a pivotal role in the growth and vitality of any community. In the upstate, minority businesses provide jobs, they support countless worthwhile projects, and they add to the tax base. Furthermore, many minority business owners and managers serve as role models for today's youth and, of course, tomorrow's upstate leaders.

Minority businesses recognize and understand that economic opportunity and the spirit of capitalism are the foundations upon which this country has been built, and they realize and understand that economic opportunity can, indeed, become a reality, provided they have the chance to compete openly and fairly in the marketplace. So please allow my remarks to give you a statistical view of minority business development, a view that will serve as a springboard for my observations and my recommendation.

Some time ago, the U.S. Department of Commerce made available a survey of minority-owned business enterprises as a part of its overall economic census update. While the survey covered businesses owned by African-Americans, Hispanics, Asian and Pacific Islanders, and American Indians, we currently only have comparative data in our area for Black-owned businesses in the upstate. We do know, however, that over the past several years the upstate has experienced the tremendous growth in Hispanic and Asian residents and a corresponding rapid rise in the number of businesses. In fact, several weeks ago, our chamber of commerce recently initiated a new program for Hispanic-owned businesses, as a result of the growth that we have seen. Therefore, we see nothing short of the continuation of the rising trend in business growth among all ethnic groups.

According to the Census Bureau report, in the five-year period in upstate South Carolina, the number of Black-owned businesses increased by almost 98 percent—by almost 98 percent. In fact, the growth rate in the upstate more than doubled the statewide and the national rates. In the same report, however, the sales and receipts of Black-owned businesses increased by only 30 percent. And perhaps the statistic of most concern to us is this: Average growth receipts of Black-owned firms totaled $38,000. That is well below the national average; that is well below the average of all small businesses. Please understand this—that $38,000, out of this, minority businesses must also pay rent, utilities, taxes. and other expenses.

So I submit to you, Mr. Chairman, what we are talking about, instead of the working poor, we are talking about the business poor. Furthermore, Mr. Chairman, I believe that these statistics are a microcosm of the state of minority businesses in this country. I also contend that of all the areas of the country with a potential and a willingness to really tackle this issue, it is, indeed, the upstate region of South Carolina and we are doing that.

Let me briefly outline my thoughts regarding this whole issue of empowerment. With all due respect to you, Mr. Chairman and members of this body, the public sector—the government—is neither the sole player nor the major entity that can bring about eco-

nomic parity for minority-owned businesses. Please also understand, however, that as long as there are average receipts of $38,000 per company, small business programs, such as SBA 8(a) programs and others, continue to be necessary.

However, this government, this Committee cannot approach this issue alone. Your mission can best be filled by providing the leadership and incentives at the national level to make things happen at the local level. Incentives must be provided so that the business leadership, nationally and locally, continually challenges "status quo" purchasing notions and explores new ways to work with new minority vendors. I suggest that this Committee explore the offering of tax credit to companies that purchase from minority vendors. This single incentive will at least provide Federal contractors the added emphasis to give concerted attention to its purchasing decisions and to how these decisions can positively or adversely affect local minority-owned businesses. We should no longer be satisfied with conducting business as usual.

Let me cite an example. In Greenville County, in the upstate region of South Carolina, three major construction projects were built primarily with private funds. They are our Regional Center for the Performing Arts, the BMW manufacturing facility, and our regional sports entertainment complex. In each of these projects, local business leaders made a concerted effort and made the commitment to ensure that the field was leveled to allow participation by minority-owned firms. Furthermore, in some instances, language was placed in the bid specifications to provide incentives to bidders to use minority contractors. Innovative approaches were used, from the creation of a minority participation task force to locate viable subcontractors and vendors, to providing support for the purchasing for materials and supplies, to the development of strategic alliances between majority-owned firms and minority companies.

Are we proud of these successes? Yes. Are there other opportunities for using this approach? Yes. However, the leveraging of dollars to achieve this $25 million that went to minority-owned businesses is a good start. A lot needs to be done.

Mr. Chairman, members of this Committee, I call upon you to provide the leadership at the national level to ensure a more level playing field at the local level. Through tax incentives, these Federal contracts can, indeed, make a difference on the bottom line of many minority businesses.

Again, thank you for this opportunity and thank you for your concern and interest in this matter.

[Ms. Simpson's statement may be found in the appendix.]

Chairman PITTS. The Chair thanks the lady coming all the way from South Carolina to present her experience, her expertise, and we will proceed with the witnesses before the questioning, but I am sure there will be some questions of the witness.

At this time I would like to call on Sheila Brooks, President, CEO of SRB Production, Inc., Washington, DC for her testimony.

Welcome, Ms. Brooks.

STATEMENT OF SHEILA BROOKS, PRESIDENT AND CEO, SRB PRODUCTIONS, INC., WASHINGTON, DC

Ms. BROOKS. Thank you, Mr. Chairman.

Good morning, Mr. Chairman, members of the House of Representatives Committee on Small Business, Subcommittee on Empowerment, Ranking Minority Member Congresswoman Millender-McDonald, and those others that are here.

I am Sheila Brooks, President and CEO of SRB Productions. We are nearly a 9-year-old, full service television and video production firm and post-production facility in downtown Washington, D.C. We produce VNRs, PSAs, video teleconferences, and programming for the television networks. We produce those videos and programs for Federal Government agencies, as well as national non-profits and Fortune 500 companies.

You should also know that I am a staunch advocate of women-owned businesses. As a national board member of the National Association of Women Business Owners, NAWBO, and the immediate past president of the NAWBO Capital Area Chapter, it is an important part of my work to tirelessly champion minority and women entrepreneurs on how they can procure more business opportunities, particularly contracting opportunities in the Federal Government, and how to lobby small business issues.

The purpose of my testimony today to is address some specific obstacles facing minority entrepreneurs, particularly women business owners of color, and offer you some recommendations.

As you know, women business enterprises are a very important and vital segment of the small business community. What we know is that, according to the National Foundation for Women Business Owners, there are nearly 8 million women-owned businesses in the United States and they generate $3.1 trillion in sales. Now that is an increase from the $2.3 trillion that was just released a year ago. What we do know is that women-owned businesses employ one out of every four company workers, a total of 18.5 million employees.

And while all of this is good news, women still face intolerable obstacles, including access to capital, credit worthiness, and increased procurement opportunities both in the Federal sector and corporate America. For too long, women-owned businesses have not received their fair share of Federal contracts.

Most women entrepreneurs of color still have trouble maintaining business profitability, managing cashflow, maintaining growth, and keeping qualified employees. And the single area where women of color are still significantly different from Caucasian women is access to capital. Women business owners of color are more likely to face greater barriers in accessing capital. Specifically, minority women entrepreneurs are less likely to have bank credit. Black and Native American women business owners are more likely to have been turned down for a loan when first starting their businesses.

Now what can you do? Let me recommend the following: Speed up the award process for Federal contracts on bids between $25,000 and $100,000 and include at least one woman-owned firm and one minority-owned firm in the bidding process. And most importantly, implement the "Master Plan." And I have a copy of that here and I will leave copies. Let me explain.

Last week, Aida Alvarez, Administrator of the U.S. Small Business Administration, commended a new comprehensive plan aimed at accelerating the growth of women-owned businesses. The Master Plan, as it is called, was formally presented to the President and

the United States Congress last week. It was developed by a diverse group of business, government, and academic leaders from across the country, a result of the 1998 Women's Economic Summit, where more than 550 leaders from women's business communities across the country collaborated on four key initiatives: financing business growth, marketing opportunities, training, leadership and advocacy.

Four important actions can make a difference now, according to the Master Plan. Launch a national women's loan fund, one, to lend to women's businesses and fund training programs that tie together learning and lending; two, compile a guide of the practices and government agencies that have worked to increase women's market share; three, form a network of women State legislators who are, or have been, women business owners to amplify their voice in economic policymaking, and four, conduct research to find out what States are doing to invest in women's business growth.

Building an alliance with leaders in the women's business community, particularly among women of color, will help build a healthy economy and stronger communities for all Americans and for our children to come. Doing business with women, doing business with women of color, is the right thing to do. Let's not just pay continued lip service to outstanding reports like the Master Plan; let's be part of putting that plan into action.

Thank you.

[Ms. Brooks' statement may be found in the appendix.]

Chairman PITTS. The Chair thanks the lady for her excellent testimony.

We will now turn to Mr. Chip Mellor, President and General Counsel, Institute for Justice, Washington, DC. Welcome, Chip. You may proceed.

STATEMENT OF WILLIAM MELLOR, PRESIDENT AND GENERAL COUNSEL, INSTITUTE FOR JUSTICE, WASHINGTON, DC

Mr. MELLOR. Thank you, Mr. Chairman, and members of the Subcommittee.

I am William Mellor, President and General Counsel for the Institute for Justice. The Institute for Justice is a nonprofit, public interest law firm that represents entry-level entrepreneurs across the Nation in lawsuits that seek to remove arbitrary barriers to honest enterprise. In the course of my work, I have seen firsthand the energies and enormous potential for entrepreneurship in the innercities of America. I commend and thank this Subcommittee for the opportunity to be here today and for the effort you are making in showcasing and addressing this vital issue.

The fight for economic liberty is being waged across America in cities large and small. Occupations like taxi driving, cosmetology, childcare, commuter vans, hauling, and home-based business provide the context. But at its heart, this struggle is about real people trying to lead productive lives and follow in the tradition of upward mobility pioneered by previous generations. They embody the spirit of America and serve as a beacon to our future. They deserve nothing less than our full support and ask for nothing more than a chance to succeed on their own. And make no mistake about it, when given that chance, they will succeed.

However, every day, hundreds of thousands of Americans engage in the most massive expression of civil disobedience this country has ever seen. They face arrest, fines, and even imprisonment as a result of their actions. You won't find them on picket lines. You won't find them being hauled away in paddy wagons after raucous demonstrations. Instead, you will find that, through countless activities and with tireless energy, they all seek the same goal. And that is to earn an honest living for themselves and their families. But, tragically, they do so under laws and regulations of this Nation that make them outlaws.

These hardworking men and women can be treated as pariahs under the law of this land because of the total evisceration of constitutional and legal protection for economic liberty. Smothering economic liberty are countless laws and regulations, often in the forms of licenses and permits that arbitrarily foreclose and unreasonably condition entry into markets ideally suited to people of modest means. At least 10 percent of all occupations in this country require some form of license or permit from the government. Most of these laws and regulations are created at the State and local level. And far too often they have little, if any, relation to legitimate public health and safety concerns.

Under the laws interpreted by the Supreme Court today, there is a presumption in favor of government when it comes to economic regulation. This Congress should take the lead in restoring what our Founding Fathers envisioned in the Constitution, and that is the presumption in favor of liberty. The burden must be placed squarely on government to demonstrate a close and reasonable fit between any legitimate public health and safety goal and the regulatory means that government employs to achieve that goal. The ends cannot justify the means.

In the aftermath of welfare reform, job creation is an overriding national priority. In innercities across America, a wellspring of entrepreneurship exists, waiting to be tapped. Once released from the shackles of senseless laws, indigenous community-based enterprise and employment will play a vital role in rejuvenating blighted neighborhoods. And individuals will be empowered with greater control of their own destinies as free and responsible members of society.

Thank you.

[Mr. Mellor's statement may be found in the appendix.]

Chairman PITTS. The Chair thanks the gentleman.

And to conclude the panel of witnesses, Mr. Hector Ricketts, President, Queens Van Plan, Queens, NY.

Welcome.

STATEMENT OF HECTOR RICKETTS, PRESIDENT AND CEO, QUEENS VAN PLAN, QUEENS, NY

Mr. RICKETTS. Thank you, Mr. Chairman, and good morning to the members of the panel.

My name is Hector Ricketts. I am the President and CEO of Queens Van Plan, Inc., which is a commuter van service authorized by the State of New York and the New York City Taxi and Limousine Commission. I also represent a group of companies under the auspices of the Interbar Alliance for Community Transportation, which is an advocacy group speaking on behalf of men and women who on a daily basis attempt to earn an honest living. We do so under the cloud, while the barriers we face are similar to those described by the previous speakers. Our main concern is the barrier imposed by government—in this instance, the barrier imposed by the New York City Council.

For you to understand the daily problems of this industry, which operates 360 authorized, fully-insured commuter vans in New York City, by men and women who are licensed to do this job, I must take you through the licensing process. Should I decide to expand my business, and I attempted to do that in 1996, I must go through a six-month review process. At the end of six months, if there is no response from the government agencies, my application is deemed denied.

I must submit an application, with support statements of prospective customers. The Taxi and Limousine Commission must then review my background to make sure that I have no criminal records, that I am able to provide the service that I have described, that there are residents who demand my service, that my vans will be fully insured and inspected on a regular basis. The New York City Department of Transportation must then do a needs study to make sure that my service will not have a negative impact on mass transit, which, by the way, is heavily subsidized, both public and private bus services. After these reviews are done, if the recommendations are favorable, a group within the city council, the transportation committee, then makes a final decision on whether or not I should be granted a permit.

In my last attempt to apply for a new service, I was approved by the Taxi and Limousine Commission and by the Department of Transportation, regulatory bodies, but before my application got before the city council, the city council imposed a one-year moratoria. This, in fact, killed my application.

I have again applied, and hopefully, in a few weeks my application will again go before this body. I have no great expectation that their positions have changed. My only crime is that I provide a cost-effective, safe, reliable service. And because of that success, I am deemed an outlaw. My service is not subsidized; I receive no Federal grant, neither do the 300 other men and women who work within this industry.

My recommendation to you today is to set the pace in eliminating government-imposed barriers to folks who simply want to earn an honest living in this country. I think regulations should be based on safety issues and not on the fact that one seeks to compete and compete successfully.

I thank you for this opportunity.

Chairman PITTS. The Chair thanks the gentleman.

The Committee will now proceed to questions from the members. We will go in the order of attendance.

I would like to begin with a question for Dr. Horton.

Dr. HORTON. Yes.

Chairman PITTS. Can you give the Subcommittee some examples of success stories that the new youth entrepreneur curriculum has produced?

Dr. HORTON. Yes, I certainly will be glad to.

I have had the fortunate experience providing specific entrepreneurial training to youth who reside in public housing across the country. We were a part of a national demonstration model which in Philadelphia, with the Philadelphia Housing Authority, and in Los Angeles, provided training to 100 youth using our curriculum, in which we actually taught these youth the mechanics of establishing their own businesses. Out of that, there were youth who, after becoming skilled and proficient, secured small loans and developed their own businesses. This was specifically geared to youth who had dropped out of high school, who were primarily between the ages of 16 to 24.

At the other end of the spectrum, I have had the opportunity to work with youth in Connecticut who were fifth-graders; many of the youth came from monolinguistic homes and families in which Spanish was the predominate language. We provided training to the youth and their parents in entrepreneurial education. Again, using the entrepreneurial curriculum, those youth who were in fifth grade were able to become skilled, proficient. And it also assisted them in improving their math and reading scores on State tests. And those youth became small entrepreneurs within an educational environ.

We have also worked at the community-based level with churches, with local nonprofit organizations, in training staff to become proficient in delivering entrepreneurial skills. In the Camden City Public School System, we worked with the alternative high school in Camden City, as well as with the middle school, in training those youth to become young entrepreneurs.

One final point I want to make that I did not include in my testimony was that, in addition to publishing the new youth entrepreneurs curriculum, you also have a copy of our most recent publication which is "Making Money the Old-Fashioned Way," a story of Black entrepreneurship in America. And we use both this book as well as our developed curriculum material in delivering entrepreneurial skills.

Chairman PITTS. Thank you, Dr. Horton.

Do you have a system of tracking the small businesses that the entrepreneurs start? If you do that, how long do you track them?

Dr. HORTON. We do in the city of Camden track those youth who take our entrepreneurial training.

The point that I do want to drive home, however, is this: that our ultimate goal is not to measure the number of youth who end up becoming entrepreneurs. We look at what we do and measure from a kind of inverted cylinder, in which we want to provide as many youth as necessary the opportunity to become skilled, proficient, because we don't know how many youth may ultimately be-

come entrepreneurs. So, over the long run, we want to make sure that the skills are imparted. Because it may take an individual to become 30 years old to draw back on the skills.

But, yes, we do have tracking information specifically as relates to those youth in the city of Camden.

Chairman PITTS. Thank you.

I would like now to go to Mr. Ricketts and ask, would you please describe the demand for your services in New York?

Mr. RICKETTS. Okay. The service we provide is within the outer boroughs of New York City, in low-to moderate-income communities. Historically, these communities have been underserved by mass transit. Today, mass transit has introduced a one-fare zone, which means that the average rider travels upon a bus by paying one fare and then would transfer to the subway system without paying an additional fare. In spite of that, because of the inefficient service within our community, thousands of people on a daily basis demand to ride commuter vans—because they are reliable, they are safe, they are efficient, and in many instances, they provide door-to-door service, which is very valuable in a community that is often plagued with violence.

Chairman PITTS. How much of an impact will there be on your business if the New York City Council does not reauthorize your license?

Mr. RICKETTS. This essentially will eliminate my business. My business began in 1983 with the new law in effect. By the city council, my business is only authorized for six years. Prior to this new law, there was not a limit on my authority. At the end of six years, I will have to now prove need and necessity. The mass transit has now attempted to flood the streets with buses and to provide a one-fare zone, in an attempt to derail my existence.

Chairman PITTS. Thank you.

The Chair would like to yield to the other members for some questions here. The gentlelady from California.

Ms. MILLENDER-MCDONALD. Thank you so much, Mr. Chairman.

I have certainly appreciated the presentations by all of the persons here this morning. Certainly, they have been insightful, a lot of them repetitive to what we have heard numerous times on the impediments to small businesses, and yet, we are still at this juncture talking about it and we are not moving beyond that point.

Let me begin with Mr. Ricketts. I was quite moved by your presentation, and certainly coming out of local government as one of the vice mayors in the city 90,000 strong in California, I am concerned about this business that you are trying to continue, or did it begin with funding from the local level in 1983?

Mr. RICKETTS. There has never been any funding for this business.

Ms. MILLENDER-MCDONALD. I thought I heard that. I just wanted to make sure that was correct.

So what did you do to finance this business of yours, before you attempted to get funding from the city?

Mr. RICKETTS. Well, I have never attempted to get funding from the city. My problem is with regulations at the city level that deem me as an outlaw. This business started as any mom-and-pop business would. Because of the demand from local residents, it grew,

to the point we are citywide. This concept of transportation provides service for some 60,000 people.

Ms. MILLENDER-MCDONALD. And so, it is my view then, as I hear this, that perhaps you were doing so good that they wanted to perhaps impede your progress, by imposing types of regulations. That would certainly do that. Am I correct on that?

Mr. RICKETTS. That is totally correct.

Ms. MILLENDER-MCDONALD. And so, therefore, the six-months review that you sought——

Mr. RICKETTS. Expand.

Ms. MILLENDER-MCDONALD [continuing]. For them, through this process, and you are telling me that there is no response as to whether they approved or disapproved. Are you suggesting this to me?

Mr. RICKETTS. Under the local law, 115, if there is no response from the licensing agency, my application is deemed denied.

Ms. MILLENDER-MCDONALD. I mean that is just a common courtesy that they should give you to tell you whether they have approved this six-month review or not.

Then you make the second attempt, and again they have put a one-year moratorium?

Mr. RICKETTS. The one-year moratorium ended in October of 1998.

Ms. MILLENDER-MCDONALD. But as you began to again attempt to follow up on this inability to hear from them——

Mr. RICKETTS. I am now waiting.

Ms. MILLENDER-MCDONALD [continuing]. They imposed this moratorium?

Mr. RICKETTS. No. The moratorium ended in 1998 of October.

Ms. MILLENDER-MCDONALD. Okay, fine.

Mr. RICKETTS. I then submitted a reapplication and I am now waiting.

Ms. MILLENDER-MCDONALD. Okay, fine. All right. Well, I sure hope that they do not impose another moratorium. I know what that means, coming out of local government. It means that they are trying to stagnate and absolutely circumvent your getting whatever it is you are trying to get. I would like to have you, Mr. Ricketts, talk to me about this litigation, this particular issue and situation, that you are now asserting that the laws in question unconstitutionally restrict your ability to earn a decent living and deny residents access to adequate transportation. This is litigation. Are you amenable to talk about this, or is this litigation that you can not speak about? And perhaps, Mr. Mellor, can you comment on this as well?

Mr. RICKETTS. I am represented by the Institute of Justice; the President is Mr. Mellor. He is here. I think it is a question he could best answer.

Ms. MILLENDER-MCDONALD. Okay, Mr. Mellor.

Mr. MELLOR. I would be delighted to answer that, Representative Millender-McDonald. This is the lawsuit that we filed on behalf of Hector Ricketts and a number of other commuter van operators, as well as the Interborough Alliance for Community Transportation. And it is designed to protect their right to economic liberty, and the

service that they provide to the 60,000 people a day that Hector described.

The claims are as follows: One, that the city council acted without legal authority under the laws of New York State when it passed a moratorium freezing all applications. Two, that the city council does not have the authority that it has given itself to exercise arbitrary and unilateral veto over every single application for a new commuter van. Three, that the privileges or immunities clause of the U.S. Constitution protects the rights to economic liberty and that has been usurped by the laws affecting commuter vans in this instance. The lawsuit is currently pending before the Supreme Court of New York State, which happens to be the trial court.

Ms. MILLENDER-MCDONALD. What kind of court?

Mr. MELLOR. It is called the Supreme Court, but it is actually the trial court level in New York State. The case has been fully briefed and argued and is awaiting decision.

Ms. MILLENDER-MCDONALD. Question to you Mr. Mellor: Do you think Congress should overturn State and local laws pertaining to health and safety? And what is the proper line of demarcation between Federal, State, and local laws in this area? Thirdly, can Congress constitutionally require State and local governments to demonstrate a close and reasonable fit between any legitimate public health or safety goal and the regulatory means government employs in this process?

Mr. MELLOR. I do not think it is the role, constitutionally or appropriately, of Congress to overrule legitimate exercise of public health and safety legislation at the local level. However, under the 14th Amendment, and specifically section 5 of the 14th Amendment, which gives Congress authority to enforce the provisions of that amendment, to the extent this Congress recognizes economic liberty as a civil right, as I hope it will, it does have the authority to require that those civil rights be protected at the local level, and that arbitrary laws not be used to deny the exercise of that civil right. In fact, we have one example right now, if I may just digress for a moment to illustrate.

In southern California, in Federal Court there in southern California, we represent a number of African hair-braiders, including Joanne Cornwell, who is the chair of the Africana Studies Department at San Diego State University. We have been joined in this effort by the Urban League.

Ms. MILLENDER-MCDONALD. I am familiar with that one in San Diego.

Mr. MELLOR. Yes. In this instance, the laws of California imposed upon potential braiders, require that they attend cosmetology school for 1,600 hours of training, which is almost entirely irrelevant to the art of African hair-braiding. And our argument there is, again, the ends have to justify the means. This is really a barrier to entry, totally unrelated to the occupation that is being pursued, and that kind of law simply must not stand in the face of constitutionality.

Ms. MILLENDER-MCDONALD. Interesting.

Mr. Chairman, I would like to think that these lights that are going on and off will not pertain to this member, in that I do have

questions that I need to raise that are very important and very pertinent to our trying to deliberate and get down to the really core of the issues here.

I would like to say to Mr. Ricketts, that you should seek CBDG grants at the local level. Because those are really for and have been used during the time I was on city council, serving in my capacity for types of transportation, or, at least, I think proposition A grants, or whatever grants that are deemed important through gas taxes. Those should be the taxes that you should go after in terms of getting grants and funding for your business. And good luck to you.

All I can say to Sheila Brooks, you know I tell you, these glasses I have to look at for reading, but I can't see a thing if I am looking out over.

Sheila Brooks, all I can say to you is just kudos. You gave an outstanding presentation. I have worked with you numerous times.

Mr. Chairman, you might know that Sue Kelly and I convened the first hearing of women-owned businesses to get down to the crux of the impediments of women-owned businesses. Because we do recognize that if we are going to move women and men from welfare to work, this will be the conduit by which it happens. It will be those 8 million women-owned businesses that we provide in this country, but we also must make sure that they have access to capital as well as the procurement contracts by the Federal Government. I do have a bill that I am introducing that will speak to that as well.

So, Ms. Brooks, all I can say to you is thank you, continue to work with us as we move the agenda for small businesses.

Ms. BROOKS. Thank you, Congresswoman.

Ms. MILLENDER-MCDONALD. Ms. Simpson, I appreciate your coming, and certainly you had me thinking that maybe I should move to South Carolina, given the climate that your talking about. [Laughter.]

It certainly has the ambiance that you spoke of.

I am in agreement with you that we can talk about all of the businesses that we create, develop, but when you have receipts of $38,000, even the national level of $52,000, you are not going to succeed nor are you going to survive, for heaven's sake. Because of the necessity of having some access to capital that will certainly provide you the type of livelihood that you should have and also the creation of jobs that should be done. I appreciate your saying that to develop jobs would provide the jobs, add to the tax base, and serve as role models to our children, albeit African-Americans, Latinos, Asians, poor whites, or whatever we are talking about. We are just talking about improving the quality of life for people in small communities.

I wanted to ask you a question here. When you had this minority participation task force, did it provide the type of incentives, the types of programs, the types of interaction with the private sector that you deemed important enough to drive small businesses to levels of success?

Ms. SIMPSON. It did, in the sense that it provided, or it showed that, the leadership of the community was concerned about the problem.

Ms. MILLENDER-MCDONALD. Leadership being that of elected officials and/or?

Ms. SIMPSON. Business leadership.

Ms. MILLENDER-MCDONALD. Okay, fine.

Ms. SIMPSON. The business leadership saw this as an important issue at that time. Because these were high-profile large projects, there was a real concern that at the end of the day that everyone would feel postive about what had happened with these projects. And the leadership decided that they would work closely with the public bodies, and in the case of the BMW project, with the State, to ensure that all efforts were being made to identify and use minority contractors.

Again, I have to go back to say that it had to be the leadership. In many cases, the tone is set by the business leadership and the governmental leadership of any community. So the tone had to be set. And once the tone was set, many of the purchasing agents, many of the people who worked for these businesses, knew that this was a priority and they got on about the business of making sure that we found minority contractors to work on these projects.

Ms. MILLENDER-MCDONALD. Let us see, you are saying the tone is set by that of local or State-elected officials.

Ms. SIMPSON. And the business leaders.

Ms. MILLENDER-MCDONALD. And so, that had to be tweaked some?

Ms. SIMPSON. Yes.

Ms. MILLENDER-MCDONALD. According to the complaints about regulations, that usually means either two things: that the party complaining does not agree with the legislature's determination in this area of the regulatory process, or that the agency has gone further than the legislature intended for it to go in regulating a given activity. Do you have an opinion on how frequently it is for the former, or often the latter, in terms of the regulatory system?

Ms. SIMPSON. It has been my view, especially with regard to one particular example, and I will cite that, in some cases, the regulatory agency may go a little bit too far. Let me give you an example.

The Small Business Administration has a program for loans for small businesses. In the past few years, the SBA amount that is required from the lender has gone up tremendously, from the point where, for a $700,000 project, the SBA fee may be as much as $30,000. What normally happens, then, is that is passed on to the borrower. And you are finding many lenders now who are saying that this is a constraint to their being able to provide funding through SBA to the borrowers. So, it was well-intended; the fee, I am sure, had to be used to cover administrative costs. But when you gradually increase the fee, what happens is that it adversely affects the small or minority business owner.

Ms. MILLENDER-MCDONALD. Of course it does.

Do you think that the agencies generally are better or worse off then the Federal agency, local and State?

Ms. Simpson I think in many cases the agencies—when you say, "agency," you are talking about the businesses?

Ms. MILLENDER-MCDONALD. Yes.

Ms. SIMPSON. In many cases, unless there is a monitoring of the situation, sometimes the business can be worse off. Oftentimes, when a business receives a loan, they need all of the dollars; they don't need $30,000 to go towards SBA fees. So in many cases, they are worse off.

Ms. MILLENDER-MCDONALD. Thank you so much.

And the last person is Dr. Stella Norton.

Dr. HORTON. Horton.

Ms. MILLENDER-MCDONALD. Dr. Horton. Well, they have "Norton here," and I know I am looking at my glasses right. Dr. Horton, you stated that you have gone to public housing. Certainly, that is my area in the Los Angeles part of my—in fact, some of the other parts of my district. But Watts is one of the areas that I represent.

First of all, have you been there, and have the 100 youth whom you have given this type of technical and skillful training been a part of Los Angeles youth?

Dr. HORTON. Yes. The youth that we provided the entrepreneurial training to were the youth who lived in Los Angeles. Now the housing authority's staff were responsible for identifying the youth who were the participants in the program. So, Congresswoman, I cannot tell you exactly.

Ms. MILLENDER-MCDONALD. I agree with you that you need an organized, systematic way to teach entrepreneurship, but when we teach this, and especially to our youth and they become skilled, what means do you have and what track record can you tell me that parlays from their skillful and learning ability to businesses that will employee them, whereby that will then be utilized and improved upon?

Dr. HORTON. Right. Let me begin by saying, in addition to providing the entrepreneurial skills, EDTEC also provides a revolving loan fund. Because in order for youth to become an entrepreneur, there must also be some capital available for that youth to draw upon. Not to give, but to provide as a revolving load fund so that that youth, once he or she becomes successful, can begin to put back into that loan fund, and the free enterprise system in America works not only with the adults, but also with the youth. And we do have youth that we can demonstrate have been part of this lending system, have actually borrowed, have started their businesses, and have in fact paid back. And I would cite——

Ms. MILLENDER-MCDONALD. Let me just interrupt for just a second, please, ma'am. Is this the ages between 16 and 24, we are talking about?

Dr. HORTON. That is right.

And we have data that we can demonstrate youth as young as 14.

What we did in the mid-and late 1980's, we used youth who were in fact through what was then CETA, became JTPA. Rather than put those youth to work and endorse the concept of cleaning up the city street, we actually identified each summer between 40 and 60 youth in Camden, NJ, that we would provide classroom training in entrepreneurship education. Those youth, 14, and we asked specifically, we went to the middle school, and we asked for youth between the ages of 14 and 15, because these were the youth that were the hardest to place with JTPA. We provide those youth with

a summer curriculum. We went to the universities and to the community colleges; they allowed us to use their classrooms and space. Then we took those youth, aligned them with mentors. Then we provided again a revolving loan fund for those youth, because those youth who have gone through the JPTA training also received a stipend. They then became partners in an entrepreneurial venture, and we had youth vendors on the city streets of Camden. And sometimes it took an older vendor to agree to allow the youth to work with him or her in order to address the licensing and permit requirements. And those youth were able to develop businesses, such as purchasing school supplies.

And I do know a private school, in particular, that I am associated with, purchased their school supplies from a youth that had been trained at EDTEC during the summer months. We also had youth who would set up Italian ice water/pretzel businesses. Those youth have continued. I have an example of the youth by the name of David, who moved from the age of 14, when he came by to see us, I guess, six or seven months ago, and David is now 29 years old. David moved from selling water icee and pretzels to getting a hotdog cart to now in Atlantic City he has his own fleet on the boardwalk transporting youth.

Ms. MILLENDER-MCDONALD. That is excellent.

I have just one more question, Mr. Chairman, and I certainly do appreciate your indulgence.

This is my first time as a ranking member. I see that we are going to work well with this chairman, who is very sensitive. But I just want to raise one more question.

You know, summer youth program is really faltering and when we see this, we are busy trying to, here in Congress, make sure that we have money for summer school programs—or summer youth program, I should say.

What has been your experience with regard to Federal efforts to encourage more entrepreneurial training and exposure among our young people? And what has been your means of Federal assistance, given your web page talks a lot about your being involved in HUD?

Dr. HORTON. Well, I am so glad to report that we have been able to gain support for what is the Future Entrepreneurs Act. And we feel that this legislation——

Ms. MILLENDER-MCDONALD. Is this something that is going through the pike now?

Dr. HORTON. Well, yes, it is. And this piece of legislation is sponsored by Representative Dennis J. Kucinich of Ohio. There are several co-sponsors of this legislation, and they are, of course, bipartisan supporters there. And what this bill will do is establish a national program to provide Federal resources to schools and local agencies, to teach entrepreneurship skills to the junior high and high school students. And it is, hopefully, going to be operated by the Department of Education and funded at a cost of $60 million per year. And we do have a summary of that bill attached to our testimony.

So in response to the question, madam, what I would suggest is a challenge for this Subcommittee may actually be for you to sponsor similar legislation. Because it is through these kinds of efforts

that our youth will then become truly skilled in those entrepreneurial skills that are necessary. And that is part of our request to you.

Ms. MILLENDER-MCDONALD. Thank you, Mr. Chairman.

Chairman PITTS. The Chair thanks the lady for her excellent line of questioning.

At this time, I recognize the gentleman from South Carolina, Mr. DeMint.

Mr. DEMINT. Thank you, Mr. Chairman.

I will ask the witnesses to work with me a minute, to maybe solve what I think is one of the key problems in trying to come up with some ideas that we could move forward. There have been mentions, Ms. Simpson, of ideas like tax credits for private businesses that use minority contractors. We have talked about perhaps set percentages or some way to encourage the Federal Government to use minority contractors. And I think this is something that is important that we try to figure out how to make it work.

As you know, a lot of the debate on this is going be, should we set aside some kind of quota? Or should we give tax credits just based on race or gender? And the same at the Federal level, should we give contracts just based on race or gender? I am particularly sensitive to that myself, and as you know, people in business are generally very resourceful or they would not be in business.

And when I first started my business and tried to get some State and Federal contracts myself, I found that a lot of my male friends, who had businesses that I was competing with, just simply put their businesses in their wives' name to get contracts. And it worked very well. I never got any myself. My wife didn't want to have anything to do with it.

But, what I would like to consider with you is, are there different criteria that would accomplish the same thing? As we have talked about minority businesses, I think it is clear, particularly minority start-up businesses, can be defined as small in size, small sales numbers, as well as the length in business being a short period of time.

Ms. Brooks, I would assume that your business is far enough along that it may not need to have some special requirement in order to get contracts, while it may be different for someone who has just been in business a year or two. But my question is, could we establish criteria for some of these ideas that were based on the size of the company and the start-up status—meaning being in business five years or less, $100,000 sales or less? That would help, in addition to women-owned businesses, minority-owned businesses, would also help other, perhaps others that don't have those specific criteria, start too.

And if we could do that, I think these type of ideas could move through quickly and I think would accomplish a lot of what we are talking about for women and minority-owned businesses, but might also help some other businesses in need that might not fit those requirements. And I just wanted to hear some comments about different criteria that might be more acceptable to a broader range of folks.

And Ms. Simpson, you may want to comment, and I would certainly like to hear from Ms. Brooks, too.

Ms. SIMPSON. I think we can start with the premise that the main goal here is to level the playing field; to make sure that, when all is said and done, we can say that everything has happened in an equitable manner. As long as you have a situation in which all small businesses have an annual income of $100,000 and you look at minority businesses at $52,000, I think we can say that the playing field is not level yet. And because of that, unless we can come up with a better way—and I agree with you, there may be some other option to use; I am not aware of one. Because the numbers speak for themselves. If we look at the idea of disadvantaged businesses and define that, that might be another approach.

But until we can look at both sectors, the total small business sector and the minority business sector, and see a coming together of that average annual income, we are going to have to have special projects and special efforts in order to make that happen, to level the playing field. I guess what I am saying right now is that the playing field is not level yet, and until we can come up with a better measurement, it has to be minority-business-driven or disadvantaged-business-driven.

Mr. DEMINT. And how would you define disadvantaged? I mean, I know I felt disadvantaged when I started, but you may not have considered me that way. [Laughter.]

Ms. SIMPSON. There are varying ways to define disadvantaged. It might very well be the average annual income of a company. It might very well be the fact that it is a minority business. It might very well be a company that has been in existence less than two to three years. Right now I am not prepared to say what a definition should be. But I do think that those options need to be taken into consideration and, yes, race does have a part in it.

Mr. DEMINT. I agree.

Ms. Brooks.

Ms. BROOKS. Thank you. Thank you, Ms. Simpson. I think you really put in perspective some of the criteria that needs to happen.

But I must go back to the award process for Federal contracts. And I think that is where this all begins. When we are talking about procuring contracts for minority- and women-owned businesses—and I think that the criteria has to be begin there—when there is a bidding process on contracts at a certain level, and I mentioned in my testimony the $25,000 to $100,000 level, that there has to be some kind of requirement or criteria whereby at least a minority-owned business person and a woman-owned business person is a part of that process.

When that does not happen, what happens is that contracts are awarded to those companies that have been doing business with those Federal Government agencies for years. Contracts are awarded to those companies whereby you have friends and colleagues within those Federal Government agencies who ensure that you, as a business person, get your fair share of the contracts. And that leaves out minority- and women-owned businesses. I have seen it happen, because it has happened to me.

Mr. DEMINT. Would we get part of that if we had a requirement for certain number of businesses that have been in business for less than five or three years? Certainly, that would get part of that problem, wouldn't it, of just picking your old friends?

Ms. SIMPSON. I think we would then be operating under the understanding or the feeling that, if you have been in business more than five years, you are no longer disadvantaged. That is not the case—that is not the case. In many cases, you have struggling businesses that have been in business 5, 10, 15 years. So, I don't know if we can use that as an option.

I do agree that in many cases, if you look at the companies that have received contracts, there are normally the same companies over and over again. It is very difficult to get through this whole maze called Federal contracting. That is done—even if you do it at the local level, you find some of the same companies again and again and again. So, I am not quite sure that we can put a time limit on the history of the company as a "disadvantaged" definition. It goes beyond that.

I am not so sure in many cases it can be legislated other than through regulations to those who make the decision. You can develop a law, but it really boils down to how people interpret the laws and whether or not there is that sensitivity there and their commitment to open the playing field or level the playing field. So it goes just beyond the laws themselves. And that is why I continue to say, you have got to make some changes nationally, but also locally.

Mr. DEMINT. I agree with you to make some changes, something that would move us in the right direction. And I think the problem we have is I don't think we are going to sell quotas to the Congress for Federal contracts; I may be wrong.

Ms. MILLENDER-MCDONALD. It is unconstitutional, anyway, so you can't do that.

Mr. DEMINT. So, what can we legislate or what should we legislate? I know a part of it you mentioned, Ms. Simpson, is certainly the local business voluntary efforts to make this thing work.

And what we are looking for here today is, is there a role for the Federal Government and are there some things we can do that are not discriminatory, that are not unconstitutional, that could improve the situation?

Ms. SIMPSON. The major recommendation I would have along those lines, again, goes back to providing incentives to do the right thing. And I think that is as simply as I can state it. We need to provide those incentives to those Federal contractors to stop doing business as usual and to look beyond the traditional ways of purchasing and to be creative and to offer advantages to them to do that.

Mr. DEMINT. Okay. Great. Thank you.

Ms. BROOKS. And I might add that those people that Ms. Simpson is talking about are your contractors, are your contracting officers, not your small and disadvantaged business utilization representatives, not your obstacles, not any of the other intermediaries that are within the Federal Government agencies. But it is those contracting officers who are awarding the contracts.

Mr. DEMINT. Agreed. Thank you.

Thank you. That is all, Mr. Chairman.

Chairman PITTS. The Chair thanks the gentleman.

I don't know if you are familiar with the American Community Renewal Act, but that is legislation that has been put in primarily

by J. C. Watts and James Talent. I think that it provides capital gains tax relief. It increased its expensing wage credits, brownfields relief, and tax and regulatory relief to economically-distressed communities that are defined in this act. You might want to explore that to see if that would be helpful to you.

The Chair now recognizes the gentleman from Kansas, Mr. Moore.

Mr. MOORE. I don't have any questions, Mr. Chair.

Chairman PITTS. All right. Thank you.

Ms. Simpson, aside from tax credits that you advocated in your—oh, I am sorry.

Ms. TUBBS-JONES. I am Stephanie Tubbs-Jones. I would like to be heard, please.

Chairman PITTS. The Chair recognizes the lady.

Ms. TUBBS-JONES. I don't believe we have ever met, sir. So that is a dilemma we have here. Let me introduce myself. [Laughter.]

Thank you, Mr. Chair.

And, ladies and gentlemen, I apologize, I am going to be briefer than I would have liked to have been because I have another commitment. That is what coming to Congress seems to bring to you. And as a new Member of Congress, I am struggling to try to do all the things they want you to do within the same hour.

But I will, first of all, say thank you very much for your testimony this morning. I am a new Member from Cleveland, OH. I am the successor to Congressman Louis Stokes, who is very much an advocate for minority businesses. For the record, I want to be heard in saying that I struggle, having been EEO officer for the Northeast Ohio Regional Sewer District back in the 1970's, having been both a judge and prosecutor prior to coming to Congress, with the concept that some of us can't get to, that there is a continual need to deal with past abuses of discrimination in the economic business development area in our country. We all recognize that we have a Supreme Court who has made a decision that minority set-aside programs have some problems, but the reality is that, as a Nation, we still struggle to provide equal access and opportunity for economic development in our country.

I believe, before I ask you a few questions, that what it is going to take is a President, a Vice President, and a Congress, be they Democrat or Republican, that will open their eyes to discrimination in our country; that will set the standard and say morally it is appropriate for African-Americans and Latinos and other economically-disadvantaged people to have an opportunity to have a piece of pie that we all enjoy, and that we must provide incentives to do so.

I also want to say, Ms. Brooks, you are the young woman who just received an award from SBA this year in the last month or so for the work you have done in your business. I want to just put that in our record and congratulate you again.

Ms. BROOKS. Thank you, Congresswoman.

Ms. TUBBS-JONES. Let me start with Dr. Horton. With the program you have for educating young people. How is EDTEC funded?

Dr. HORTON. EDTEC is, first of all, a for-profit minority enterprise, and at this time, if I may yield, the partners are here, if I could ask them to please articulate——

Chairman PITTS. Would you please identify yourselves as you speak, please?

Mr. WATERS. My name is George Waters.

Mr. BOCAGE. Aaron Bocage.

Mr. WATERS. We do all of our work through contracts with cities and local government, State government and Federal Government. We have several contracts with HUD where we do economic development entrepreneurship training. We have also done some training in Cleveland and Lakeview, and a very successful youth entrepreneurship program.

Ms. TUBBS-JONES. Lakeview Terrace. At CMHA. Okay.

Mr. WATERS. We worked there for years. We have a long track record working there with the local HUD office, Rita Robinson and others.

Basically, since 1985, Aaron and I have been on this mission to push for universal entrepreneurship education.

Ms. TUBBS-JONES. What would open additional doors for you to be able to do increase your mission or meet your mission?

Mr. WATERS. I think for years we have struggled trying to convince different groups the importance of this. I think it is now time to start institutionalizing some of these concepts so that all kids can be exposed. That is why we are looking at working with legislators around making sure that, within schools and outside of schools, all young people have an opportunity to be exposed. Because, in our 15 or 16 years, we have not been able to predict who is going to be successful, but we think the best solution to that is to expose as many and train as many as possible.

And we thank you for the opportunity just to be here today to speak, because 15 years ago we could not get anyone to listen to us.

Ms. TUBBS-JONES. Understood.

Ms. TAYLOR. If I may, my name is Pam Taylor, and I am in the Washington office of EDTEC. We, just last May, opened a Washington office because of this great need to get the legislation moving. And I wanted to tell the Committee that the Future Entrepreneurs Act of America was introduced in the 105th Congress. It had not been reintroduced, and we could use your help.

Ms. TUBBS-JONES. The chairman and I have already begun to talk about it.

Ms. TAYLOR. Thank you very much. I just wanted to say that and get it on record.

Ms. TUBBS-JONES. For the record, I want to make one additional commentary. The other thing that just scares me to death is the fact that our Congress and our Nation has failed to recognize the reason women businesses have been so successful is because of affirmative action programs and setaside programs. And all they did is to look at the advantage it has given to women businesses to see what advantage it would give to minority businesses. And instead of being afraid of they are missing out on, it is being happy about the success that others in the community are enjoying, as a result of these various programs.

I want to go back real quickly to Ms. Brooks. We were discussing the other day in a CBC meeting some issues with regard to access

for businesses such as yours, and two opportunities in the Federal sector in communications and advertising, transportation, et cetera.

Can you, for a moment, just suggest some of the blocks that have been put in your way in terms as minority business in communications?

Ms. BROOKS. In the communications area specifically, I think one of the problems has been the regulations, the size standards. For example, in the video production area, the size standard is $21.5 million, which is extremely high for a small business, particularly in television and video production. The largest production company in this area in the last year, which is in Washington, DC, happens to be one of the fastest-growing areas like New York and California, only had revenues of a little more than $10 million. It is very tough to compete with the size standards in the FAR so high.

One of the other things, particularly in the communications area, is that we face marketing, advertising, video production, the competition from the big boys, as you speak. The large publication relations and advertising companies whose mission is to have long-term media campaigns, and a part of that, a small part of that includes the job that we do. So we are cut out of those contracts. Because your Young and Rubicam, your larger advertising and public relations firms out of New York, Chicago, California, can certainly ably compete for those larger multimedia campaigns which close out some of us smaller companies. And with the bundling of contracts, it does not help at all.

And I just want to say for the record, for the gentleman particularly who left, yes, I have been in business nine years in June. Yes, I am an 8(a) company. Yes, I am a minority-owned and woman-owned firm. But in four years in the 8(a) program, I have had one small $70,000 contract. I have worked the Federal Government from the competitive end. More than 70 percent of my business is Federal contracts. And I won those contracts successfully competitively, not just from the setasides. And I want to make mentioned of that because I think it is important. Because what it says is that if minority- and women-owned businesses were given an opportunity, we could excel even more. In the last six months, that has more than quadrupled, but it has taken a lot of hard work.

Ms. TUBBS-JONES. Mr. Chairman, my last question: Mr. Ricketts, I don't know if you saw the young boy that was seated here with his dad that came in with me. He is a businessman out of Cleveland, Ohio, and he wrote me this note, and I wanted to read it in the record to you.

He said, "Congresswoman Jones, this kind of thing is not just a New York City issue. Cleveland artificially and severely restricts the number of taxis in the city. The licensing requires a limited number of cabs replacing old ones, et cetera. How many entrepreneurs, many of whom would be minority, are kept from being one-person cab companies? What if a restaurant owner or lawyer needed a special permission just to open up? Safety permitting is fine, but these laws shelter the existing cab companies and public transportation from competition, and thereby, stifles minority entrepreneurship."

I figured that you would share those words. But not that it makes it any better for you in New York City, that it is happening

in Cleveland, but just for the record that someone was here. And I didn't put his name in the record because he didn't give me permission to do so—only because of that.

What I want to close with is to encourage you to stay vigilant. You know, one of the dilemmas that we face in our struggle is that people forget the struggle is constant, and that we have to continue to be vigilant in our efforts to assure that minority businesses have an opportunity to be successful in this country.

As I said, I am new to Congress, and I am so pleased to have an opportunity to serve on Small Business as well as Banking. And it is my goal to attempt to assist minority in my service in Banking and Small Business.

I have no further questions, Mr. Chairman. I thank you for this opportunity, and it is not that I don't think you are important, but I have got one more place to go. So I am going to excuse myself.

Mr. Chairman, thank you so very much for this opportunity.

Chairman PITTS. The Chair thanks the lady.

Are there any other questions from the members?

[No response.]

If not, the committee thanks the panel of witnesses for the excellent testimony we received this morning. We thank you for the recommendations.

The Chair will hold the record open for five legislative days for any additional information that you may submit. You have given us a lot of information and we will take your recommendations under advisement.

The Chair yields to the ranking member.

Ms. MILLENDER-MCDONALD. Just to say thank you again for such an important hearing and such outstanding witnesses. And thank you for your sensitivity for our long-winded questions.

Chairman PITTS. That is perfectly all right.

One closing comment.

Ms. MELLOR. Just a quick comment. I apologize for the little flurry of activity here; I was handed a note by the staff earlier. A call from our office came in saying that we just won the lawsuit up in New York City on behalf of the commuter van operators.

[Applause.]

Chairman PITTS. Congratulations. Good way to end the hearing.

Thank you very much. This hearing stands adjourned.

[Whereupon, at 11:45 a.m., the Subcommittee was adjourned.]

U.S. House Of
Representatives

Committee on Small Business

Subcommittee on Empowerment

Washington, DC march 23, 1999

Testimony of:
George E. Waters, Jr., CEO
Aaron Bocage, President

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Good Morning Mr. Chairman and other members of the committee. Thank you for inviting us to speak before you this morning.

I am Dr. Stella Horton and I am the Director of Entrepreneurship Education for EDTEC, Inc. I am presenting the testimony of Mr. George Waters and Mr. Aaron Bocage, founders of EDTEC and pioneers in the movement to bring entrepreneurship education to minority youth. EDTEC, is an African American owned firm with offices in Camden, New Jersey and here in the District.

We consider this topic today and our collective testimonies, one of the most important discussions in the nation. There is no greater challenge than to help remove the obstacles that prevent many American from participating in the free enterprise system. Since 1985, we have fought to remove one of those obstacles, the lack of Entrepreneurship Education. Our mission has been to address the needs of America by making the most of the human capital often overlooked by traditional firms. We have gained national recognition as a provider of innovative programs in training, education and economic development.

We feel well qualified to speak before you today because we have traveled the country for the past 14 years teaching others how to develop entrepreneurship programs for minority youth. At the very core of our philosophy is that youth, giving the proper training and opportunity should be viewed as contributors to economic development in cities and towns across this nation instead of members of an permanent underclass.

We believe that those who want to help young adults and others participate more fully in the enterprise system need an organized system for teaching entrepreneurship. The system must be easy to understand, practical and inexpensive. One does not need a MBA from the Wharton School at the University of Pennsylvania, Stanford or Harvard to start a small business in this country. Yet, the most of the available curriculum materials would lead you to think so. Years ago, our solution was to develop a youth oriented curriculum to teach young people how to start and manage a small enterprise. It is called the ***New Youth Entrepreneur.***

The New Youth Entrepreneur curriculum was developed in partnership with the Ewing Marion Kauffman Foundation. We feel honored having been selected by the foundation to work with them on this project. Dr. Marilyn Kourilsky, a VP at the Foundation testified before this committee last year. In the Foundation world they are recognized the experts in entrepreneurship education.

The goals of the New Youth Entrepreneur curriculum are very basic:

1) To provide youth the opportunity to learn about entrepreneurship through classroom and practical experiences;
1) To teach youth the basic skill required of entrepreneurs;
2) To help you understand the relationship between academic subjects and the practical "world of entrepreneurship".

Our curriculum, written in English and Spanish, has been used by a diverse group of organizations including the Future Farmers of America (FFA): National Business Educators Association (NBEA); U.S. Department of Housing and Urban (HUD); and several hundred school systems and youth organizations.

We must prepare minority youth for the world of Entrepreneurship. We believe that the greatest obstacle and barrier to the minority enterprise and business development is education. We support the idea that young people should be exposed to entrepreneurship at all levels of school and in the community. For many minority youth particularly in poor urban areas, their only free enterprise exposure is to people making money illegally through the "drug trade or other illicit activities or through the underground economy. Unfortunately, entrepreneurship and other business topics are not discussed at their dinner table. Yet, we expect them to be ready to understand and take advantage of government sponsored business opportunity programs when they reach adulthood. Ladies and gentlemen, learning about entrepreneurship for the first time as an adult is too late.

Unfortunately for many young people, the train has already left the station. If they had been exposed to a youth entrepreneurship program with a practical application component, they would have:

- Learned about setting goals and developing an entrepreneurial attitude;
- Used creativity and logic to solve problems;
- Explored entrepreneurship as a career option;
- Learned the importance of academic preparation in the context of entrepreneurship
  and
- Experienced a sense of empowerment and self-sufficiency on a small scale for the first time

We don't often get the opportunity to discuss ideas and solutions with individuals who have the capacity to effect change, like members of this subcommittee. We know from 19 years of work in this area what is needed to help minority youth acquire a sense of

empowerment and self-sufficiency. We believe that entrepreneurship education represents a major part of the answer. We are not naïve. We do not believe that all minority youth exposed entrepreneurship education will start businesses. Some will. Others will become good employees. We do believe, however, that the majority will learn the ***values, attitudes and work habits of an entrepreneur.***

Many of our recommendations for you today were taken from our new book entitled, Making ***Money the Old Fashioned Way: A Story of Black Entrepreneurship in American.*** Although the book was written to give African American youth a history of entrepreneurship in our community from slavery to the present, we think the suggestions about how adults can help to promote entrepreneurship education can be applied to all minority groups. Paul Robeson once said

" We realize that our future lies chiefly in our own hands. We know that neither institution nor friends can make a race stand unless it has strength in its own foundation: that races, likes individuals, must stand of fall by their own merit; that to fully succeed they must practice the virtues of self -reliance, self respect, industry, perseverance, and economy. "

Specific Recommendations for Legislators

1) Write and promote legislation for mandatory entrepreneurship training. We have been asked to help gain support for the Future Entrepreneurs Act. This legislation is sponsored by Representative. Dennis J. Kucincich of Ohio. It has several co-sponsors and bipartisan support. This bill would establish a national program to prove federal resources to schools and local agencies to teach entrepreneurship skills to junior high and high school students. It would be operated by the Department of Education and funded at a maximum of $60 million per year. A summary of the bill is attached to our written testimony.

2) Encourage and support schools in your district to identify entrepreneurship curriculum materials and to start entrepreneurship clubs and after schools programs. There are entrepreneurship programs available at every level K-12.

3) Work with your Chambers and Commerce and other business groups to develop outreach programs to minority youth in the community. They are the future business leaders in your community. It is in everyone best interest to support them early.

4) Give young minority entrepreneurs the opportunity to get direct experience in a particular industry. Ask companies in your district to offer them small contracts and provide business mentors.

In the interest of time, we have shared just a few ideas and recommendations today. Since this is our life's work, please feel free to call on us at any time to provide additional information or discussion around these very important matters. In summary, the greatest obstacle to minority enterprise development is a lack of early exposure to legal entrepreneurship. We must teach minority youth that starting a small business is not brain surgery. Its success depends on early preparation, hard work, and perseverance. The only way we increase the number of small businesses in the minority community is to get more minorities to start business early. The natural forces of the American free Enterprise system will take care of the rest. Similar to the other groups, we have learned that we cannot predict who will be successful. As educators and legislators, our job is to get as many as possible to experience the starting of a small enterprise.

Thank you.

Response to Questions asked at the Subcommitte on Empowerment h Hearing

1- What are some examples of businesses started by young people as a result of having participated in the New Youth Entrepreneurs Program?.

We have sold over 15,000 copies of our curriculum and have trained hundreds of youth workers and school teachers on how to use the curriculum's 12 workbooks as a basis for starting a youth entrepreneurship program. The nature of the businesses started by the young participants has been consistent from state to state. A great majority of the micro-enterprises has been labor intensive and have required very little capital to get started.

Some examples of recent business started are listed below:

Harrisburg, Pennsylvania - Community Organizations

There are two (2) organizations in this city that are using the New Entrepreneurs curriculum: the Urban League of Harrisburg, and Girls, Inc. Most of the ventures started were partnerships that were established as retail businesses to sell products at the Harrisburg East Mall. Some examples of the items sold were: hair accessories, name brand t-shirts, African and costume jewelry, sports clothing for teenager, customized greeting cards, famous athlete posters, and customized gift baskets.

Michigan City, Indiana - A Welfare to Work Initiative

HOPE (Helping Our People Excel), a local non profit group, used the New Youth Entrepreneurs curriculum to operate a summer program for 14-19 year olds as part of the county's Welfare to Work program. The purpose of this program was to expose youth to the world of entrepreneurship and to prepare them for a life without welfare. Some of the businesses started by these young people were: a video company; a craft company, cookie company (Yummy in the Tummy); and a pickle retail company (Pickle Palace). They were able to acquire space at a local elementary school..

Philadelphia, Pa. - A Public School Project

For the past three years the curriculum has been used at the Benjamin Rush Middle School in the northeast section of Philadelphia. In addition to using the curriculum to supplement academic instruction, teachers have used the material to help students start several school-based businesses. The school store is operated by 6th and 7th grade students as part of the school 's Entrepreneurship Small Learning Community (SLC) . In addition, the school has started a unique mobile school supply business operated by special education and handicapped students.

Los Angeles, California - A Public Housing Authority Model

EDTEC was contracted by the U.S. Department of Housing and Urban Development to help develop a Youth Enterprise Development Training Institute within the Housing Authority of the City of Los Angeles (HACLA) using our New Youth Entrepreneurs Curriculum. We also assisted the staff in the development of a microloan fund. To date, eleven (11) loans have been awarded to program graduates to start businesses. This was a citywide program that involved youth from several public housing developments including, Nickerson Gardens, Estrada Courts, and Hacienda Village. After completing the course and submitting a business plan to Microloan committee, the following is a sample of the kind of businesses started:

- A Computer Animation Company

- A Women Clothing Design Company
- A Retail Sports Apparel Company
- A Personal Printing Company

There are other examples of businesses started by young people using the New Youth Entrepreneur curriculum. A partial list of recent customers is listed below to illustrate the diversity of organizations.

Glades Community Development Corporation (CDC) – Belle Glade, Florida
Booker Middle School – Sarasota , Florida
Iowa University- Iowa City, Iowa
Palestine Missionary Baptist Church- Kansas City, Missouri
Area Career Center/ Bilingual – Hammond, Indiana
Lucas County Extension Service – Toledo, Ohio
Maui Economic Opportunity, Inc- Hahului, HI .

2. What kind of tracking system is used to follow up with participants in the program?

To date, EDTEC does not have a formal tracking system in place. Most of our work is centered on helping interested organizations and schools develop the infrastructure for starting a youth entrepreneurship program by providing materials, staff training and technical assistance. Due to the expense involved, the majority of these organizations do not have the resources to track the progress of youth after completing the program. We do know however, that 70 percent of the participants actually experience the start of a small enterprise after completing the curriculum.

In order to increase our capacity to obtain more data about program graduates, we have recently entered a partnership with the Center for Management and Entrepreneurship at Rutgers University. A major aspect of our work with them will focus on the development of a tracking and evaluative system to provide users of the curriculum with a method to receive feedback about short term and long term success of program participants. An important part of the internal program evaluation is already in place to measure each participant's progress and mastery of the materials. This internal program evaluation system is divided into three parts: a pre and post assessment of business knowledge attained and skills applied (paper and pencil); 2) a completed business plan; and 3) a business observation instrument that is administered at three (3) and six (6) week intervals during the program. This evaluation is based on the following four (4) areas:

Did the business make money?

Did the Instructor see evidence of sales receipts, invoices, bank deposit slips, bank statements, etc? Is the microloan repayment schedule on time? Are the loan funds being using in the manner specified during the application?

Are they operating in a business manner?

Is there a positive attitude for problem solving ? Is there demonstration of appropriate judgement in making business decisions? Is the business open on the scheduled days ?

Is there evidence of an active marketing strategy?

Are there business flyers available and what is the method and frequency of distribution? Is the marketing approach flexible or has there been few changes from the initial method identified in the business plan?

3) What is the relationship between early entrepreneurship training and future business success?

There has been no definitive research in this area. The field of youth entrepreneurship is still fairly young. Few programs have had the resources to design evaluative studies to measure the overall impact on entrepreneurship training. Nevertheless, we have been afforded the opportunity to receive some feedback from youth that have completed our program and from organizations and schools that we have trained to teach the curriculum. The responses we receive generally fall in one of these areas:

- **Youth who make the decision to start a business early in their adult life in their life.**

To our knowledge, there are very few youth in this category. In our testimony, we provided an example of one young man who started in our program with a janitorial service and currently owns two small businesses as an adult.

- **Youth who used the entrepreneurial experience to learn more how business and free enterprise system work and thus become better employees.**

We have received this kind of feedback most often. Having experience the "bottom line " of a small enterprise, many youth become more understanding of the owner concerns in workplace. For many in this category, a future goal may be to develop a small business after more academic / vocational training and work experience

TESTIMONY OF
YVONNE S. SIMPSON
VICE PRESIDENT, SMALL BUSINESS SERVICES
GREATER GREENVILLE CHAMBER OF COMMERCE
before the
HOUSE SMALL BUSINESS COMMITTEE'S
SUB-COMMITTEE ON EMPOWERMENT
TUESDAY, MARCH 23, 1999

Mr. Chairman and members of the Committee, good morning. My name is Yvonne Simpson and I am the Vice President for Small Business Services with the Greater Greenville Chamber of Commerce in Greenville, South Carolina. I certainly welcome the opportunity to be with you this morning to make remarks to this House Committee on Small Business and the sub-committee on Empowerment. I do hope that my comments will offer you greater insight into the issues and challenges facing minority entrepreneurs as they try to develop or expand their businesses.

As part of my testimony today, allow me to give you a glimpse of Greenville County and the Upstate region of South Carolina---a place, to quote our current chairman of the board of directors, Mr. Meri Code, "located at the foot of the Blue Ridge Mountains, the lovely scenic Piedmont region, where the lakes are crystal, where the orange sun sits in the bosom of the Blue Ridge Mountains, and where the temperature is always 72 degrees somewhere in Greenville County!" With such glowing words, Mr. Chairman, one can easily see why Congressman DeMint and I proudly call Upstate South Carolina our home. The Upstate is also indeed the business belt of the state. Situated along the I-85 corridor between Charlotte, North Carolina, and Atlanta, Georgia, this area is well-recognized as a premier leader in economic development and growth, as evidenced by an array of national and international firms (e.g. Michelin, BMW, GE) that have chosen the Upstate as their home, and as evidenced by the distinction of enjoying a tremendous rate of growth of small businesses in this

region.

Let me now give you a snapshot of minority business development in this area. As you know, minority businesses play a pivotal role in the growth and vitality of the any community. In the Upstate, minority businesses provide jobs, they support countless worthwhile projects, and they add to the tax base. Furthermore, many minority business owners and managers serve as role models for today's Upstate youth (and tomorrow's Upstate leaders). Minority businesses realize and understand that economic opportunity and the spirit of capitalism are the foundations upon which this country has been built and they realize and understand that economic opportunity indeed can become a reality, provided they have the chance to compete openly and fairly in the marketplace. Please allow my remarks to give you a "statistical' view of minority business development, a view that will serve as a springboard for my observations and recommendations.

Some time ago, the Department of Commerce made available a survey of Minority-Owned Business Enterprises, which is a part of its overall Economic Census Update. While the survey covered businesses owned by African Americans, Hispanics, Asian and Pacific Islanders and American Indians, we currently only have comparative data for Black-owned businesses in the Upstate. We do know, however, that over the past several years, the Upstate has experienced a rapid growth in Hispanic and Asian residents and a corresponding rapid rise the number of businesses. In fact, our chamber of commerce recently initiated the development of an effort to strengthen the involvement of Hispanic-owned businesses as a part of our minority business development initiatives. We, therefore, see nothing short of a continuation of the rising trend of business growth among several ethnic groups.

According to the report, in the five-year period in Upstate South Carolina,

the number of Black-owned businesses increased by 97.6%, almost 98%. In fact, the growth rate more than doubled the statewide and national rates. In this same report, however, the sales and receipts of Black-owned firms only increased by 30%. And perhaps the statistic of the most concern is this: Average gross receipts of Black-owned firms was $38,000. Please understand that of this $38,000, minority businesses must pay rent, utilities, taxes and other expenses. I submit to you, Mr. Chairman, we are talking about, in a sense, instead of the "working poor", we have what I consider to be the "business poor". Furthermore, Mr. Chairman, I believe these statistics to be a microcosm of the state of minority businesses in this country. I also contend that of all of the areas of this country with the potential and willingness to develop stronger minority owned businesses, it is indeed the Upstate region of South Carolina.

Let me briefly outline my thoughts regarding the issue of empowerment. With all due respect to you, Mr. Chairman and members of this body, the public sector--the government--is neither the sole player nor the major entity that can bring about economic parity for minority-owned businesses. Please understand that as long as there are average annual receipts of $38,000, small business programs such as the 8(a) program continue to be necessary. However, the government--this committee--cannot approach this issue alone. Your mission can best be filled by providing the leadership and incentives at the ***national*** level to make things happen at the ***local*** level. Incentives must be provided so that the business leadership, nationally and locally, continually challenges "status quo" purchasing notions and explores new ways to work with new vendors---new *minority* vendors. I suggest that this sub-committee explore the offering of tax credits to companies that purchase from minority vendors. This single incentive will at least provide federal contractors the added impetus to give concerted attention to its purchasing decisions and to how these decisions can positively or adversely affect *local* minority businesses. We should no longer

be satisfied with conducting business as usual.

Let me cite an example. In Greenville County, three major construction projects were built, primarily with private funds. They are our regional center for the performing arts (The Peace Center); the BMW Manufacturing Facility; and our regional sports/entertainment complex (The Bi-Lo Center). In each of these projects, local business leaders made a concerted effort and made the commitment to ensure that the field was leveled to allow participation by minority-owned firms. Furthermore, in some instances, language was placed in the bid specifications to providing incentives to bidders to use minority contractors. Innovative approaches were used, from the creation of minority participation task forces to locate viable sub-contractors and vendors, to providing support for the purchasing of materials and supplies, to developing strategic alliances between majority and minority companies. Are we proud of these successes? Yes. Are there other opportunities for using this approach? Yes! However, the leveraging of $25 million to minority-owned businesses with this approach is certainly a good start.

Mr. Chairman, members of the Committee, I call upon you to provide the leadership at the ***national*** level to ensure a more level field at the local level. Through tax incentives, these federal contracts can indeed make a difference on the bottom line of minority-owned businesses. Again, thank you for this opportunity and thank you for your concern and interest in this important matter.

HEARING ON

BARRIERS TO MINORITY ENTREPRENEURSHIP

TESTIMONY PRESENTED TO:

THE CONGRESS OF THE UNITED STATES
HOUSE OF REPRESENTATIVES
105TH CONGRESS
COMMITTEE ON SMALL BUSINESS
SUBCOMMITTEE ON EMPOWERMENT

TESTIMONY PRESENTED BY:

SHEILA BROOKS
PRESIDENT AND CEO
SRB PRODUCTIONS INC.

March 23, 1999

GOOD MORNING. MEMBERS OF THE HOUSE OF REPRESENTATIVES ... COMMITTEE ON SMALL BUSINESS ... SUBCOMMITTEE ON EMPOWERMENT ... CONGRESSWOMAN JUANITTA MILLENDER-MCDONALD, THE RANKING MINORITY MEMBER ... AND THOSE OTHERS WHO ARE HERE.

I AM SHEILA BROOKS, PRESIDENT AND CEO OF SRB PRODUCTIONS INC. ... A NEARLY 9-YEAR-OLD ... AWARD-WINNING, FULL SERVICE TELEVISION AND VIDEO PRODUCTION AND MEDIA CONSULTING COMPANY ... AND POST-PRODUCTION FACILITY ... LOCATED IN THE CENTRAL BUSINESS DISTRICT IN DOWNTOWN, WASHINGTON, D.C. WE PRODUCE TELEVISION AND VIDEO PROGRAMS FROM "SCRIPT TO SCREEN" ... INCLUDING TELEVISION PROGRAMMING FOR THE TV NETWORKS AND PBS; EDUCATIONAL, TRAINING, PROMOTIONAL AND INSTRUCTIONAL VIDEOS FOR FEDERAL GOVERNMENT AGENICES, NATIONAL NONPROFIT ORGANIZATIONS AND FORTUNE 500 COMPANIES; PSAS; VNRS AND VIDEO TELECONFERENCES ... FOR THE SAME CLIENTELE.

YOU SHOULD ALSO KNOW THAT I AM A STAUNCH ADVOCATE OF WOMEN-OWNED BUSINESSES. AS A NATIONAL BOARD MEMBER OF THE NATIONAL ASSOCIATION OF WOMEN BUSINESS OWNERS (NAWBO), AND IMMEDIATE PAST PRESIDENT OF THE NAWBO CAPITAL AREA CHAPTER ... IT IS AN IMPORTANT PART OF MY WORK TO TIRELESSLY CHAMPION MINORITY AND WOMEN ENTREPRENEURS ON HOW THEY CAN PROCURE MORE CONTRACTING OPPORTUNITIES IN THE FEDERAL GOVERNMENT AND HOW TO LOBBY SMALL BUSINESS ISSUES.

THE PURPOSE OF MY TESTIMONY TODAY IS TO ADDRESS SOME SPECIFIC OBSTACLES FACING MINORITY ENTREPRENEURS, PARTICULARLY WOMEN BUSINESS OWNERS OF COLOR.

WOMEN'S BUSINESS ENTERPRISES ARE A VERY IMPORTANT AND VITAL SEGMENT OF THE SMALL BUSINESS COMMUNITY. WHAT WE KNOW ... ACCORDING TO THE NATIONAL FOUNDATION FOR WOMEN BUSINESS OWNERS IS THAT NEARLY EIGHT MILLION WOMEN-OWNED BUSINESSES IN THE UNITED STATES GENERATE NEARLY $3.1 TRILLION IN SALES ... AN INCREASE FROM $2.3 TRILLION JUST A LITTLE MORE THAN SIX MONTHS AGO.

WHAT WE KNOW ... WOMEN BUSINESS OWNERS EMPLOY ONE OUT OF EVERY FOUR COMPANY WORKERS – A TOTAL OF 18.5 MILLION EMPLOYEES.

WHILE THIS IS GOOD NEWS, WOMEN STILL FACE INTOLERABLE OBSTACLES INCLUDING ACCESS TO CAPITAL, CREDITWORTHINESS, AND INCREASED PROCUREMENT OPPORTUNITIES BOTH IN THE FEDERAL SECTOR AND CORPORATE AMERICA. FOR TOO LONG, WOMEN-OWNED BUSINESS HAVE NOT RECEIVED THEIR FAIR SHARE OF FEDERAL CONTRACTS.

MOST WOMEN ENTREPRENEURS OF COLOR STILL HAVE TROUBLE MAINTAINING BUSINESS PROFITABILITY, MANAGING CASH FLOW, MAINTAINING GROWTH AND KEEPING QUALIFIED EMPLOYEES.

THE SINGLE AREA WHERE WOMEN OF COLOR ARE STILL SIGNIFICANTLY DIFFERENT FROM CAUCASIAN WOMEN IS ACCESS TO CAPITAL. WOMEN BUSINESS OWNERS OF COLOR ARE MORE LIKELY TO FACE GREATER BARRIERS IN ACCESSING CAPITAL. SPECIFICALLY, MINORITY WOMEN ENTREPRENEURS ARE LESS LIKELY TO HAVE BANK CREDIT. BLACK AND NATIVE AMERICAN WOMEN BUSINESS OWNERS ARE MORE LIKELY TO HAVE BEEN TURNED DOWN FOR A LOAN WHEN STARTING THEIR BUSINESSES.

WHAT CAN YOU DO? LET ME RECOMMEND THE FOLLOWING:

1. SPEED UP THE AWARD PROCESS FOR FEDERAL CONTRACTS ON BIDS BETWEEN $25,000 AND $100,000 AND INCLUDE AT LEAST ONE WOMAN-OWNED AND ONE MINORITY-OWNED FIRM ... AND
2. IMPLEMENT "THE MASTER PLAN." LET ME EXPLAIN.

LAST WEEK, AIDA ALVAREZ, ADMINISTRATOR OF THE U.S. SMALL BUSINESS ADMINISTRATION COMMENDED A NEW COMPREHENSIVE PLAN AIMED AT ACCELERATING THE GROWTH OF WOMEN BUSINESS OWNERS.

THE "MASTER PLAN" ... AS IT IS CALLED ... WAS DEVELOPED BY A DIVERSE GROUP OF BUSINESS, GOVERNMENT AND ACADEMIC LEADERS FROM ACROSS THE COUNTRY ... A RESULT OF THE 1998 WOMEN'S ECONOMIC SUMMIT ... WHERE MORE THAN 550 LEADERS FROM THE WOMEN'S BUSINESS COMMUNITY COLLABORATED ON FOUR KEY INITIATIVES ... FINANCING BUSINESS GROWTH ... MARKET OPPORTUNITIES ... TRAINING ... LEADERSHIP ... AND ADVOCACY.

FOUR IMPORTANT ACTIONS THAT CAN MAKE A DIFFERENCE NOW ... ACCORDING TO THE MASTER PLAN ...

1. LAUNCH A NATIONAL WOMEN'S LOAN FUND TO LEND TO WOMEN'S BUSINESSES AND FUND TRAINING PROGRAMS THAT TIE TOGETHER LEARNING AND LENDING.
2. COMPILE A GUIDE OF THE PRACTICES IN GOVERNMENT AGENCIES THAT HAVE WORKED TO INCREASE WOMEN'S MARKET SHARE.
3. FORM A NETWORK OF WOMEN STATE LEGISLATORS WHO ARE OR HAVE BEEN BUSINESS OWNERS TO AMPLIFY THEIR VOICE IN ECONOMIC POLICYMAKING.

4. CONDUCT RESEARCH TO FIND OUT WHAT STATES ARE DOING TO INVEST IN WOMEN'S BUSINESS GROWTH.

BUILDING AN ALLIANCE WITH LEADERS IN THE WOMEN'S BUSINESS COMMUNITY, PARTICULARLY AMONG WOMEN OF COLOR ... WILL HELP BUILD A HEALTH ECONOMY AND STRONGER COMMUNITIES FOR ALL AMERICANS AND OUR CHILDREN TO COME. DOING BUSINESS WITH WOMEN ... DOING BUSINESS WITH WOMEN OF COLOR ... IS THE RIGHT THING TO DO.

LET'S NOT JUST PAY CONTINUED LIP SERVICE TO OUTSTANDING REPORTS LIKE THE "MASTER PLAN." LET'S BE PART OF PUTTING THE PLAN INTO ACTION.

THANK YOU.



INSTITUTE FOR JUSTICE

Testimony of
William Mellor
President and General Counsel
Institute for Justice
Before the Subcommittee on Empowerment
Committee on Small Business
March 23, 1999

Good morning, Mr. Chairman, members of the subcommittee, I am William Mellor, President and General Counsel of the Institute for Justice. The Institute for Justice is a non-profit public interest law firm that represents entry-level entrepreneurs across the nation in lawsuits that seek to remove arbitrary barriers to enterprise. In the course of my work, I have seen first hand the energies and enormous potential for entrepreneurship in the inner-cities of America.

The fight for economic liberty is being waged across America in cities large and small. Occupations like taxi driving, cosmetology, child care, commuter vans, hauling, and home-based business provide the context. But at its heart, this struggle is about real people trying to lead productive lives and follow in the tradition of upward mobility pioneered by previous generations. They embody the spirit of America and serve as a beacon for our future. They deserve nothing less than our full support and ask for nothing more than a chance to succeed on their own. And make no mistake that when given that chance, they will succeed.

However, every day hundreds of thousands of Americans engage in the most massive expression of civil disobedience this country has ever seen. They face arrest, fines, and even imprisonment as a result of their action. You won't find these people on picket lines or being hauled away in paddy wagons after raucous demonstrations. Instead, you will find that through

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countless activities and with tireless energy, they all seek the same goal – to earn an honest living for themselves and their families. Tragically, they do so under the laws and regulations of cities and states across the nation that make them outlaws.

That these hard working men and women can be treated as pariahs under the laws of this land is the legacy of the total evisceration of constitutional protection for economic liberty. Smothering economic liberty are countless laws and regulations, often in the form of licenses or permits, that arbitrarily foreclose and unreasonably condition entry into markets ideally suited to people of modest means. At least 10% of all occupations require a license or permit from government. Most of these laws and regulations are created at the state and local level, and far too often have little if any relation to legitimate public health or safety concerns.

Under the law as interpreted by the Supreme Court today there is a presumption in favor of government when it comes to economic regulation. This Congress should take the lead in restoring what our Founding Fathers envisioned in the Constitution: a presumption in favor of liberty. The burden must be placed squarely on government to demonstrate a close and reasonable fit between any legitimate public health or safety goal and the regulatory means government employs in the process. The ends cannot justify the means.

In the aftermath of welfare reform, job creation is an overriding national priority. In inner-cities across America, a well-spring of entrepreneurship exists and is waiting to be tapped. Once released from the shackles of senseless laws, indigenous community-based enterprise and employment will play a vital role in rejuvenating blighted neighborhoods. And individuals will be empowered with greater control of their own destinies as free and responsible members of society.



THE ASSOCIATED GENERAL CONTRACTORS OF AMERICA
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April 5, 1999

The Honorable Joe Pitts
Chairman
Empowerment Committee
B-363 Rayburn House Office Building
Washington, DC 20515

Dear Chairman Pitts:

The Associated General Contractors of America (AGC) appreciates the opportunity to participate in your Subcommittee's review of "Barriers to Minority Entrepreneurship." AGC requests that our statement be submitted for the record. AGC is a nationwide trade association founded in 1918. It has 99 chapters and 33,000 members across the United States, including nearly 8,000 of the nation's leading general contractors. The association's membership also includes specialty contractors, and the material and service providers. These firms perform many different types and kinds of work, encompassing every type of construction other than single family homes. AGC members have constructed the majority of the nation's commercial buildings, factories, warehouses, highways, bridges, airports, dams, waterworks, waste treatment facilities, defense facilities and multi-family housing projects. AGC members also prepare sites for housing development, and install the needed utilities. The majority of our members are small businesses.

For well over a decade, AGC has remained at the very center of the national debate over set-asides and other special preferences in federal, state and local procurement. Set-asides and other special preferences have failed to create viable, economic companies ready to face the rigorous challenges that face the construction industry. These measures give the government's social objectives equal if not greater weight than the engineering and economic objectives that construction firms are geared to meet.

Public officials often confuse volume with profit, and assign the construction industry a disproportionate share of the blame for the larger social failures of American society. The only successful people in the set-aside programs are the government bureaucrats who can report to Congress that they have met their goals. The implication is that in meeting their goals these companies must be successful, but this is not reality.

AGC has found common ground with the National Association of Minority Contractors, Women Construction Owners and Executives, and the National Association of Women in Construction on the issue of equal opportunity. In October of 1998, AGC joined with these associations in the following statement:

> All Americans are morally and legally entitled to equal opportunity. For that reason, the construction industry welcomes the growth and development of minority and women business enterprises.
>
> All of the construction industry's trade associations should expand their efforts to identify new ways to facilitate the growth and development of minority and women business enterprises.
>
> The construction industry has much to gain from outreach and partnering in which all construction firms work together in a positive effort to advance the industry.

Consistent with these joint public statements, AGC has announced a model mentor-protégé program for the construction industry, widely known as the Stempel Plan. For over two years, AGC has fostered public support for this program. In the weeks and months ahead, AGC will continue to do so. This program grew out of our frustration with set-aside programs that teach no business skills.

Attached is an executive summary and a copy of the plan. As you will see, its primary focus is on business skills as it joins two mentors with each protégé. It requires the three to meet at least monthly. At those monthly meetings, it requires all three to review and discuss the protégé's working capital, capacity, bonding, insurance, work in progress, backlog and other business variables. The model also requires the mentors to help their protégé develop and implement an action plan for the following month.

Everything revolves around the protégé's business plan. The program also provides accounting and other professional services. But, unlike the government programs of the past, the Stempel Plan promises no work. Rather, it promises business acumen. Its expressly stated mission is to build a broad base of emerging business enterprises capable of performing high quality construction at competitive prices.

The construction industry is comprised of an extraordinarily diverse group of firms. Some perform all or nearly all of their work with their own employees. Others subcontract a majority of their work. Some are heavily invested in equipment, while others own little. Some work with many of the seventeen construction trades. Others work with only a few. Some contractors live in areas that allow for a year round construction season, while others are limited due to weather conditions. Some perform only public work. Others work for private owners. Some work under collective bargaining agreements. Others are entirely open shop.

There are, however, some common denominators. The vast majority of AGC members are small, family-owned businesses. These are entrepreneurial construction companies. AGC's members include the nation's largest general contractors but many more of its members are far from corporate giants. The survival for many of these small, family owned businesses hinges on husbands, wives and children working side-by-side.

AGC's members share a common pride in the public and private infrastructure they have put in place. These men and women do not merely dream of great and wonderful things. They actually get

them done. The construction of our roads, bridges, schools and hospitals are among their tangible contributions to the quality of American life.

Construction is an inherently competitive environment. In the public sector, the competitive bid system has long required sealed bids for most, if not all, construction contracts. It has also required public officials to open those bids publicly, and to award each contract to the lowest responsive and responsible bidder. The private sector is less structured because private owners are spending their own money. The competition is fierce. Few private owners are willing to pay more than absolutely necessary, and to determine that price, private owners also solicit several competing bids or proposals.

Risk is part of every project and must be adequately addressed before proceeding with work. Far in advance, they have to predict the ultimate cost of every road, bridge and building. They have to calculate quantities and costs for thousands of items, including the labor that a project will require. Contractors face the challenge of differing site conditions, of weather, and of changes in the price of labor and material. They have to depend on subcontractors, suppliers and others beyond their direct control. They have to count on the owner to make timely payments. In order to be bonded for a project, they typically have to give their surety (bond agent) a legal claim to their personal assets.

AGC strongly encourages the Small Business Committee to examine the unique benefits of the Stempel Plan. This private program picks up where set-aside programs have failed -- it creates viable businesses. It teaches management skills without a trip to bankruptcy court. It gives all participants the ability to compete for work and grow into profitable businesses that can create jobs and help their communities. AGC would also welcome a future opportunity to testify on its implementation of the Stempel Plan in the cities of Pittsburgh, Portland, Kansas City, St. Louis, and elsewhere.

Sincerely,

Jeffery D. Shoaf
Executive Director
Congressional Relations

The Stempel Plan

The Stempel Plan is a model mentor-protégé program for the construction industry. The Associated General Contractors of America (AGC) endorsed the program in March of 1997 and has been actively promoting it since that time. Below is a brief summary of the program's mission, measurable objectives, major elements and policy on the relationship between mentors and protégés.

AGC has widely distributed the Stempel plan throughout the United States. In addition to government support for the program, AGC has actively sought the private sector's support. AGC presented the Stempel Plan to the Business Roundtable in November of 1997. It has also presented the program to the Private Industry Advisory Counsel, a smaller group of large private companies that regularly meets with AGC. Thus far, two AGC chapters have implemented the Stempel Plan and four others have expressed an interest in doing so. One large private owner has also indicated that it will support the Stempel Plan; several others are considering support. Where originally implemented, the program has cost approximately $15,000 per protégé per year.

Mission: The mission of the Stempel Plan is to build a broad base of emerging business enterprises capable of performing high quality construction at competitive prices.

Objectives: The program has four measurable objectives. The first is a higher than average survival rate for the program's protégés. The second is continuous improvement in the financial strength and bonding capacity of those firms. The third is consistent success in meeting the business objectives included in each protégé's business plan. The fourth is a high rate of successful transition out of the program.

Each month, mentors and protégés review and discuss each protégés working capital, equipment, payroll, material expenses, overhead, net profit, lines of credit, bonding, insurance, work in progress and backlog.

Elements: The Stempel Plan is highly structured. In addition to mentors, it requires a program sponsor capable of (1) scheduling and supporting regular monthly meetings between mentors and protégés, (2) providing administrative and other support for an advisory board, (3) administering contracts with professional service providers and (4) coordinating program activities with other major components of the local construction industry, including surety companies and financial institutions.

The program joins two mentors with each protégé. It requires the three to meet at least monthly. It requires a written agenda for the meeting and a written report on the results. The report should include an action plan for the following month. Any professional service providers involved in the implementation of such an action plan should also attend the immediately preceding and/or following meeting.

Everything begins with a protégé's business plan. Protégés are expected to prepare such a plan before they enter the program. As they increase their experience, they may, however, refine that plan. Mentors themselves provide a certain amount of professional and technical assistance. Professional service providers focus on financial administration, bonding requirements, insurance and the like.

Policy: The Stempel Plan does not prohibit mentors from subcontracting work to their protégés but it does discourage them from doing so. This stems from an interest in completely avoiding any question about the nature of the relationship between mentors and their protégés. In addition, it helps to ensure that the advice given protégés will be independent and objective. It also helps to shift the focus from the construction of individual projects to the fundamentals of the protégé's business.