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DISASTER LOAN SIZE STANDARDS

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HEARING ON DISASTER LOAN SIZE STANDARDS

WEDNESDAY, FEBRUARY 27, 2002

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

The Committee met, pursuant to call, at 2:07 p.m. in Room 2360, Rayburn House Office Building, Hon. Donald Manzullo presiding.

Chairman MANZULLO. Today's hearing is about small businesses that are suffering and officials of the administration in Washington, DC, whose method of helping many small businesses has caused untold confusion and suffering. The Small Business Administration operates a disaster loan program to assist businesses that have been victimized by the terrorist attacks.

One of these programs, the economic injury disaster loan program, was expanded to allow relief outside areas immediately surrounding New York and the Washington, DC metropolitan areas. However, even after repeated attempts by elected officials in Congress, including myself, the SBA has refused to discuss any changes or allow any input from Congress. Thus, many businesses are unable to take advantage of the financial assistance because of arbitrary size classifications used by the Small Business Administration in the operation of the disaster loan program.

We will hear today from the officials and affected small business owners. The president declared New York City and Northern Virginia disaster areas on September 11th and the 12th of 2001. On September 13th, the SBA declared the availability of disaster assistance to small businesses located in New York City. A similar declaration was made by the SBA for Northern Virginia on September 24th. We applaud the SBA for moving quickly on the president's request.

During the month of September, Congress appropriated a supplemental $20 billion to provide assistance, of which some has been going to small businesses. In addition, members of the Senate and House introduced a number of bills designed to assist small businesses recover from these attacks.

The first effort at helping small businesses beyond those located in the disaster area came with the expanded economic injury disaster loan [EIDL] program. As chairman of the Small Business Committee, I talked with the chief of staff of the SBA on several occasions in September and October about changing the size standards. I was aware of the problem that many small businesses would not be able to meet the existing standards. The chief of staff repeatedly told me that he was waiting on "OMB to move." When

I learned of the actual change in the EIDL program and its omission of size standard changes, I got into a very heated discussion with the SBA chief of staff, stating that the SBA would be misleading small businesses because the size standards had not been addressed.

I asked the chief of staff for a one-day delay in issuing the regulations so that Congress could have input, and he refused. After repeated questioning by me, he said that he was the one who had written the new regulation and was responsible for its content, notwithstanding his protestations that to me that it was OMB that was writing the regulations.

I also asked Administrator Barreto for Congress to be able to provide input into the interim emergency regulations. All I asked for was just one day, one day, for Congress to have input in these regulations. Despite my warning to him that the new regulations would give false hope to many small businesses, one of whom is testifying today.

Mr. Barreto signed off on those regulations on October 16, 2001. I got a notice that there was going to be a press release issued with the new regulations. His office called and sent a press release. The press release was misleading because it gave false hope to many businesses. Six days later, the expanded EIDL program was published in the Federal Register.

Members of my staff met with SBA staff prior to October 16th to discuss new interim regulations; however, my staff was repeatedly told that this was an administrative matter, and they were not prepared to discuss this with Congress because they had to submit the issue to OMB. It was apparent that the SBA was not and still is not interested in Congress' input into size standards.

As a member of Congress, I was aware of the size standard problem while the SBA was making up the emergency regulations, and each step of the way SBA has refused any input by Congress. Thus, SBA has to bear the responsibility for many disappointed businesses, included the ones seated at the table with Administrators Barreto and Dr. Graham.

The expanded program did not help alleviate the problems many small businesses were facing. Business owners that were enticed into applying and publicizing the disaster loan program, like Mr. Klassovity, were then denied loans because they did not meet the "arbitrary" size standards used by the SBA.

I have heard from enough members of Congress about businesses that were turned down many times on the phone, never even got an application, because of the arbitrary size classification. For example, one of Mr. Ferguson's constituents, Liberty Helicopter, was denied a loan because they were classified as air tour operator. If they had 51 percent of their revenue from air charter service, they would have met the size standard for air charter service of 1,500 employees and would have been eligible for a loan. Similarly, a McDonald's franchisee with three units in the New York City area, including one that is a block from Ground Zero, was deemed not small by the SBA. I challenge anyone to demonstrate to me that a three-unit franchisee is dominant in the restaurant business.

Then I called for a hearing on December 6 because it was apparent there was a serious flaw with the SBA EIDL programs and size

standards. As a follow-up to that hearing, I met with the associate administrator for disaster assistance, Herb Mitchell, and SBA staff on December 11, 2001. At that meeting, Herb Mitchell, who has done a fantastic job in using what resources were available to help small businesses, agreed with us that the size standards could be changed administratively. That meeting prompted another meeting the next day with Barry Pineles, our staff attorney who specializes in administrative law, and staff from the SBA. SBA staff agreed to change the size standards because of the problem. Committee staff then regularly contacted the SBA about the progress but were continually told that the regulations are being worked on and are at the highest priority.

Finally, after five weeks, the regulations were sent from the SBA to the Office of Information and Regulatory Affairs [OIRA] for review on January 18, 2002. The SBA has never fully explained why this regulation took five weeks from point of inception to submission to OIRA while the regulation expanding the EIDL program took the same amount of time to get published in the Federal Register. The SBA, hopefully, will have their opportunity to explain the delay.

On January 23, 2002, I called Administrator Graham and explained the importance of this regulation and the need for expedition in review and approval. That has been over a month now. Three weeks after receiving the regulation, OIRA returned the regulation to the SBA. OIRA's primary conclusion was that the regulation would not serve the interests of small businesses. Now, why an administrative agency knows what serves the interests of small business as opposed to the Small Business Committee and small businessmen is beyond the pale of comprehension. Administrator Graham will have the opportunity to explain to the small businesses sitting at this table how the proposed regulation does not serve small businesses.

After three months of trying to resolve the issue and six months after the terrorist attacks, I was appalled by OIRA's response that the changes would not help small businesses. Since that time, all we have heard, after Committee staff initiated contact, was that discussions were ongoing in trying to resolve the issue. Well, the relevant parties are here today. You can carry on the necessary discussions. If necessary, I hope you brought your sleeping bags and your tooth brushes because the two of you are not leaving this room until this issue is determined. If it is not determined today, I will issue a subpoena and bring you back next week, and you will stay in this room until it is completed.

I would like to add that the Committee rules require testimony be submitted 48 hours prior to the hearing. A small business owner like Mr. Klassovity can meet that deadline, but neither Administrator Barreto nor Administrator Graham were able to meet that deadline. The people in charge of the regulations cannot follow the simple rules themselves. Their testimony was delivered to the Committee at eleven-thirty this morning. It appears that this deadline is emblematic of indifference shown to this Committee.

I have got the testimony here of Tom Sullivan, who is the new Chief Counsel of Advocacy at the U.S. Small Business Administration, a great choice. Do you know what his complaint is? Red tape

and bureaucracies not moving and hurting small businesses. Well, the red tape now and the organization for hurting small businesses is the Small Business Administration. Today is the day of accountability.

Mr. Sweeney is going to be joining us here shortly. He is a member of the Appropriations Committee. He has a distinct interest in the budget of the SBA in making sure money is not used to pay bureaucrats who fiddle in Washington while small businesses are hurt across the nation.

I now recognize the ranking member, the gentlelady from New York, Ms. Velázquez, for her opening statement. After that, as soon as Mr. Sweeney comes, we will recognize him.

[Chairman Manzullo's statement may be found in appendix.]

Ms. VELÁZQUEZ. Thank you, Mr. Chairman. I guess that today we have an exchange of roles here. I will be the nice lady today, not the nice guy. Mr. Chairman, I guess that we will stay here, as you said. I wish you were willing to stay here two weeks ago for two hours to discuss the administration budget, the SBA budget, but we were not able to do so.

In the aftermath of September 11th, small businesses across the country have borne a heavy burden in responding to this national tragedy and working to rebuild their community. In Chinatown, which is in my district on the lower East Side in Manhattan, commerce dropped by as much as 80 percent for some businesses. Businesses across New York could not help but feel effects like that, when 100,000 jobs and 20 percent of Manhattan's office space evaporated in two instants.

Thousands of businesses have sought disaster recovery assistance from SBA. Unfortunately, we know that many of these companies have been turned away because they are, according to current SBA size standards, too big. We do not know how many small businesses never bothered because they thought they were too big, but the number could be considerable.

How the SBA determines what business is small and not small is a critical distinction. It often means the difference between survival and collapse is divided by a very thin line. The current size standards are like a lottery, picking winners and losers based on often arbitrary distinctions which we must now change. We have known for a long time that SBA size standards need to be updated. September 11th has only forced this issue. This unprecedented event has flooded the disaster loan program with applicants seeking recovery aid.

In December, we included in the Defense Department appropriations bill a provision asking SBA to update its size standards. SBA did so, but the Office of Management and Budget refused to accept those changes. While OMB obstinately ignores our wishes, countless businesses are suffering without assistance or remain caught in an arbitrary bureaucracy.

OMB has complained that adjusting new size standards would be burdensome and complex. It is difficult, they say, to determine what is small and what is not small. Well, this administration had no difficulty determining what constituted an airline or an insurance company to qualify for disaster assistance after September 11th. They made that decision in a matter of weeks. We have

known for years that our size standards need to be revised, and we have given OMB at least the past two months to come up with a plan.

We need to adjust the size standards to make more small businesses like those in New York City eligible for recovery aid. It follows the good choice made by Administrator Barreto to open up the economic injury disaster loan program to any small business affected by September 11th while expanding these services to nonprofits and financial institutions. Whether we adjust the standards for inflation or region or to respond to a disaster like September 11, the goal is the same. The disaster loans are designed to help small businesses survive and rebuild after a calamity.

By sweeping aside the various existing size standards, this proposal would go further to accomplishing the core mission of the SBA: aiding and assisting small businesses. It goes without saying that what constitutes a small restaurant in midtown Manhattan is not the same thing for a small restaurant in Wyoming. But right now they are treated as if they were the same thing. As a result, one may benefit from disaster assistance while the other does not. That needs to change. Working together with OMB, I am confident we can change those arbitrary distinctions that keep more small businesses from receiving needed disaster recovery assistance. Thank you very much, Mr. Chairman.

Chairman MANZULLO. Okay. The first witness will be Administrator Barreto. We look forward to your testimony. The complete statements of all of the witnesses will be a part of the record.

STATEMENT OF HECTOR V. BARRETO, ADMINISTRATOR, SMALL BUSINESS ADMINISTRATION

Mr. BARRETO. Thank you very much. Mr. Chairman, Ranking Member Velazquez, and members of the Committee, thank you for inviting me here today to discuss the size standard policy of the U.S. Small Business Administration and the procedures the SBA uses to establish those standards.

The statutory mandate set forth in Section 3(a) of the Small Business Act guides the SBA's policy. The SBA has used this basic statutory guidance with great success for nearly 50 years. The SBA size classifications currently encompass over 98 percent of all businesses in the United States. Size standards have always played an integral role in the agency's services and programs. The SBA understands that its determinations affect the operations of programs in every agency of the federal government, from procurement and financial assistance programs to regulatory regimes and enforcement matters. These determinations, in turn, have a significant impact on the life of a small business. The events of September 11th have raised their importance even greater still.

It is in this spirit that the administration, our legislative partners, the agency and OMB, took the following actions to assist small businesses. We expanded EIDL nationally, effective October 22, 2001. We increased the monetary size standards to reflect inflation by 15.8 percent, effective as of January 23, 2002. We allocated through February 25th $306 million to New York and Virginia and retroactively applied inflation-based size standards. We allocated $217 million nationally. We extended the EIDL recovery applica-

tion deadline to April 22, 2002. And finally, we expanded disaster recovery through the business loan program, effective January 31, 2002.

The SBA continues to work to assist small businesses injured by the September 11th disaster. Like you, Mr. Chairman, the SBA wants to make sure that it is assisting those small businesses that are on the bubble with respect to size standards but still possess the attributes of a small business. We also want to review industry standards that may be out of date or too narrowly defined to accurately reflect the small business market. In fact, Mr. Chairman, you asked the SBA to look at the travel agency industry, and we have. The SBA is in the process of completing its internal legal review of the regulation to address the size standard in this industry.

Chairman MANZULLO. I would like to interrupt at this point. When will that be ready?

Mr. BARRETO. It is imminent.

Chairman MANZULLO. When will it be ready? I want an answer.

Mr. BARRETO. I do not know when it will be ready.

Chairman MANZULLO. Mr. Barreto.

Mr. BARRETO. Yes, sir.

Chairman MANZULLO. Mr. Barreto, I want a date when that will be submitted, then I want a date when OIRA is going to act on it; otherwise, you are going to be back here again.

Mr. BARRETO. I have just been instructed that it will be ready by the end of next week.

Chairman MANZULLO. What date is that? The end of next week, March 8th? Would you send a letter to that effect? Have it signed by the administrator. Go ahead, please.

Mr. BARRETO. Thank you. The SBA is in the process of completing its internal legal review of the regulation to address the size standard in this industry. We hope to send the regulation to OMB shortly for its review.

Chairman MANZULLO. That will be sent on the same date also? Could I interrupt you, please? Dr. Graham, how long will OIRA act on that?

Mr. GRAHAM. If you give me a phone call, Mr. Chairman, like you did on the last one, it will be as quickly as the last time.

Chairman MANZULLO. That is not sufficient. That is not sufficient. I want a date when you are going to act on it.

Mr. GRAHAM. I would say we will do our best within two weeks, sir.

Chairman MANZULLO. Two weeks from when you get it? What date is that? Two weeks from the 8th, the 22nd, would you send a letter that will be ready by then, signed by you, faxed to our office?

Mr. GRAHAM. Yes, sir.

Chairman MANZULLO. Thank you. Please continue.

Mr. BARRETO. Serving small business is the agency's mission. Therefore, during this process of reviewing size standards, the SBA has taken care to assist small business while ensuring that neither the expansion of the size regulation nor the method of expansion renders the size standards themselves meaningless. The loss of a meaningful size standard would be a detriment to all small businesses.

In order to avoid such a problem historically, the SBA has reviewed and imposed size standards on an industry-by-industry basis. The SBA size standards vary by industry and can be based either on revenue or the number of employees. Under EIDL, a business must be small relative to the size standard established for its primary industry. Common size standards include $6 million for service and retail trade firms, $12 million for special trade contractors, $28.5 million for general and heavy construction contractors, 100 employees for wholesale trade firms, and 500 employees for manufacturers.

Furthermore, different size standards exist for certain industries within more general industry categories. Varying size standards are designed to reflect differing characteristics of small business within different industries.

The SBA recognizes that some of its industry size standards may not capture all businesses that possess small business characteristics. In order to address this concern, the SBA considered an expedited review of a large number of industries but realized that the need to prepare and adopt revised size standards quickly made this course of action impractical.

The SBA also sought to establish a single, employee-based, size standard for applicants applying for EIDL assistance in the aftermath of September 11th. The SBA chose this standard for several reasons. First, firms with 500 employees or less account for half of all of the economic activity. Additionally, 500 employees is the size standard the SBA already uses for most manufacturing industries, and many research studies on small businesses also use 500 employees as a general definition of small business. Finally, the alternative net worth and net income size standards used for the SBA's Small Business Investment Company and the Certified Development Company programs can include firms up to 500 employees.

OMB promptly reviewed the proposed uniform EIDL size standard and indicated that it had several concerns with the single-size-standard approach. Dr. John Graham, the administrator of OMB's Office of Information and Regulatory Affairs, will discuss these concerns in more detail with the Committee. The SBA greatly appreciates Dr. Graham's and OMB's cooperation in considering alternatives to the 500-employee size standard and will continue to work them to find an approach that will ensure that small businesses harmed by the events of September 11th have access to SBA's programs. Thank you very much.

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

Chairman MANZULLO. Thank you. Dr. Graham.

STATEMENT OF JOHN D. GRAHAM

Mr. GRAHAM. Thank you, Mr. Chairman, and members of the Committee. I am pleased to have the opportunity to explain OMB's position on the role of business size definitions in defining the scope of SBA programs.

Under Executive Order 12866, OMB reviews all significant regulatory actions to ensure consistency with the principle of good regulatory analysis and policy. There are ultimately three possible outcomes of OMB review: clearance of the rule, withdrawal by the agency, or return by OMB for further consideration.

When a rule is returned to the agency, it is the practice of this administration to prepare a formal return letter that is made available to the public as well as to the agency. Since I was confirmed by the Senate in July of last year, I have signed 17 return letters about various draft regulations. In most cases the reason for the return was an inadequate regulatory analysis to support the proposal. In five of those cases to date, the agency ultimately improved the regulatory analysis and the package, resubmitted it to OMB, and it was cleared for publication in the Federal Register.

Moving to the specific issue at hand, OMB is acutely aware of the devastating impact that the events of September 11th have had on the business community, including large, medium-sized, and small businesses. We support the special commitment that Congress has made to assist small businesses through the EIDL program. Since September 11th, we have worked with SBA to, one, extend the coverage of this program to small businesses outside of the immediately affected geographical areas, and, two, we have accelerated a long overdue modernization of the SBA definition of small business that accounts for inflation since 1994. These expansions have resulted in $209 million in obligation for the EIDL program. We are also open to considering additional ways that SBA could cushion the economic impacts of September 11th and protect the viability of small businesses.

We returned to SBA for reconsideration a recent proposal to expand the definition of a small business under the EIDL program to any firm with less than 500 employees or less than the industry-specific standard.

Our central concern is that SBA has proposed, in the context of this draft rule, a rather fundamental shift in the definition of a small business, a shift whose implications were not adequately explored in the package that was sent to us. Obviously, OMB is concerned that a change in the size standards made for this program could readily be argued as a precedent for changing the size definitions governing other SBA subsidy programs.

If the change to the 500-employee standard were made across SBA's programs, the consequences could be quite controversial. For example, for any fixed amount of SBA funding, the proposed change would cause a shift in the mix of support from the manufacturing sector to the nonmanufacturing sector, where many more service-oriented firms would be considered small. It does not seem plausible to suggest that service-oriented firms with several hundred employees are small in the sense that Congress and SBA have previously intended in the context of SBA's assistance programs.

Chairman MANZULLO. Can I interrupt you at that point?

Mr. GRAHAM. Yes, sir.

Chairman MANZULLO. How would you make that statement when Congress was never asked for any input? You have absolutely no basis on which to make that statement.

Mr. GRAHAM. Yes. I was referring to the historical decision-making of both Congress and the SBA.

Chairman MANZULLO. Well, there is no historical decision-making because decisions are not made; arbitrary things are made. Did you ever contact the travel industry?

Mr. GRAHAM. No, sir.

Chairman MANZULLO. Did you ever contact any industries?

Mr. GRAHAM. No, sir.

Chairman MANZULLO. Please proceed.

Mr. GRAHAM. Speaking for manufacturing firms, On the other hand, the 100-employee definition, is specifically in there because of the nature of that specific type of industry.

In short, OMB is not convinced that the principle that underlies the new size definitions, taking a manufacturing definition and applying it to all other sectors of the economy, we are not convinced that that represents sound economic policy.

Although OMB has returned SBA's particular proposal for reconsideration, we remain open to alternative proposals from SBA that can address the financially ruinous impacts of the events of September 11th. We have encouraged SBA to formulate proposals that maintain the current industry-specific approaches to defining small businesses.

Chairman Manzullo, you called me about a month ago, you mentioned, and you requested an expedited review of this matter. That phone call was my first awareness of the issue that this hearing is about. I did, in fact, respond quite promptly to your phone call, and we have, in fact, provided the OMB response to SBA. Thank you very much for the opportunity to be here today.

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

Chairman MANZULLO. Thank you, Dr. Graham. Congressman John Sweeney is going to be here both as an ex-officio member of the Committee, and, Mr. Sweeney, I am going to give you the opportunity to make a statement and then also to introduce your constituent.

Mr. SWEENEY. Thank you, Mr. Chairman, and I want to thank you and Ranking Member Velazquez and members of the Committee for welcoming me back home to this Committee that I miss greatly.

Chairman MANZULLO. You are on appropriations now.

Mr. SWEENEY. Regrettably, I have two Appropriation Subcommittee hearings going on concurrently, so I will not be able to stay, but it is always good to be back at this Committee because I know and respect and really appreciate the good work you do. So let me begin by applauding your efforts on behalf of small businesses and the commitment to small business and, in particular, especially I want to commend your holding this hearing on the hardships that have been incurred as a result of the events of September 11th.

I, a member of the New York delegation, have been very active with the ranking member and other members of the delegation at trying to clarify and get the word out, the message out, and ensure that the appropriate federal responses were in place to all of those who have been affected. In fact, my office has been addressing this critical issue for months to no avail.

Here testifying before the Committee today is a constituent of mine, Mr. Rod Klassovity, CEO and part owner of the Albany Travel Unlimited, Incorporated. Mr. Klassovity and his commercial financing consultant, Nathan Schecter, after repeatedly being encouraged by local SBA offices to apply for a disaster assistance loan, were ultimately rejected due to a size-standard issue. Regret-

tably, even after the president signed into law H.R. 3338 with an amendment enhancing the disaster assistance loan program, Mr. Klassovity and Mr. Schecter are still without a loan and are now faced with the possibility of even further staff reductions. I will let Mr. Klassovity tell you his story and tell you of the plight.

But the SBA continues to stymie the very same small business owners it was established to help, it seems to this member. This issue must be rectified immediately. I want to thank Mr. Klassovity and his commercial financing consultant for traveling to Washington. I will tell you that there was some apprehension on their parts in participating in this testimony, so I recognize the courage that you bring to the table. His testimony, I think, will shed light on an issue that is crucial to so many small businesses suffering throughout the affected areas, and it is my hope that this hearing will begin to rectify the problem.

And I will say, Mr. Chairman, that as a member of the Appropriations Committee and to our colleagues from the Small Business Administration, I am going to be watching. I am interested in the results of the testimonies here and the impact on the SBA and its adjustments to that as decisions are made over in that austere Committee on what direction and what priorities we are going to establish here in Congress.

So with that, I would like to introduce Rod Klassovity.

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

STATEMENT OF RODNEY R. KLASSOVITY

Mr. KLASSOVITY. Thank you. Chairman Manzullo, Ranking Member Velazquez, members of the Committee, thank you for inviting me to appear before you to describe the hardships that we have incurred as a result of the events of September 11th and the indifference in and mishandling of our disaster loan application by the SBA and subsequently by OMB.

Before I get into the subject matter, I would like to thank Congressman John Sweeney and his staff, Congressman Michael McNulty and his staff, as well as Chairman Manzullo and the Small Business Committee staff for their responsiveness in hearing our calls for help. With their help and the help of you as Committee members, hopefully we can together overcome the bureaucratic road block that has denied us much needed disaster relief.

I am the CEO and 50 percent owner of Albany Travel Unlimited. We are a privately owned travel agency located in Clifton Park, New York, right outside of Albany. We were founded in 1955 and have grown prudently over the years. Prior to September 11th, we had average annual commission revenue of approximately $2.5 million and employed 50 people, with a payroll averaging $1.3 million a year. Our business composition is 70 percent corporate business and 30 percent leisure vacation business. We book, among other notable accounts, the travel for 125 agencies of the State of New York. The majority of our business is in the affected north-south New York-Boston-Washington, D.C. corridor.

As a direct result of September 11th, my business and the livelihood of 50 families changed dramatically. In the 21 weeks from September 11th through the end of January 2002, we have lost $340,000 in revenue. As a result, and over the holiday season, no

less, I had to lay off 10 people, or 20 percent of my staff, representing $123,400 in annual wages. Also over the holidays, my remaining employees, including myself and my partner, endured 14 weeks of partial pay, resulting in $51,400 in lost wages. Additionally, whereas I used to employ 50 people, of whom 39 were full time and 11 part time, I now only employ 40 people: 30 full timers and 10 part timers.

I could have, and probably should have, cut more staff; however, I have tried to do the patriotic thing by sustaining my employees and their families during these difficult times. Also, in a service business like mine, my skilled employees are key to our continued viability. However, with travel still down 23 percent over comparable period last year, revenue continues to be depressed, and our losses continue to mount. With my personal and business resources depleted, I am now faced with the real prospect of further job cuts.

None of this would have happened if the SBA had honored their word to provide timely disaster relief. In fact, the irony is that, after we contacted the SBA in October 2001 to inquire about possible disaster relief and whether, as a travel agency with annual commission revenue exceeding the $1 million size standard, we even qualified. The SBA not only encouraged us to apply but asked us to participate in a press conference announcing the expansion of the economic disaster loan program.

We were hesitant to publicize our need because we did not want to scare our employees or customers; however, we agreed to assist the SBA in publicizing the program so as to help the SBA and other hurt businesses. To date, 170 days since September 11th and 130 days since the SBA publicized our application, the SBA and OMB still have not provided us with disaster assistance.

In my written testimony on pages two and three I have a chronology of events, and I just want to go over some of the highlights. On October 16, 2001, my commercial financing consultant, Nathan Schecter, called the SBA office in Albany to inquire about available disaster relief. Nathan was advised that the economic injury disaster relief loan program had just been expanded to include Upstate New York.

Familiar with SBA financing, Nathan explicitly asked if, in general, size standards applied to disaster loans and if, in particular, our three-year average of $2.5 million in revenue, which exceeds the artificially low $1 million size standards for travel agents, would pose a problem. The Small Business Administration representative called back, stating that size standards did not apply and that the Zone 1 disaster office in Niagara Falls told him to send in the application. The very next day, my partner and I, still uneasy about the size-standard issue, called the Niagara Falls disaster office and were told "this program is designed for you; send it in." On October 19th, we participated in the SBA's press release regarding expansion of disaster loan program and our application. The attached article appears in my testimony.

Approximately two weeks later, on December 3, 2001, Niagara Falls called to inform me that my application had been turned down because my firm exceeded the size standard. The next day, Nathan Schecter, my financial consultant, called Niagara Falls and

was told but for the size standard, my firm would qualify for the requested loan. He was also told that 45 percent of disaster loans, or over 400 applications, having declined due to size standards. And then on that day we contacted Congressman Sweeney's office and asked for his help.

We were encouraged with Congressman Manzullo's amendment, H.R. 3338, and at that point we thought we were going to be recognized, but to this date that has not happened, and, of course, here I am testifying before you.

I would like to say a couple of things about the size standard. Per the SBA's size-standard table, there are 1,152 size standards. Of the 1,152 size standards, 602 are employee based. Those employee-based size standards have a range of 100 to 1,500 employees, with an average of 561 employees and a median of 500 employees. By comparison, I now employ only 40 people, which is less than one-tenth of the overall employee-based size standard.

Of the 1,152 size standards, 538 are revenue based. Those revenue-based standards have a range of $750,000 to $29,000,000, with an average of $8,100,000 and a median of $6,000,000. Within these revenue-based size standards no retail or service category has a lower size standard than travel agencies. In fact, there are only 46 categories with lower size standards, and those are all agricultural. My current three-year average revenue is $2.4 million, and I currently employ 40 people. By any measure, I am a small business.

Within the travel industry, 70 to 75 percent of travel and lodging is booked by travel agencies. The travel and lodging providers operate the physical assets, and travel agencies book the sales. However, inexplicably, within the travel industry, travel agents who book the sales for the travel and lodging providers, have the lowest revenue-based standard. Beyond the obvious air, rail, and cruise providers, other examples I have inserted into my written testimony to show you some of the other business types in our business that have a $6 million size standard. Tour operators, hotels, motels, bed and breakfast, all other travel arrangement and reservation services, of course, which is a function we provide—all our $6 million. Travel agents are $1 million.

What is the rationale behind having a lower standard for those that book the sales, that is, travel agents, than those for whom the sales are booked, that is, the travel and lodging providers? The 11-county Capital District where we live and work, consisting primarily of the Albany-Schenectady-Troy area, contains 1.1 million people. We are a second-tier market served by one airport. In our market my firm books 26 percent of travel and employs 24 percent of the total travel distribution employment base. We handle travel for 125 agencies of the State of New York and many of the area's other large employers. And as you know, the State of New York has instituted an austerity budget.

If we are left to wither on the vine and possibly even go out of business, no other firm in our market possesses the physical or financial resources to fill the sales or employment void that we would leave. The result would be travel disruption and increased unemployment in our already affected marketplace.

Travel has not returned to pre-9/11 levels. At the current trend, and assuming no further terrorist attacks or negative publicity, travel probably will not return to normal levels until at least third-quarter 2002 and more likely not until 2003. Therefore, we anticipate total revenue losses at our company of $600,000. Our request for a $600,000 economic injury disaster loan was right on target.

We now need your help. Please use your influence to get the SBA to raise the size standards for travel agencies to at least $2.5 million, or in the alternate, grant us immediate special dispensation so that we can get our much needed loan and retain our employees. Please understand, I am not asking for a grant like the airlines received. I am asking for a loan, which, adding insult to injury, I will have to pay back with interest. When those three planes hit on September 11th, I lost $600,000 that I will never recapture. I am not asking for a handout; I am only asking for equitable treatment and a little assistance. In the end it is me that will be borrowing so that I can continue to make my $25,000-a-week payroll, and it will be me that has to repay the loan. Please help me stay in business and to weather the storm. Thank you for your time and assistance.

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

Chairman MANZULLO. Thank you. We are going to take a recess to go and vote, and then we will be back, hopefully within 15 minutes, and resume the testimony.

[Whereupon, at 2:47 p.m., a brief recess was taken.]

Chairman MANZULLO. I am going to call the Committee to order. We have got about another 15 minutes before we have a motion to recommit and some other votes that will take about a half an hour total, so we will have the testimony of our next witness, Jacquelyn Alton, who is with the American Society of Travel Agents. I look forward to your testimony. If you could pull the mike closer to you. Thank you.

STATEMENT OF JACQUELYN ALTON

Ms. ALTON. Mr. Chairman, Ranking Member Velazquez, and members of the Committee, my name is Jackie Alton. I am owner of CWT/Alameda Travel in Houston, Texas. I thank you for this opportunity to speak to you today regarding the Small Business Administration's size standard, especially as it pertains to the travel agency industry. As a member of the American Society of Travel Agents, the InterAmerican Travel Agents Society, and the Society of Government Travel Professionals, I am honored to present this joint statement on their behalf.

ASTA, established in 1931, is the world's largest and most influential travel trade association, with over 26,000 members in more than 170 countries. ITAS, established in 1953, is the largest and oldest association of African-American owned and operated travel agencies in the world. SGTP is the national, nonprofit education forum for all components of the $20 billion government travel market.

Mr. Chairman, I also have a letter from ATI Travel of Kirkland, Washington, that I would like to have entered in today's——

Chairman MANZULLO. That will be made part of the record without objection.

Ms. ALTON. Okay. And furthermore, this agency was also denied the loan.

The travel agency community is very grateful to you, Mr. Chairman, and this Committee for the time and effort spent to assist small businesses in dealing with the aftermath of September 11th. Mr. Chairman, we deeply appreciate you having keynoted SGTP's travel management conference earlier this month. We also applaud the Small Business Administration for opening nationwide the SBA economic injury disaster loan program that has helped many small businesses with much needed financial assistance. Although there are some positive signs of improvement in the travel and tourism industry, much will depend on the U.S. economy and consumer confidence to travel in the months ahead.

During the heart-breaking days immediately following the September 11th attack, America's travel agencies were there for their clients, and they were there for others as well. Across the country, travel agents were in their offices trying to help the many thousands of people stranded by the nationwide airport closure. Many of them provided free assistance to people who had bought their tickets on the Internet and had no one else to go to for help. The travel agents performed these services because they were the only people who could. At the same time, they watched their businesses collapse. Many agencies reported gross earnings for the week including September 11th of less than $50.

It is a fact that in this unprecedented situation there was no substitute for travel agents for tens of thousands of people who needed help. Travel agents served as the only one-stop, neutral source of comprehensive information and counseling about an incredibly complex, constantly changing array of fares and services that confront the general public.

Ninety-five percent of all travel industry firms are small businesses that are local and family owned. Eighty-five percent of travel agency jobs are held by women, many of whom are flex-time mothers and single. The vast majority of travel agencies are independently owned. Seventy percent of owners and managers are women.

Long before the events of September 11th——

Chairman MANZULLO. Jacquelyn, excuse me. Could you go down to the issue of size standards?

Ms. ALTON. Yes.

Chairman MANZULLO. Thank you.

Ms. ALTON. The current SBA size standard for travel agencies was established in 1995 at $1 million, as measured by agency income. ASTA, ITAS, and SGTP support increasing the SBA travel agency size standard from $1 million to $3 million of income. Increasing the size standard will restore the competitive viability of locally owned, family businesses. It will also make future SBA loan programs available to additional agencies that are now considered too big to qualify under the current size standards.

We respectfully request congressional support of the SBA initiative. By increasing the size standard, more agencies currently considered too large will be eligible for small business government contracts and set-asides as well. Transaction-based contracting has established itself as the basic practice of corporate America, including

federal government programs. Current government regulations, contractor procedures, including an emphasis on past performance, and the cutting-edge way corporate America now does business with technology resources is taking away from the smaller travel agency the opportunities to compete successfully in an open marketplace unless we are able to grow.

A few firms dominate the air travel generated by travel agencies that are business-travel oriented. Sixty-nine percent of total air travel comes from just six agency organizations. Ninety-eight percent comes from the top 62 agencies, according to the current Business Travel News. Increasing the size standard to $3 million of income still keeps competition with a market area among locally owned, family businesses.

Some specialists in the small travel agency bidding process have observed that levels of competition among travel agencies have dropped dramatically. One federal agency that attracted 51 responses to RFPs received only five responses the next bidding cycle. Currently, of $9 billion of official government travel, about 50 agencies nationally hold GSA contract task orders, and about 30 travel agencies service the DoD, some of them servicing GSA as well. Government set-asides attract fewer respondents at the current $1 million level. Increasing the size standard to $3 million would produce more interest, provide an incentive for incumbents to rebid on their accounts, and yield better value for the U.S. Government and its taxpayers.

Thank you, Mr. Chairman, for the opportunity to present ASTA, ITAS, and SGTP views. I would be delighted to answer Committee questions.

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

Chairman MANZULLO. Thank you very much. There evidently is a problem with travel agencies grossing over a million dollars, and I would like to know, either from Dr. Graham or Mr. Barreto, what the problem is with travel agencies and why there is a reluctance to increase. My understanding is that the 15 percent increase did not even apply to travel agencies.

Mr. BARRETO. I think there is a number of factors that goes into developing size standards, but obviously that is one of the things that we are looking into in this proposed rule that we are sending up to OMB. We think that there is some room to expand that, and that will be reflected in the rule that OMB receives from us.

Chairman MANZULLO. Is there a dollar amount that you are going to put in there for travel agencies?

Mr. BARRETO. I do not have a dollar amount in front of me right now, but we think it is going to be a significant——

Chairman MANZULLO. Does anybody here with you know what the dollar amount is going to be? You have got a staff here.

Mr. BARRETO. I do not think that we have that information with us. That will be reflected in the information——

Chairman MANZULLO. Who has the information?

Mr. BARRETO. I believe that the folks, our, is working at the SBA——

Chairman MANZULLO. Who is in charge of the team?

Mr. BARRETO. Well, there is a number of individuals in charge of the size standards and others that are communicating with our executive team.

Chairman MANZULLO. Has anybody ever contacted the travel agency for input on this?

Mr. BARRETO. Absolutely. One of the things——

Chairman MANZULLO. Have you been contacted by the SBA for input on size standards?

Ms. ALTON. We requested and had a meeting with the SBA.

Chairman MANZULLO. Do you want to use the mike? When was that?

Ms. ALTON. July of 2001.

Chairman MANZULLO. And you had the meeting then?

Ms. ALTON. Yes, we did.

Chairman MANZULLO. July of 2001?

Ms. ALTON. Yes.

Chairman MANZULLO. Mr. Barreto.

Mr. BARRETO. I think that there has been a host of contacts that have been made. We have received some feedback from the government travel agents group. We have also received some feedback from some of the smaller travel agencies. We have requests in right now from some of the larger operators as well, so we are taking all of that feedback into consideration.

Chairman MANZULLO. She gave you that in July. This is now almost March. This is almost nine months later.

Mr. BARRETO. I think this has been an ongoing dialogue that we have had, but obviously in the last couple of months there has been a tremendous amount of activity. I have no less than 15 contacts and 15 actions that have taken place since December 11th.

Chairman MANZULLO. Mr. Barreto, are you aware of the fact that lawyers that have $5 million in gross revenue and CPAs that have $6 million in gross revenues could always get disaster loans? Are you aware of that?

Mr. BARRETO. I am aware that one size does not fit all.

Chairman MANZULLO. You did not answer my question.

Mr. BARRETO. We have, as has been mentioned before, many, many size classifications, depending on the industry.

Chairman MANZULLO. Mr. Barreto, you are aware that lawyers can gross up to $5 million gross revenue and CPAs up to $6 million.

Mr. BARRETO. I am aware of that.

Chairman MANZULLO. Are you aware of that also, Dr. Graham?

Mr. GRAHAM. No. I was not aware of that.

Chairman MANZULLO. The SBA would give you that information. If you had been aware of that, Dr. Graham, would you have considered increasing the travel industry standard?

Mr. GRAHAM. We at OMB have never had a proposal from SBA——

Chairman MANZULLO. That is correct.

Mr. GRAHAM [continuing]. On the travel. I did want to make a comment, if I could——

Chairman MANZULLO. Of course.

Mr. GRAHAM [continuing]. To our two witnesses from the private sector who are here today. I listened carefully to both of their testi-

monies, and I actually think that they do present, I think, a reasonably strong case for consideration of the specific rationale for the current size standard in the travel agent industry and whether it should be changed. I just want them to know that we at OMB are listening to those concerns. This is the first time I have heard it in the kind of vivid way that we are hearing it today, and I want you to know that we will take it seriously.

Chairman MANZULLO. This is what is wrong with the entire process because, Mr. Barreto, you will not even take my input.

Mr. BARRETO. I am happy to take your input at any time, Chairman.

Chairman MANZULLO. You are not. I am sorry. I got into a big fight with your chief of staff. I knew this was going to happen, and I begged him for one day's notice, one day opportunity, for the chairman of the Small Business Committee to review the size standards. Do you know what he said? OMB is in a hurry on this. And then you called, and I asked you for a day, and you said, OMB is in a hurry on this, and you put out that press release that turned out to be nothing but a fraud because it induced people like Mr. Klassovity.

What you did to him, your agency in baiting him to make the application, inviting him to take part in a press conference, resulted in all kinds of favorable publicity for the SBA. A major article appeared in his newspaper. This man went forward, and then to come to find out that the agency charged with the responsibility was so totally incompetent that they do not know anything about the size standards. And do you know what he has gotten out of it? Absolutely nothing, but he has to pay for his own trip here to Washington.

Are you aware of the fact that in the defense appropriations bill the following can get disaster loans: banks with $100 million in assets; nonbank lenders such as mortgage bankers, $5 million in gross revenues; stockbrokers with $5 million in gross revenues? Are you aware of those standards?

Mr. BARRETO. Yes, sir.

Chairman MANZULLO. And still you balked at helping out the people in the travel agency or the helicopter people.

Mr. BARRETO. We try to help every business that we possibly can based on the standards that we are held to. We are always willing to consider and reconsider. Obviously, we are working with this Committee.

Chairman MANZULLO. But Mr. Barreto, why do you say that when you would not even let me have any input on it? I knew the problems coming up, and I had called your chief of staff, and I had called you and said there is a problem with the size standards. Then you took those emergency regulations, you ran them over to OIRA, and they approved of them within what, two days? Within two days. That was an emergency because you determined it to be an emergency. If something comes from Congress, and we ask for consideration, it takes four weeks. Do you think we are here just to rubber stamp your agency?

Mr. BARRETO. Absolutely not.

Chairman MANZULLO. Well, that is the way you are treating us.

Mr. BARRETO. I am sorry that you feel that way. That would never be our intention.

Chairman MANZULLO. Well, the best intentions is not working because you are not going to leave this room today until there is a determination made as to the travel industry. I want you to understand that. I am not going to excuse you to leave.

Mr. BARRETO. I completely understand, Mr. Chairman.

Chairman MANZULLO. And Dr. Graham also. The two of you can talk here. You are not going to leave this room. By the time we end here, at midnight tonight, if necessary, this is going to be determined because I am not going to have small businesses in this country suffer while you guys cannot make up your mind what to do. Lawyers can get $5 million, and a travel agency cannot get two and a half million. Is that fair? Mr. Barreto?

Mr. BARRETO. We try to do everything we can——

Chairman MANZULLO. Is it fair?

Mr. BARRETO. Is it fair? I am sorry. Could you——

Chairman MANZULLO. Is it fair to the travel agents?

Mr. BARRETO. We are working with the travel agents right now. In fact, we have received letters of support——

Chairman MANZULLO. If you had said it is unfair, I would be really impressed. If you had said it is unfair and the standard stinks and you want to change it, that would be the proper answer.

Mr. BARRETO. Chairman, our size standards right now fit 98.5 percent of all businesses in the United States, and as I have said before, one size does not fit all.

Chairman MANZULLO. That is not what we are asking. We are asking for some common sense and some input. Members of Congress are elected; you are not. You are not responsible to anybody. You are accountable to no one. We are. Our constituents call us. As the chairman of the Small Business Committee, we got calls from all over the place. Do you know what we heard? We could not even get past the SBA people on the phone. They told us our size standards—that we were too big for the size standards. And, in fact, one of the testimonies from Mr. Klassovity, how many people were turned down? Four hundred is what you were told, just in the Albany office alone.

Mr. KLASSOVITY. No. It was out of the Niagara Falls office.

Chairman MANZULLO. Oh, the Niagara Falls office on it.

Mr. KLASSOVITY. It was 45 percent of disaster loans and over 400 applications.

Chairman MANZULLO. And you never quantified the number of people that never made an application, that never got through the person that answered the telephone. What is it going to take to make SBA come up with some half-decent standards starting with the travel industry? What do you want? What more input do you need? Do you want him to get on his knees?

Mr. BARRETO. We would never ask for that.

Ms. VELÁZQUEZ. Mr. Chairman, would you yield?

Chairman MANZULLO. Of course, I would yield.

Ms. VELÁZQUEZ. Mr. Barreto, the situation of the travel agents could be resolved if OMB accepted and authorized proposed changes in the size standard. Isn't that the case?

Mr. BARRETO. We are working with OMB on that right now, Congresswoman.

Ms. VELÁZQUEZ. The problem is that you sent changes to them, and they sent you this letter rejecting it. So I would invite the chairman, and I echo your frustration and your observations, but I also feel that it should be directed to OMB.

Mr. GRAHAM. Congresswoman, I think it is a fair question. The proposal that was sent to us was not specifically on the travel industry. It was on applying the 500–employee standard all across the American economy. And we felt that there were some larger policy issues that concerned us with that type of proposal. However, what I was commenting on was the case we heard from the private sector witnesses today about a specific industry size standard. Recently, there have been updates in the health care industry size standard by FDA, the petroleum industry size standards by SBA. They have worked constructively to make those changes, and I think we are seeing a reasonable case here for a change in that particular industry.

But I want to be a little bit supportive of my administration colleague, Chairman Manzullo, and indicate that obviously your disagreement on the broader proposal that was sent is not with SBA. SBA sent that to us.

Chairman MANZULLO. Well, they sat on it for five weeks.

Mr. GRAHAM. Right, but I think the substantive disagreement is——

Chairman MANZULLO. Do you know what the problem is?

Mr. GRAHAM [continuing]. Is with OMB, and it is not with my colleagues at SBA.

Chairman MANZULLO. Do you know what the problem is? You get a proposal. Congress does not know about it. No opportunity for any input, none, zero. You get a proposal. You look at it. The affected industries, no opportunity for anything. You are just there making these decisions yourselves. What are we here for? Why do you have these people out here? They are here to help. Who knows it better than they do?

Mr. Barreto, what do you think should be the size standards for travel agencies?

Mr. BARRETO. We have not made the final determination.

Chairman MANZULLO. You have not even come to a conclusion yet?

Mr. BARRETO. I think we are pretty close to making a conclusion.

Chairman MANZULLO. That is not enough. In your opinion, is 2.5, $3 million, is that reasonable?

Mr. BARRETO. It all depends on the situation.

Chairman MANZULLO. It all depends on the situation. What is the situation? Travel agents; they are now limited at $1 million. What dollar figure do you think would be fair and reasonable?

Mr. BARRETO. I do not know.

Chairman MANZULLO. You do not know. Do you have an opinion?

Mr. BARRETO. That is being formulated at this time.

Chairman MANZULLO. By whom? You are the administrator.

Mr. BARRETO. We are working together with our team——

Chairman MANZULLO. Mr. Barreto, you are the administrator. All right? You could tell Dr. Graham right now what figure you

want, and he would probably approve $3 million. Why don't you just get a piece of stationery? Anybody back there with a piece of SBA stationery—I am not kidding—that Mr. Barreto could take and submit to Dr. Graham, saying please change the size standards to $3 million or something reasonable? I am waiting. I am prepared to wait all day and all night until it is done; otherwise, you will not act.

Who has got stationery back there from the SBA? Who is here from the SBA? Would you get some stationery, please? I hate to do this. It is embarrassing. It is humiliating, but I represent them and these people that have been hurt, caught up by an administrative agency that cannot act and will not take any comment from Congress. Could you get some stationery from the agency, have it faxed over? Mr. Barreto, I am going to ask you to write a letter to Dr. Graham right now with your recommendation. I do not need your team; I need you. What figure are you prepared?

Mr. BARRETO. I do not know.

Chairman MANZULLO. You have no idea.

Mr. BARRETO. No.

Chairman MANZULLO. Dr. Graham, do you have an idea?

Mr. GRAHAM. No, sir. This is early in our——

Chairman MANZULLO. It is.

Mr. GRAHAM [continuing]. Consideration of this matter, but I am learning quickly, Mr. Chairman.

Chairman MANZULLO. It is. It is, and I appreciate that. Who at the SBA agency is part of the team? I want the names of the individuals. Who are they?

Mr. BARRETO. We will be glad to provide that to you.

Chairman MANZULLO. No, no. I want them right now. Who back there knows who these people are?

[No response.]

Chairman MANZULLO. Who is here from the SBA?

[Hands raised.]

Chairman MANZULLO. How many representatives do we have? One, two. Who are these people? Does anybody know who these people are that are working on the size standards? We do not know? Who is leading the team?

Mr. BARRETO. I am leading the team, sir.

Chairman MANZULLO. Well, who is on your team?

Mr. BARRETO. Well, it is all of the individuals that are in our office of size standards. We would be glad to provide you with those names and my senior team.

Chairman MANZULLO. Who are they? Who is in charge of it?

Mr. BARRETO. I would be glad to provide you the names——

Chairman MANZULLO. You do not know who is in charge of it?

Mr. BARRETO. We are meeting with them on a regular basis.

Chairman MANZULLO. But you do not know their names. I want to know their names. I want to subpoena them in here. I want to get this thing done. She gave the input in July. I want it done. If I have to do it in open Committee, I am going to have it done. I want it done. Who is on your team?

Mr. BARRETO. We will be glad to write those names down——

Chairman MANZULLO. No. I want to know. Tell me now.

Mr. BARRETO. We are preparing that list for you as we speak.

Chairman MANZULLO. Ms. Velázquez, do you have some questions?

Ms. VELÁZQUEZ. Thank you, Mr. Chairman. Mr. Barreto, I want to thank you because I requested that you extend the comment period on the proposed regulation on the 8(a) HUBZone, and you did. I hope that we could work together and extend the comment period for 30 more days.

Dr. Graham, in your letter of February 11th to the SBA, it appears clear that OMB is concerned with multiple expansions of a program. Is this true?

Mr. GRAHAM. No. I think what we tried to say is we have already approved two expansions of the program previously, one for small businesses outside of the immediately affected areas of the September 11th events, and the second one, the acceleration in the expansion of the size standards because they were outdated in terms of the inflationary adjustment. So we have already made two expansions in this program, and we did have a concern, sort of a basic policy concern with the approach that was in the proposal that was sent to us.

Ms. VELÁZQUEZ. So you are not concerned about expansion.

Mr. GRAHAM. Yes. Indeed, one of the concerns we had was that if the rationale was applied to other types of programs, there would be an expansion issue.

Ms. VELÁZQUEZ. So let me ask you, if you are concerned about the expansion, I just would like to ask you why you are not concerned about the fact that they expanded the HubZones regulation?

Mr. GRAHAM. I am sorry. I do not know the specifics on HubZones.

Ms. VELÁZQUEZ. OMB, SBA recently proposed expansion of the SBA HubZone program. Aren't you concerned about that expansion?

Mr. GRAHAM. I see the thrust of your question now. Our concern was with expanding the size definition of a small business. We have supported a variety of expansions in support for the small business community. That is not where the objection is. It is with the particular proposal to say if you have less than 500 employees, you are automatically a small business for the purposes of loan assistance or financial assistance.

Ms. VELÁZQUEZ. Dr. Graham, by virtue of locating in Manhattan and other urban areas with high rents as well as other increased costs of doing business, a business must have a higher revenue stream in order to survive. However, such a business is penalized as not a small business when it comes to the EIDL program. Will OMB consider approving regional size standards?

Mr. GRAHAM. I have not given that matter previous consideration, but I have to confess that the way you have framed it in that question has a little bit of merit behind it.

Ms. VELÁZQUEZ. Would OMB consider approving regional size standards for disaster loan programs?

Mr. GRAHAM. I think the same principle should apply to both at first blush.

Ms. VELÁZQUEZ. Would OMB consider approving a regional size standard for all size standards?

Mr. GRAHAM. Certainly would consider it.

Ms. VELÁZQUEZ. Dr. Graham, it appears that OMB's primary objection to changing the size standard for the purpose of EIDL to 500 employees is that some businesses with less than 500 employees may be dominant in their industry. Is this your primary objection?

Mr. GRAHAM. That is certainly, I would say, the major one.

Ms. VELÁZQUEZ. Okay. If SBA resubmitted the proposed rule and added the caveat that businesses will be eligible as long as they are independently owned and operated and not dominant in their field, would you approve the change to a 500-employee size standard?

Mr. GRAHAM. I do not believe so. In fact, I think the phrase you just referred to is the current statutory provision, and it is the second part of that phrase that we have concerns about because we think the thrust of that is to insist that SBA look at whether a business is small within the industry that is being evaluated, whether or not it is small or whether or not it is dominant within that specific industry.

Ms. VELÁZQUEZ. Can you provide us with any example where an industry with 500 employees is dominant?

Mr. GRAHAM. Well, I think it would be very interesting to ask the private sector witnesses at this table right now whether they would consider every travel agency a small business because——

Ms. VELÁZQUEZ. How could you then object to the regulations.

Mr. GRAHAM [continuing]. The 500-employee standard, Congresswoman, would be tantamount to saying that every travel agency, with maybe 50 or 60 exceptions, is a small business.

Ms. VELÁZQUEZ. It should be.

Mr. GRAHAM. It should. Well, that runs contrary to the historical practice in the program of saying "small" is defined within the context of a specific industry. There always have to be some large ones as well as small ones. That is the whole structure and history of the program.

Ms. VELÁZQUEZ. So, Dr. Graham, 97 percent of all businesses are small businesses in this country.

Mr. GRAHAM. Okay. Was it 98, Hector said? It is a lot. Right.

Ms. VELÁZQUEZ. In your February 11th letter to the SBA, you also expressed concern with the SBA proposal to determine a business small based upon the date of the EIDL application. Can you expand on your concerns with this proposal?

Mr. GRAHAM. No. I think the way you have summarized it is accurate. The small business determination should be at the time at which the event occurred, not a subsequent period. Otherwise, you have the possibility that general economic trends are causing the problem, if I am referring to the right paragraph, Congresswoman.

Ms. VELÁZQUEZ. What I understand is that you are concerned that businesses will use the EIDL process to request assistance as a result of the recent economic downturn. However—

Mr. GRAHAM. Rather than the events of September 11th——

Ms. VELÁZQUEZ. Right.

Mr. GRAHAM [continuing]. Right, which is a pretty central issue in the design of the program.

Ms. VELÁZQUEZ. Yes. And that is a concern for you.

Mr. GRAHAM. Yes. My understanding is that is what the program is designed for.

Ms. VELÁZQUEZ. So are you aware that the EIDL application specifically requires businesses to show how they having directly impacted by the 9/11 disaster?

Mr. GRAHAM. I probably should be, but you have done a good job of reminding me of it.

Ms. VELÁZQUEZ. Sir, I do not have to remind you of that. I am just asking you are you aware of that.

Mr. GRAHAM. I am now.

Ms. VELÁZQUEZ. You are now. So you know that if they cannot prove and show that they are suffering economic injury as a result of the disaster, 11th, then they cannot apply, and that application would be rejected, would be denied.

Mr. GRAHAM. A fair point.

Ms. VELÁZQUEZ. Mr. Barreto, did the SBA perform the inflationary adjustment to most monetary-based standards for the purpose of expanding the EIDL program?

Mr. BARRETO. I know that that was taken into consideration. When you say did it take it into account in every situation, I would have to check on that, but I know that that is one of the considerations when looking at that analysis.

Ms. VELÁZQUEZ. So let me ask you, what was your reaction when you saw that OMB's letter of February 11th referred to the inflationary adjustment as a second expansion of EIDL?

Mr. BARRETO. I think, as we have discussed, revising these size standards is not as easy as it sounds. It can be a very complicated matter, and a lot of factors is taken into consideration when we are looking at these size standards, that being one of them. One of the things that we knew is that OMB, stood ready and open to continuing the dialogue and continuing the negotiation, if you will, with regard to whether or not this would take place. We continue those negotiations, and as I have committed to today, by the end of next week we will be sending them over some new language and a new regulation that we hope that they will duly consider.

Ms. VELÁZQUEZ. Mr. Barreto, can you please explain the whole chain of events that led to the mess with Mr. Rodney Klassovity?

Mr. BARRETO. I did have a conversation with Rodney at the break, and obviously it is something that we are looking back into. Let me just start off by saying, I am very proud of the disaster team, and I know that you and I have worked on that. They have done an incredible job. I do not mind being criticized myself, and I duly accept it; that is part of my job. But I need to say a word for them. They have done an incredible job under some very trying circumstances. I think they have done an A-plus job. Can we do better? I think we can.

Ms. VELÁZQUEZ. Mr. Barreto, I have been there. I have been there. I have witnessed the work that all of these people have been doing in New York City. I understand that, but can you please explain?

Mr. BARRETO. Sure. The main thing that happens obviously is that we outreach to people all the time. We are sending information out. We work through our district offices, and we want to get them in. We try to do a loan every chance that we can. Obviously, once we receive all of the information, if it exceeds a standard, then we have to turn down that application.

In this case it did exceed the standard. Even with the increasing standard of $1.25 million, the current level of sales of $2.4 million with Albany almost doubled the current standard that we have, and that is really what the issue is. It is not that we do not want to make the loan. Right now we are constricted by——

Chairman MANZULLO. Would you yield a second?

Ms. VELÁZQUEZ. Sure, sir.

Chairman MANZULLO. The inflationary did not apply to travel agencies. The 15 percent did not apply to the travel agencies. Are you aware of that?

Mr. BARRETO. What I have in front of me here is that we adjusted the size standard upward by 25 percent to account for the labor surplus market—that is what it was—bringing it up to 1.25. That is what we did when we wrote this.

Ms. VELÁZQUEZ. Mr. Barreto, I have not seen a copy of what the SBA proposed as far as the size standard change or changes, although I have heard some of what has been proposed. Can we get a copy of the SBA proposal?

Mr. BARRETO. Absolutely. I will make sure that you receive it right away, Congresswoman.

Ms. VELÁZQUEZ. The one that was sent to OMB. Thank you, Mr. Chairman.

Ms. CHRISTENSEN. I am usually brief. I want to thank the panelists for coming. Thank you, Mr. Chairman.

I think we have spent a lot of time on the 500-employee size, but I want to ask just one question of Mr. Barreto on that. Do you have any concerns in retrospect about that request?

Mr. BARRETO. I do not have any concerns about it. I think that we are continuing to work on it. I want to also let you know that we received 269 applications that we rejected from September 11. Only five have been rejected because they exceeded the size standard in over 500 employees. Sixty-nine were rejected because they had a size standard of over 100 employees, depending on the industry.

So the actuality is very few companies that have been rejected for exceeding the size standards. And again, we try to do everything that we can to approve the loan, and we sometimes will take a second and third look at it. We are never opposed to do that. For us, it is not absolutely not under any circumstances.

Ms. CHRISTENSEN. Do you have any flexibility or authority to allow a waiver if a business is sort of on the borderline?

Mr. BARRETO. On the bubble. Exactly. We have looked into that. Our folks have told us that we do not have any independent authority to waive those standards by ourselves, and that is why it is important that we work in collaboration with you and also with OMB to make sure that when a size standard change is necessary and required, that we are able to do that.

Ms. CHRISTENSEN. I probably will come back. I want to go to the travel agents for just a minute because I know that, Ms. Alton, and I am not sure if you got a chance to talk about this in your testimony because I know you had to jump over, about this issue of total sales versus gross revenue. When you talk about going up to $3 million, are you then allowing the travel agents to use total

sales still, and also for you, Mr. Klassovity, when you talked about $2.4 million, were you talking about gross revenue or total sales?

Mr. KLASSOVITY. We are talking about gross revenue. Well, it is tough for all the commission cuts, but they are commissions. We are judged by commissions. It is revenue, commission revenue.

Ms. CHRISTENSEN. So you are not counting the money you are holding to pay to the——

Mr. KLASSOVITY. No.

Ms. CHRISTENSEN. Okay.

Mr. KLASSOVITY. Right.

Ms. CHRISTENSEN. So the $3 million would be gross revenue.

Ms. ALTON [continuing]. Gross revenue.

Ms. CHRISTENSEN. Were you saying that because some travel agents do not use total sales, they are rejected because they give the appearance that their gross revenue is larger? No. That does not happen.

Mr. KLASSOVITY. No, because the SBA recognizes the revenue, not the sales.

Ms. CHRISTENSEN. Okay. Help me, Mr. Barreto and Dr. Graham. Can you help me with what it takes to get from the $1 million to the $3 million because I am concerned that even though SBA is going through a process now of looking at revising the size standard for travel agencies, that it is going to come too late? It is already too late to help them. Many of them are having problems like Mr. Klassovity told us about.

Did you consider doing anything as an immediate stopgap? How long is this going to take, and what is the process that you have to go through because why can't you just request the increase? You are disposed to looking at it favorably because of what you have heard here today.

Mr. BARRETO. There is a process that we go through, and I will let Dr. Graham speak about his, but things that we look at are average firm size, the distribution of firms by size, the startup cost, industry competition, the impact of a size standard revision on SBA's programs. So there is a number of things that we have to go through and look at before we are able to make that recommendation.

You know, I have spent my whole life in the private sector. I understand very clearly that the pace of change is much different in the private sector than the public sector. We are moving this as quickly as we can. As I said, I think that we are going to have something expedited by next week, and I know that Dr. Graham will be taking a look at that. We go through a number of things, and we have to collect this information before we are ready to submit what I think is a comprehensive recommendation into OMB.

Ms. CHRISTENSEN. When you first came to us—I think it was after September 11th—and we talked about being flexible because this was a very unique set of circumstances, there is nothing that could be done between then and now?

Mr. BARRETO. I mentioned some of the things that we already have done.

Ms. CHRISTENSEN. For travel agents.

Mr. BARRETO. Well, no, not travel agents. I am talking about all businesses that were affected by September 11th.

Ms. CHRISTENSEN. Yes. I understand that. These were airplanes. People were afraid to travel. I come from a travel destination, and I am amazed at how hard it was and still is to get any attention for the travel industry, not only from SBA.

Mr. BARRETO. We are very, very focused on it. I will tell you that the state right now that we are getting the most requests for EIDL is Florida, outside of New York, and simply because that state is so dominated by tourism. And I also want to state for the record that we have done loans in the travel agency industry already. We have received letters of support and recommendation from the travel industry thanking us for the efforts. So I do not want there to be this impression that we are not helping travel agents because we are.

Ms. CHRISTENSEN. It is not just SBA. It is Ways and Means.

Ms. VELÁZQUEZ. Would the gentlewoman yield? Mr. Barreto, given the fact that you are still working on these changes on the size standard, and the national EIDL deadline expires on April 22nd, would you consider to expand or to extend the deadline?

Mr. BARRETO. Yes, ma'am. We have had those conversations. Obviously, we will work together with our folks in our disaster office. We will work together with OMB. But we do that on a periodic basis anyway. As you know, we have already extended it, and my understanding is that FEMA is extending some deadlines in New York themselves. So this is something that is a normal part of our ongoing process, and absolutely if need be, we will consider that and make the appropriate decision.

Ms. CHRISTENSEN. I would like to ask the travel agents. How much does extending the deadline help you right now? People will be going to other travel agencies if you cannot provide the business. Can I get an answer from either one of you or both?

Ms. ALTON. What I wanted to ask him, if it is extended, will people be grandfathered in if the size standard changes, because as it stands now——

Mr. BARRETO. What I would like to do is get you a very formal answer to that. My understanding is that we have made changes retroactive to businesses that were impacted. We have already done that. In this particular case, obviously, that would be one of the things that we would consider doing as well.

Ms. CHRISTENSEN. Because that is what the intention was in some of the other changes that you proposed or did, was it not? Mr. Klassovity?

Mr. KLASSOVITY. You know, from our end there are two issues. There is the size standard issue and the disaster relief loan. We applied for a disaster relief loan. We were not trying to change the size standard.

Ms. CHRISTENSEN. Right.

Mr. KLASSOVITY. And our application that we made was well over 150 pages with everything that they would need, and it zeroed in on all the requirements due to 9/11. I was not looking to change the size standards. I was told size standards did not apply due to 9/11. So in our particular case we were looking for——

Ms. CHRISTENSEN. I am sorry. Maybe they thought we had passed a democratic backed bill that we had proposed last year.

Mr. KLASSOVITY. Well, you know, when you wake up, and you have zero business for three months, which we all ran into, and you are trying to save your business, and then when you are told to apply, and we are definitely a perfect candidate for it, that does not quite wash. And that is why I believe I am here. I am talking about we were told to apply for a disaster relief loan, and we were a candidate. I agree with the size standards, but we were not questioning or even trying to change size standards. We viewed it as the 9/11 incident.

Ms. CHRISTENSEN. You know, I do not understand why some special provision could not have been made. There were other provisions that were made. The disaster, for example, was not limited to New York, Virginia, New Jersey. It was expanded. That was something that was out of the ordinary, so I still do not understand why something could not be done.

Chairman MANZULLO. Would the gentlelady yield on that?

Ms. CHRISTENSEN. Yes.

Chairman MANZULLO. That is why I wanted one day for congressional input. I was going to suggest that, but you were close to it, Mr. Barreto, and so was your chief of staff. And when our staff tried to meet with yours, you said, well, this is administrative, that we do not have to discuss this issue with you; OMB is working on it. All you had to do was take our suggestions from the duly elected representatives of the United States Congress who work with people like this and who are responsible to them. But you were not open. You were closed like a book. Why? Why wouldn't you take any input from me?

Mr. BARRETO. Chairman, I am always happy to take input from you.

Chairman MANZULLO. Answer the question. You did not. You refused. I am sorry. It is your time.

Ms. VELÁZQUEZ. Would the gentlelady yield? Thank you. Dr. Graham, I would like to know if SBA extends beyond April 22nd, would OMB approve it?

Mr. GRAHAM. To be quite honest with you, Congresswoman, I do not even know whether a change of that magnitude would require OMB approval. My colleague from SBA may know the answer to that. I do not.

Mr. BARRETO. I would defer to our disaster director, who is here right now——

Ms. VELÁZQUEZ. I believe that it does require approval from OMB.

Mr. GRAHAM. Well, we would certainly give it prompt consideration.

Ms. CHRISTENSEN. I just still have that concern with what do we do until that time because these businesses are likely to go out of business. Even extending the deadline is not——

Mr. BARRETO. Whenever we have a situation where a loan is declined and I made this commitment to Rodney—we will be following up with him after this, not because we are doing this hearing, but we do that as a matter of course anyway. The SBA provides a lot of different services and resources. You know, oftentimes individuals that do not qualify for a disaster loan for whatever reason—they may not have the right credit history or whatever—we

will look at other ways that we can help them, either through our regular loan programs or one of our resource partners, or refer them to organizations or agencies that are doing grants. There is a whole host of ways that businesses can be served. This is not the only tool that the SBA offers; it is a very important tool, and we are not closing the door to this opportunity. We are going to work together and make sure that if it is possible to change this, that we are able to change it.

But even if that was not available, and we have talked about this before, not every business that applies for a disaster loan gets disaster assistance, but they can get assistance from the SBA in other ways.

Ms. CHRISTENSEN. But there is something else that could be provided these businesses now that——

Mr. BARRETO. Absolutely, absolutely. Sometimes what we find out is that a business will say, I did not know that you had this program. Now that I am talking to you, I did not realize that you had programs that did this type of assistance, this type of technical assistance. I did note that you guys could help me get more business or a contract. So there are other things that we do as well as a variety of other capital access programs.

Ms. CHRISTENSEN. I guess we are going to be here until midnight, then, because we still have not resolved this.

Chairman MANZULLO. We may be here a long time. Would you yield a second?

Are you aware that the 7(a) program still would not apply to the travel agents because of the size standard? What is available for them? What is available for the travel agent people from the SBA for help? Could you tell me?

Mr. BARRETO. And again, depending on the size of that business——

Chairman MANZULLO. What is available for Mr. Klassovity?

Mr. BARRETO. I do not have all of the particulars with regard to Mr. Klassovity.

Chairman MANZULLO. What SBA programs are available for him?

Mr. BARRETO. He could get available technical assistance, for example, and there may be a situation where——

Chairman MANZULLO. He does not need technical assistance. He knows how to operate his business. What else is available?

Mr. BARRETO. We may be able to refer him to a grant program that is available in his area.

Chairman MANZULLO. There were not any grant programs available. The airlines got all the money on that.

Mr. BARRETO. We actually have a list of about 20 grant programs in and around the New York area that are currently doing grants to small businesses.

Chairman MANZULLO. We have got three votes that we are going to take. I am going to when we get back ask Gary Jackson, who is here—evidently he is in charge of the office of size standards—is that correct? Are you here, Mr. Jackson? If you could have a seat up here on the panel, we will come back, and we can continue our questioning with you. So we should go vote at this point, and we will be back. It is going to be probably about 45 minutes. You

might want to take that time to bring the team together. Perhaps you can come up with a resolution to this in a hurry.

[Whereupon, at 3:54 p.m., a recess was taken.]

Chairman MANZULLO. Okay. We will call this Committee back to order.

My understanding is that the Small Business Administration has agreed to submit EIDL rules on size standards for the travel industry by close of business tomorrow.

Mr. BARRETO. That is correct, sir.

Chairman MANZULLO. And, Dr. Graham, that OIRA will examine that and complete its process by a week from Thursday at 9 a.m. Is that correct?

Mr. GRAHAM. One week is fine.

Chairman MANZULLO. Within one week. I have just a couple of questions I would like to ask Mr. Jackson. I do not think we have any further questions of the folks from the travel agency. If you would not mind giving up your seats there. Mr. Blanchard, did you want to sit next to Mr. Jackson? Okay. You probably wondered why you came today, huh?

Mr. JACKSON. It has been an interesting day.

Chairman MANZULLO. It has. Mr. Jackson, could you pull the mike up? Thank you, sir. I just have a few questions, and this will not take that long. Could you please state your name for the record?

Mr. JACKSON. Gary M. Jackson.

Chairman MANZULLO. And could you spell the last name, please?

Mr. JACKSON. J-A-C-K-S-O-N.

Chairman MANZULLO. And, Mr. Jackson, what is your official position at the Small Business Administration?

Mr. JACKSON. I am the Assistant Administrator for Size Standards.

Chairman MANZULLO. And briefly could you just tell us what the size standards office does?

Mr. JACKSON. My primary responsibility is to review existing size standards and also review requests from the public or requests from within the agency and to advise the administrator on whether changes to size standards should be made or not.

Chairman MANZULLO. How many people work within your unit?

Mr. JACKSON. I have a very small staff. It is just me and three other people, so a total of four.

Chairman MANZULLO. And then is there a procedure whereby you elicit comment from interested groups, and how do you go about doing that?

Mr. JACKSON. Within any size standard change we must follow the rule-making process of the Administrative Procedure Act.

Chairman MANZULLO. Okay.

Mr. JACKSON. So once we propose a change, we do get comment from the public at that time. We do consider comments before we make a final decision on a number of rule-making actions, and it varies with the industry, Mr. Chairman. We may talk with people, companies in the industry, federal agencies, trade associations. We have done that recently with the forestry industry. We have met with companies and associations in the travel agency industry already. So we do talk with others during our formulation, but I have

to say that that varies depending on the nature of the issue that we are looking at.

Chairman MANZULLO. So at times before you formulate the proposed regulations you do get input from the outside community.

Mr. JACKSON. At times, yes.

Chairman MANZULLO. There is nothing that prohibits that.

Mr. JACKSON. Correct.

Chairman MANZULLO. And there is nothing that prohibits getting input from members of Congress either. Would that be correct?

Mr. JACKSON. Certainly not, no.

Chairman MANZULLO. And how long have you been at the SBA, Mr. Jackson?

Mr. JACKSON. Almost 14 years.

Chairman MANZULLO. Okay. And how long have you been in the present position?

Mr. JACKSON. Almost 14 years. I have had a couple of details in other offices, but for the most time in that position.

Chairman MANZULLO. Okay. The statutory definition of a small business is "independently owned and operated and not dominant in their field." You would agree with that?

Mr. JACKSON. Yes.

Chairman MANZULLO. We scratch our heads as to how lawyers have $5 million, CPAs $6 million, I think architects $4 million, and manufacturing facilities 500 employees regardless of the amount of money that you take in.

Mr. JACKSON. Let me just give you the general answer, and I would like to talk about the travel agencies specifically.

Chairman MANZULLO. Sure. Go ahead.

Mr. JACKSON. As Administrator Barreto had mentioned, our size standards vary by industry. Those differences for the most part reflect differences in industries. A company with a few hundred employees in manufacturing is relatively small, where in many service industries, dry cleaners, lawyer offices that is a very substantial, very competitive, very strong business. So we do try to reflect those differences.

And the Small Business Act does also require that if we establish definitions by industry that we are to take into consideration differences among industries. Within the travel agency industry one reason that standard is at the level it is now is because it has been a somewhat sensitive industry over the years. At one time back in the nineties we proposed $5 million for that industry, and the trade association that spoke before you today commented on that, and they were not supportive of that as were many other travel agencies.

So in that particular industry there are two sides to the story, and during the process that we last changed the standard back in 1994, a million dollars was an acceptable size standard at that point. I cannot go into the details, but I will say we do not believe that that is currently the most appropriate standard, and we are looking into that.

Chairman MANZULLO. Now, there was an increase of 15.6 percent made that applied to most industries, but that did not apply to the travel industry.

Mr. JACKSON. Right. Correct.

Chairman MANZULLO. Why were they singled out?

Mr. JACKSON. The main reason is because we did have the separate ongoing action that we thought would be more substantial and more effective to help those businesses. I wish we could have done both at the same time, but we were not able to get that through.

Chairman MANZULLO. As it stands now, it is the $1 million plus that 25 percent for the labor surplus.

Mr. JACKSON. Correct.

Chairman MANZULLO. So it is $1,250,000.

Mr. JACKSON. Correct.

Mr. BLANCHARD. If I may help, Mr. Chairman.

Chairman MANZULLO. Yes, yes. Of course.

Mr. BLANCHARD. I think the point is the regulation that we are considering on the travel agencies is leaning much more forward than the 15 percent inflationary increase.

Chairman MANZULLO. It is, except that it is now five months after September 11th.

Mr. BLANCHARD. This is something that we have committed to you in settling very quickly.

Chairman MANZULLO. But it is possible, is it not, that at the time that these emergency regulations were being drawn by the chief of staff of the SBA that there could have been congressional input?

Mr. BLANCHARD. Sir, you are right. We could have done better seeking congressional input, and I will commit to you now——

Chairman MANZULLO. But you were not there at the time.

Mr. BLANCHARD. Well, I was not at the time, but I worked closely with SBA in my previous role, as you well know. I am thrilled to be here at SBA and working with you and your staff, and we are going to do things a little differently this time around.

Chairman MANZULLO. This is shameful that this had to take place in a hearing like this. Mr. Barreto, he admitted what you did not, that he would like to do things differently, and you just continued to say, well, we have worked with you in the past and everything. You know, you came out of the private sector.

Mr. BARRETO. Yes, I did.

Chairman MANZULLO. And I am sure there has been a substantial decrease in your income. What is it about Congress? Are you taught by OMB—excuse me, Dr. Graham—by somebody that we are persona non grata, that you are not supposed to talk to us?

Mr. BARRETO. Absolutely not.

Chairman MANZULLO. Then why didn't you let me give you a comment on those regulations, the emergency regulations? I am the chairman. I set your budget. I was personally offended when people had come to us, and there could have been a very minor change that would have accommodated the travel industry. But you said, no, OMB wants it now, and that is it. You put out the press release. You were on national television. I told you it would be misleading to declare the entire nation a disaster area. And exactly what I told you October 17th has come to pass. Why didn't you talk to me?

Mr. BARRETO. Mr. Manzullo, we always are willing to talk anytime that we can. I have a chronology of 15 contacts and meetings that we have had on this issue, and we continue to have those con-

versations going forward. So we look forward to continue working with you and gaining your input.

Chairman MANZULLO. If it is working on this basis, do not come in my office anymore because nothing gets done unless I embarrass you in front of the public, the public here. I am not going to have this continue with the size standards. This is not going to continue because one of two things is going to happen. Either we are going to change the way size standards are done and make life a lot easier for Dr. Graham or we are going to get Mr. Jackson into another position there at SBA with his three people and have Congress set the size standards. The telecommunications industry; do you know what their standard is? It is 1,500 employees. They were eligible for EIDL, and yet these people from the travel agency, he was not eligible for it. That does not make sense. There is no rhyme, there is no reason to that.

You might want to be thinking of how you are going to handle these size standards in the future because I am not going to put up with this. I represent these little guys over here. I do not represent you. You are not my constituents, and unfortunately it is obvious there is a tremendous breach of communication between the White House, if that is what OMB is, and the United States Congress. And I will hold hearings every day as long as I am chairman of the Committee to make sure that these get done.

The next thing that has to happen is the tour operators. Jim Santini is still here. The SBA rules exclude from the calculation of gross revenue monies collected by travel agents, realtors, and media buyers that are then passed on to other parties. Tour operators fit within this category, but when tour operators asked for a rule to this effect, a change, they said it would take six to 12 months.

Mr. BLANCHARD. Mr. Chairman.

Chairman MANZULLO. Yes, sir.

Mr. BLANCHARD. I have committed to your staff to reevaluate the impact that eliminating the pass-through monies that go from, I guess, hotels through tour operators that some think should not be considered as revenue. I have committed to your staff to reconsider that and take a look at that this week.

Chairman MANZULLO. I will take your word for it. I am sure it will not take six to 12 months. It has got to be an oversight on here.

Sometimes you have to have hearings like this, but it really was not necessary when I see the grief going on. We still have Mike Ferguson and the issue with the helicopter people. That was never resolved. He still has not gotten his loan. Who knew about that situation? We had a hearing on that, and that was brought up with the SBA here at the hearing on December 6, and we told, I think by you, Mr. Barreto—were you here on December 6?—that you would look into it. Mike Ferguson was here. This is now February 27th. He still has not gotten his loan. I do not understand that, and we talked on the phone on that. I mean, these are little people that are falling through the cracks. Why? Why is that happening?

The ombudsman is here, is he not? Is the ombudsman here? Here he is. Can you take a look at that with Mr. Ferguson on what happened to his helicopter guy? Not now. We could give you the details

on it. I would like to have somebody at SBA be the point person to get this thing done.

Mr. BLANCHARD. I would be happy to work with Mr. Barreto to work with the proprietor of the helicopter company, sir.

Chairman MANZULLO. Okay. You know, I do not want Mr. Barreto to work on it personally. I do not expect that, as long as there is a point person on it. Would you be willing to do that?

Mr. BLANCHARD. I would be happy to be that point person.

Chairman MANZULLO. Okay. Could you fellows get him the information on it? Does the tour industry have any further questions you want to ask? Yes.

Ms. ALTON. I wanted to say that contracts are coming up.

Chairman MANZULLO. Could you get to the mike there, please? Thank you.

Ms. ALTON. Contract renewals are coming up, and new contracts for the Department of Defense, and if the size standard is not done before these contracts come out, small businesses will be locked out for five years for bidding on them.

Chairman MANZULLO. Okay. When do you need the size standard, then, fixed? By what date?

Ms. ALTON. There just was an extension of three months, so we need it before June 1.

Chairman MANZULLO. Okay. And you are making a recommendation on the size standards?

Ms. ALTON. I did earlier, three million.

Chairman MANZULLO. Three million dollars. Okay. Tell us again the significance of the $3 million and the June 1st date.

Ms. ALTON. The Department of Defense is redoing their whole operation with travel agencies, and they will go out for bid around June 1, and agencies like myself are just at the cusp of not being able to bid on that because we are at the $1 million revenue stream, and contracts that we are currently working on with good past performance, we will be ineligible to rebid those.

Chairman MANZULLO. Okay. All right. I appreciate that.

Let me just say that my office door is always open. We are always willing to meet, but one thing I do not ever want to hear again from the folks in the SBA congressional liaison—you have got some really nice people there—is the fact that this is administrative, and we cannot talk to you. I will not tolerate that under any circumstances. As long as we control your budget, and as long as we are responsible to the elected people, you have an obligation to talk to us.

I had that problem with the last administrator. She came in the office with her entire team and made them all apologize in the office for the way they were treating us. They were just smoking us, keeping us out in the dark. And the other thing I want to bring up is going to the Appropriations Committee, SBA gives suggestions to OMB. OMB gives those suggestions to the Appropriations Committee and completely blindsides the committees of jurisdiction. I do not want that ever to happen again. I do not care whatever suggestions you have. Run them past the committee of jurisdiction. At least give us the decency of a phone call before you make the recommendations to OMB. Can you assure us of that, Mr. Barreto?

Mr. BARRETO. I would be happy to continue working with you, Chairman.

Chairman MANZULLO. You have not answered the question. Is it a yes or a no?

Mr. BARRETO. I am happy to work with you on the process as we go through it, absolutely.

Chairman MANZULLO. That does not answer the question. Before you submit anything to OMB where you are asking for a change from the Appropriations Committee, do I have your word that you will contact the committees of jurisdiction so that we are not—what is the word?—so that we are not blindsided when we get down on the floor?

Mr. BARRETO. Well, we promise to never try to blindside you on any issue, especially our budget or any of these other rule changes. We take our responsibility and the relationship that we have with you and this Committee very seriously, and we are committed to it. So we know that we have some work to do, and we will continue doing that work and building the relationship that I think that we already have.

Chairman MANZULLO. The personal relationship is fine, but professionally it is not doing too well.

Mr. BARRETO. I get that loud and clear, Mr. Chairman.

Chairman MANZULLO. I think you are a heck of a guy. And, Dr. Graham, you do not have to put up with this stuff. You came out of the private sector. You come over here, and you end up on this crazy Committee. So what you are telling me, Hector, is that any time that the SBA is going to request OMB to send something to the Appropriations Committee that you have vetted by us——

Mr. BARRETO. We will be happy to work with you, Chairman.

Chairman MANZULLO. Is that a "yes"?

Mr. BARRETO. The only thing that is hard to understand is what every situation on every issue is going to be. We take our responsibility to you very seriously. We do not want you to be blindsided or surprised.

Chairman MANZULLO. I think that has happened three times already.

Mr. BARRETO. We know that we have some work to do to make sure that that is not happening.

Chairman MANZULLO. But all you have to do is say yes, and then I will not be blindsided.

Mr. BARRETO. The answer to the question is I will not do anything that I believe is going to blindside you. So the answer to that question is yes. I do not want to blindside you.

Chairman MANZULLO. Hector, you can give the answer that you want. It does not have to be a political answer, which is what you gave. I am just disappointed that you cannot make the statement here. I know that the administration asks for things and everything, but, you know, let me tell you what happened. We were on the floor, and SBA had gone behind our back—this is the Authorizing Committee—and put authorizing language into the appropriations bill. First of all, you are not supposed to authorize in an appropriations bill. That is a rule down there, unless you are in the Senate; they can do anything. And second of all, when the committee of jurisdiction gets bypassed for that, do you know what

that makes us feel like? That we are irrelevant, that you are not even interested in letting us know what you want to do.

We had had a bill. You took some good provisions out of it, went over, tucked it into another bill, left out the rest, and we had to go in there and rip everything out just as a matter of principle so that you would come to the Authorizing Committee. I would be thrilled, I would be absolutely thrilled if we got a call from the SBA and said, "We have designed a new way to do the size standards. Chairman, would you consider hearing on it?" I would be ecstatic to have you come in here.

We are having a Small Business Success Day. Small Business Week; when is it, in May? The first week of May. We are bringing in here a constituent that has a factory of 200 people in a town of 2,000. That factory was going to move, and we were able to work with the USDA, got a waiver because it was a little town that was near a big town. They went to the AMCOR bank, which is pre-approved to get loans, and this company got a $1.2 million SBA loan that saved the company. And we are going to bring those people in here. They have got a machine that burns corn. It is 100 percent efficient. It is even corn that is not totally dry. There is no smoke. It will heat 2,000 square feet with a bushel of corn. A bushel of corn is now $1.89, with two cents added on top of it for the deficiency payment.

And that is to highlight the successes of the SBA. That is 7(a)—no, it was a 504. This was a 504, which is what you want to do. You want to get innovative. That 504 saved that company. It saved a town of 2,000 from losing a major employer. These are major success stories, and we are bringing them out here, with the corn machine, the inventor is coming out. No one believed in them. And this company is making trailer legs, you know, when you detach the semi from the tractor, and they are manufacturing them in Byron, Illinois, and exporting them to Mexico and China. This is the type of small business story that we are proud of. We are really proud of it. This is what we want to do at the SBA. So we would expect a lot of reciprocity on your part to clean this thing up so poor Mr. Jackson does not have to show up at these hearings and get involved in this stuff. Please work with us on it.

Mr. BARRETO. We will, Mr. Chairman.

Chairman MANZULLO. And, Dr. Graham, you have got a very difficult position there, but OMB is not God around here. Not that you have said it is, but it really is not. And just the way the whole system is set up causes this type of conflict. I want to see it end.

Thank you for sticking around, and this Committee hearing has ended.

[Whereupon, at 5:28 p.m., the Committee was adjourned.]

DONALD A. MANZULLO, ILLINOIS
CHAIRMAN

NYDIA M. VELÁZQUEZ, NEW YORK

Congress of the United States

House of Representatives

107th Congress

Committee on Small Business

2361 Rayburn House Office Building

Washington, DC 20515-6315

Statement of Donald A. Manzullo
Chairman
Committee on Small Business
United States House of Representatives
Washington, DC
February 27, 2002

Today's hearing is about small businesses that are suffering and officials of administration in Washington, DC whose methods of helping many small businesses has caused untold confusion and suffering. The Small Business Administration operates a disaster loan program to assist businesses that have been victimized by the terrorist attacks. One of these programs, the Economic Injury Disaster Loan program, was expanded to allow relief outside areas immediately surrounding New York and the Washington, D.C. metropolitan areas. However, even after repeated attempts by elected officials in Congress, the SBA refused to discuss any changes or allow any input from Congress. Thus, many businesses are unable to take advantage of the financial assistance because of arbitrary size classifications utilized by the Small Business Administration in the operation of the disaster loan program. We will hear today from the bureaucrats and affected small business owners.

The President declared New York City and Northern Virginia disaster areas on September 11 and September 12, 2001. On September 13, 2001, the SBA declared the availability of disaster assistance to small businesses located in New York City. A similar

declaration was made by the SBA for Northern Virginia on September 24, 2001. We applaud the SBA for moving quickly on the President's request.

During the month of September, Congress appropriated a supplemental $20 billion to provide assistance, of which some has been going to small businesses. In addition, members of the Senate and House introduced a number of bills designed to assist small businesses recover from the attacks.

The first effort at helping small businesses beyond those located in the disaster area came with the expanded economic injury disaster loan (EIDL) program. As Chairman of the Small Business Committee, I talked with the Chief of Staff of the SBA on several occasions in September and October about changing the size standards. I was aware of the problem that many small businesses would not be able to meet the standards. The Chief of Staff repeatedly told me that he was waiting on "OMB to move." When I learned of the actual change in the EIDL program and its omission of size standard changes, I then got into a very heated discussion with the SBA Chief of Staff, stating that the SBA would be misleading small businesses because the size standards had not been addressed. I asked the Chief of Staff for a one day delay in issuing the regulations so that Congress could have input, and he refused. After repeated questioning by me, he said that he was the one who had written the new regulations and was responsible for its content. I also asked Administrator Barreto for Congress to be able to provide input into the interim emergency regulations. All I asked for was just a one day delay. Despite my warning to him that the new regulations would give false hope to many small businesses because the size standards had not been addressed, he signed off on those regulations on October 16, 2001. His office called and sent a press release that was misleading because it gave false hope to many businesses. Six days later, the expanded EIDL program was published in the Federal Register.

Members of my staff met with SBA staff prior to October 16 and discuss new interim regulations; however, my staff was told repeatedly that this was an administrative matter and they were not prepared to discuss this with Congress because they had to submit the issue to OMB. It was apparent that the SBA was not and still is not interested in Congress' input into size standards. As a Member of Congress, I was aware of the size standard problem while the SBA was making up the emergency regulations, and each step of the way SBA refused any input by Congress. Thus, SBA has to bear the responsibility for many disappointed businesses, including the ones seated at the table of the with Administrators Barreto and Graham.

The expanded program did not help alleviate the problems many small businesses were facing. Business owners that were enticed into applying and publicizing the disaster loan program, like Mr. Klassovity, were then denied loans because they did not meet the "arbitrary" size standards utilized by the SBA.

I had heard from enough Members of Congress of businesses that were turned down because of these arbitrary size classifications. For example, one of Mr. Ferguson's constituents, Liberty Helicopter, was denied a loan because they were classified as air tour operator. If they had 51% of their revenue from air charter service, they would have met the size standard for air charter service of 1,500 employees and would have been eligible for a loan. Similarly, a McDonald's franchisee with three units in the New York City area, including one that is a block from Ground Zero, was deemed not small by the SBA. I challenge anyone to demonstrate to me that a three-unit franchisee is dominant in the restaurant business.

Thus, I called a hearing for December 6 because it was apparent there was a serious flaw with the SBA EIDL programs and size standards. As a follow-up to that hearing, I met with the Associate Administrator for Disaster Assistance, Herb Mitchell and SBA staff on December 11,

2001. At the meeting, Mitchell, who has done an outstanding job in using what resources were available to help small businesses, agreed with me that the size standards could be changed administratively. That meeting prompted another meeting the next day with Barry Pineles, our staff attorney who specializes in administrative law, and staff from the SBA. SBA staff agreed to modify the size standards because of the problem. Committee staff then regularly contacted the SBA about the progress but were continually told that the regulations are being worked on and are the highest priority.

Finally, after five weeks, the regulation sent to the Office of Information and Regulatory Affairs (OIRA) for review on January 18, 2002. The SBA has never fully explained why this regulation took five weeks from point of inception to submission to OIRA while the regulation expanding the EIDL program took the same amount of time to get published in the Federal Register. The SBA now will have their opportunity to explain the delay.

On January 23, 2002, I called Administrator Graham and explained the importance of this regulation and the need for expedition in review and approval. Three weeks after receiving the regulation, OIRA returned the regulation to the SBA. OIRA's primary conclusion was that the regulation would not serve the interests of small businesses. Administrator Graham will have the opportunity to explain to the small businesses sitting at this table how the proposed regulation does not serve small businesses.

After three months of trying to resolve the issue and six months after the terrorist attacks, I was appalled by OIRA's response that the changes would not help small businesses. Since that time, all we have heard, after committee staff initiated contact, was that discussions were ongoing in trying to resolve the issue. Well the relevant parties are here so they can carry on the necessary discussions here until a resolution has been reached.

Finally, I would like to add that the Committee rules require testimony be submitted 48 hours prior to the hearing. A small business owner like Mr. Klassovity can meet that deadline but neither Administrator Barreto nor Administrator Graham were able to meet that deadline. Their testimony was delivered to the Committee at 11:30 this morning. It appears that this deadline is emblematic of indifference shown to this Committee.

I will now recognize the ranking member, the gentlelady from New York, Ms. Velázquez, for her opening statement. After her opening statement, I will then recognize Mr. Sweeney, a former member of this Committee, who joins us ex officio for his opening statement and introduction of his constituent, Mr. Klassovity.

Remarks by Hon. John E. Sweeney
Before the Committee on Small Business
Hearing on Subsidy Rate Calculation: An Unfair tax on Small Business?
February 27, 2002

Thank you Mr. Chairman, Ranking Member Velazquez, and Members of the Committee. I appreciate the invitation to join you today. I wish that I could stay, but unfortunately, I have two other Hearings in the Appropriations Committee that I must attend.

Let me begin by applauding the Committee for its outstanding work and commitment to small business. Furthermore, I commend you for holding a Hearing on the hardships that have been incurred as a result of the events of September 11th.

In fact, my office has been addressing this crucial issue for months to no avail. Here testifying before the Committee today is Rod Klassovity, CEO and part owner of Albany Travel Unlimited, Inc. Mr. Klassovity and Nathan Schecter, his Commercial Financing Consultant, after repeatedly being ***encouraged*** by local SBA offices to apply for a disaster assistance loan were ultimately rejected due to a size standard issue.

Regrettably, even after the President signed into law H.R. 3338, with an amendment enhancing the disaster assistance loan program, Mr. Klassovity is still without a loan, and is now faced with the possibility of even further staff

reductions. The SBA continues to stymie the very same small business owners it was established to help. This issue must be rectified immediately.

I would like to thank Mr. Klassovity, and his Commercial Financing Consultant, Mr. Schecter, for traveling to Washington. His testimony will shed light on an issue crucial to so many small businesses suffering throughout the New York metropolitan area. It is my hope that through this hearing we will begin to rectify this problem.

Thank you, Mr. Chairman.

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Stephanie Tubbs Jones
Congress of the United States
11th District, Ohio

WASHINGTON OFFICE
1516 LONGWORTH HOUSE OFFICE BLDG.
HOUSE OF REPRESENTATIVES
WASHINGTON, DC 20515
(202) 225-7032
FAX: (202) 225-1339

DISTRICT OFFICE
3645 WARRENSVILLE CENTER ROAD
SUITE 204
SHAKER HEIGHTS, OH 44122
(216) 522-4900
FAX: (216) 522-4908

Statement

Congresswoman Stephanie Tubbs Jones
Committee on Small Business
February 27, 2002
Committee Views on Budget

Mr. Chairman, Ranking Member Velazquez, and Guests:

The February 27th issue of *Inc. Magazine Online* cites the idea that most entrepreneurs would "jump at the chance to take a successful business owner out for lunch to pick his brain and pocket the advice." That very simple phrase expresses what many small business owners hope for: a mentor to help guide and shape their entrepreneurial aspirations.

Similarly, the type of assistance that small businesses need from legislators is that which facilitates their efforts: access to capital, programs that are easy to understand, and not unduly burdensome in their paperwork requirements, and programs that are not costly to use.

The Committee Views that we adopt today are an expression of this Committee's opinion of the Administration's Small Business Administration Budget request for FY 2003. But as an individual Member, I must state my objection to several items presented in the Administration's budget: the adverse effects on small businesses facilitated by the incorrect calculation of the subsidy rate; and the dramatic pullback from assistance to poor and minority communities through entrepreneurial development and assistance programs.

The Minority Committee Staff have demonstrated that "for each 7(a) loan made, the lender and borrower pay fees that are added with

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credit subsidy appropriations to cover the anticipated cost of the program. Since 1995, 7(a) borrowers and lenders have overpaid $1.5 billion in excess fees." In effect, this is a tax - one that small businesses shoulder and which OMB and SBA impose with impunity.

It is my hope that SBA and OMB will address this issue and implement a model that correctly calculates the subsidy rate. We need to eliminate this unfair tax.

Secondly, in its budget for fiscal year 2003, the Administration has zeroed out funding for the New Markets programs that benefit poor and minority communities. In contrast, the HUBZone Program, which virtually permits self-certification by businesses, is a problem waiting to happen. Although its aims are admirable, the program has a program decline percentage of less than three percent for FY 2001 and less than one percent for FY 2002. Over 99 percent of applications are approved. The potential for fraud and abuse is high. Moreover, the program is building its success on the back of SBA's flagship designed to assist minority-owned businesses - the 8(a) Program.

Minority business owners in my community - the Eleventh District of Ohio have commented time and again on informal networks that serve as barriers to entry in business-to-business relationships. Yet, a program that addressed this issue - BusinessLINC was zeroed out this year. And both the Small Business Administration and the Bush Administration have indicated an intent to redirect BusinessLINC funding for FY 2002 to the HubZone Program and to ProNET. Their reasoning is that BusinessLINC is duplicative - but none of the federal mentor-protégé programs already in existence foster business-to-business relationships in the private sector; they focus on contracting with the Federal government.

This Congress has a long way to go to help small businesses with the types of assistance that they need. We owe it to the hardworking small business owners in this country who look to us to help create an infrastructure in which their businesses can prosper. It is my hope that the Administration and the Small Business Administration will heed the outcry that we in Congress hear, and revise the Administration's

treatment of small businesses - the engines the fuel our economic growth.

TESTIMONY OF HECTOR V. BARRETO
ADMINISTRATOR
U.S. SMALL BUSINESS ADMINISTRATION
FEBRUARY 27, 2002

Mr. Chairman, Ranking Member Velazquez, and members of the Committee, thank you for inviting me here today to discuss the size standard policy of the U.S. Small Business Administration (SBA) and the procedures the SBA uses to establish those standards.

The statutory mandate set forth in Section 3(a) of the Small Business Act guides the SBA's policy. The SBA has used this basic statutory guidance with great success for nearly fifty years. The SBA size classifications currently encompass over 98 percent of all businesses in the United States. Size standards have always played an integral role in the Agency's services and programs. The SBA understands that its determinations affect the operations of programs in every agency of the federal government, from procurement and financial assistance programs to regulatory regimes and enforcement matters. These determinations, in turn, have a significant impact on the life of a small business. The events of September 11 have raised their importance even greater still.

It is in this spirit that the Administration, our legislative partners, the Agency and OMB took the following actions to assist small business:

- expanded EIDL recovery nationally (effective October 22, 2001);
- increased size standards to reflect inflation (effective January 23, 2002) and monetary size standards were increased by 15.8%;

- allocated (through February 25) $306 million to New York and Virginia and retroactively applied inflation-based sized standards;
- allocated $217 million nationally;
- extended EIDL recovery application deadline to April 22, 2002; and
- expanded disaster recovery through the 7(a) loan program, effective January 31, 2002.

The SBA continues to work to assist small businesses injured by the September 11th disaster. Like you, Mr. Chairman, the SBA wants to make sure that it is assisting those small businesses that are on the bubble with respect to size standards but still possess the attributes of small business. The SBA also wants to review industry standards that may be out-of-date or too narrowly defined to accurately reflect the small business market.

In fact, Mr. Chairman, you asked that the SBA look at the travel agency industry — and we have. The SBA is in the process of completing its internal legal review of the regulation to address the size standard in this industry. The SBA hopes to send the regulation to OMB for its review shortly.

Serving *small* business is the Agency's mission. Therefore, during this process of reviewing size standards, the SBA has taken care to assist small business while ensuring that neither the expansion of the size regulation nor the method of expansion renders the size standards themselves meaningless. The loss of a *meaningful* size standard would be to the detriment of all small business. In order to avoid such a problem historically, the SBA has

reviewed and imposed size standards on an industry-by-industry basis. The SBA size standards vary by industry and can be based either on revenue or the number of employees. Under EIDL, a business must be small relative to the size standard established for its primary industry. Common size standards include:

- $6 million for service and retail trade firms;
- $12 million for special trade contractors;
- $28.5 million for general and heavy construction contractors;
- 100 employee for wholesale trade firms; and
- 500 employees for manufacturers.

Furthermore, different size standards exist for certain industries within more general industry categories. Varying size standards are designed to reflect differing characteristics of small business within different industries.

The SBA recognizes that some of its industry size standards might not capture all businesses that possess small business characteristics. In order to address this concern, the SBA considered an expedited review of a large number of industries, but realized that the need to prepare and adopt revised size standards quickly made this course of action impractical.

The SBA also sought to establish a single employee-based size standard for applicants applying for EIDL assistance in the aftermath of September 11. The SBA chose this standard for several reasons. First, firms with 500 employees or less account for about half of all economic

activity. Additionally, 500 employees is the size standard the SBA already uses for most manufacturing industries, and many research studies on small businesses also use 500 employees as a general definition of small business. Finally, the alternative net worth and net income size standards used for the SBA's Small Business Investment Company and Certified Development Corporation Programs can include firms up to 500 employees.

OMB promptly reviewed the proposed uniform EIDL size standard and indicated that it had several concerns with the single size standard approach. Dr. John Graham, Administrator of OMB's Office of Information and Regulatory Affairs, will discuss these concerns in more detail with the Committee. The SBA greatly appreciates Dr. Graham's and OMB's cooperation in considering alternatives to the 500-employee size standard and will continue to work with them to find an approach that will ensure that small businesses harmed by the events of September 11 have access to SBA's programs.

STATEMENT OF
JOHN D. GRAHAM, PH.D.
ADMINISTRATOR
OFFICE OF INFORMATION AND REGULATORY AFFAIRS
BEFORE THE
COMMITTEE ON SMALL BUSINESS
UNITED STATES HOUSE OF REPRESENTATIVES

February 27, 2002

Mr. Chairman, and Members of this Committee, thank you for inviting me to this hearing. I am John D. Graham, Ph.D., Administrator, Office of Information and Regulatory Affairs, Office of Management and Budget. I am pleased to have this opportunity to explain OMB's position on the role of business-size definitions in defining the scope of SBA loan programs. I will also elaborate on one of OMB's concerns that was expressed in a February 11th return letter from OMB to SBA. In that letter, which I have submitted for the hearing record and which is available on OMB's web site, OMB has returned for reconsideration SBA's draft interim final rule entitled "Small Business Size Standards; Economic Injury Disaster Loan Program."

Under Executive Order 12866, which was adopted during the previous Administration, OMB reviews all significant regulatory actions to ensure consistency with the principle of good regulatory analysis and policy. At both the proposed and final stages of a major rulemaking, OMB is provided up to 90 days to review an agency's rulemaking package, including the draft rule, the cost-benefit analysis, and any other supporting materials. During the 90-day review period, professional analysts at OMB scrutinize the agency's work and often work with an agency to improve the analysis and/or the draft rule. There are ultimately three possible outcomes of OMB review: (1) clearance for publication in the *Federal Register;* (2) withdrawal by the agency for further consideration; or (3) return by OMB to the agency for reconsideration.

When a rule is returned to the agency, it is the practice of this Administration to prepare a formal return letter that is made available to the public as well as the agency. Since I was

confirmed by the Senate in July of last year, I have signed 17 return letters about various draft regulations. In most cases, the reason for the return was an inadequate regulatory analysis. The public can review these letters on our website at <http://www.whitehouse.gov/omb/inforeg/return_letter.html>. In five of those cases to date, the agency ultimately improved the regulatory package to the point that it was resubmitted to OMB and cleared for publication in the *Federal Register*.

OMB is acutely aware of the devastating impact that the events of September 11th have had on the business community, including large, medium-sized and small businesses. We support the special commitment that Congress has made to assist small businesses through the Economic Injury Disaster Loan (EIDL) program. Since September 11th, we have worked with SBA to (1) extend the coverage of this program to small businesses outside of the immediately affected geographical areas and (2) to accelerate a long overdue modernization of the SBA definitions of "small business" that account for inflation since 1994. These expansions have resulted in a $209 million obligation for the EIDL program—nearly 2000 loans for small businesses. We are also open to considering additional ways that SBA could cushion the economic impacts of September 11th and protect the viability of small businesses.

We returned to SBA for reconsideration a recent proposal to expand the definition of a small business (under the EIDL program) to any firm with less than 500 employees or less than the industry-specific definitions of a small business currently used by SBA. This well-intentioned proposal would, SBA estimates, make an additional 200,000 businesses throughout the country potentially eligible for the economic injury loans available through the EIDL program. The fiscal impact of this particular expansion would, we understand, be limited to this fiscal year.

Our central concern is that SBA has proposed, in the context of this draft rule, a rather fundamental shift in the definition of a small business – a shift whose implications have not been adequately explored. Currently, SBA defines "small business" on an industry-by-industry basis. For non-manufacturing industries, the default definition is

annual receipts of $5 million or less (recently updated to $6 million or less). For manufacturing industries, the default definition is 500 employees or less. For some industries, SBA has—through detailed rulemakings—replaced the default definitions with more tailored definitions judged appropriate for that particular industry (e.g., petroleum exploration). In other words, a "small business" is defined using a relative construct within an industry rather than an absolute standard across the economy.

The proposal that we returned to SBA did not contain a well-considered rationale for such a fundamental change in the approach to the definition of a small business. Obviously, OMB is concerned that a change in the size standards made for this program could readily be argued as a precedent for changing the size definitions governing other SBA subsidy programs.

If the change to the 500-employee standard were made across SBA's programs, the consequences might be quite controversial. For example, for any fixed amount of SBA funding, the proposed change would cause a shift in the mix of support from the manufacturing sector to the non-manufacturing sector, where many more service-oriented firms would be considered "small". It does not seem plausible to suggest that service-oriented firms with several hundred employees are "small" in the sense that Congress and SBA have previously intended in the design of SBA's assistance programs. Manufacturing firms with several hundred employees are often very small when judged in the context of their industry and the capital requirements necessary to start a business in manufacturing. In short, OMB is not convinced that the principle underlying the new size definitions would contribute to sound economic policy. Instead, it would expand assistance to non-manufacturing sectors without any change in the amount of assistance provided to manufacturing sectors, even though both are affected by the events of September 11th and the recession.

Although OMB has returned SBA's particular proposal for reconsideration, we remain open to alternative proposals from SBA that can address the financially ruinous impacts

of the events of September 11th. We have encouraged SBA to formulate proposals that maintain the current industry-specific approaches to defining small businesses.

Chairman Manzullo, you called me several weeks ago and requested an expedited review of this matter. As a result of your interest and concern, we did perform a prompt review, far less than the 90 days permitted under the executive order.

Thank you very much for the opportunity to appear today. I am willing to answer any questions you may have.

WRITTEN TESTIMONY

DATE: February 27, 2002

TO: House Committee on Small Business

FROM: Rodney R. Klassovity, C.E.O. (Albany Travel Unlimited, Inc.)

SUBJECT: **SBA & OMB response to events of September 11th and need to change small business size standards for travel agencies.**

SALUTATION:

Chairman Manzullo, Ranking Member Velazquez, members of the Committee, thank you for inviting me to appear before you to describe the hardships that we have incurred as a result of the events of September 11th and the indifference in and mis-handling of our disaster loan application by the S.B.A. and subsequently by O.M.B.

Before I get into the subject matter, I would like to thank Congressman John Sweeney and his staff, Congressman Michael McNulty and his staff, as well as Chairman Manzullo and the Small Business Committee staff for their responsiveness in hearing our calls for help. With their help, and the help of you as Committee members, hopefully we can, together, overcome the bureaucratic roadblock that has denied us of much-needed disaster relief.

OPENING SUMMARY:

My name is Rod Klassovity. I am CEO and 50% owner of Albany Travel Unlimited, Inc. We are a privately-owned travel agency located in Albany, New York. We were founded in 1955 and have grown prudently over the years. Prior to September 11th, we had average annual commission revenue of $2,541,000 and employed 50 people with an payroll averaging $1,340,000 per year. Our business composition is 70% corporate and 30% leisure. We book, among other notable accounts, the travel for 125 agencies of the State of New York. The majority of our business is in the impacted North-South NY/Boston/DC corridor.

As a direct result of September 11th, my business and the livelihood of 50 families, changed dramatically. In the 21 weeks from September 11th through the end of January 2002, we have lost $340,000 in revenue. As a result, and over the holiday season no less, I had to layoff 10 people or 20% of my staff, representing $123,400 in annual wages. Also over the holidays, my remaining employees (me included) endured 14-weeks of partial pay, resulting in $51,400 in lost wages. Additionally, whereas I used to employ 50 people (of whom 39 were full-time and 11 were part-time), I now only employee 40 people (of whom 30 are full-time and 10 are part-time).

I could have and probably should have cut more staff; however, I have tried to do the patriotic thing by sustaining my employees and their families during these difficult times. Also, in a service business like mine, my skilled employees are key to our continued viability. However, with travel still down 23% over comparable period last year, revenue continues to be depressed and our losses continue to mount. With my personal and business resources depleted, I am now faced with the real prospect of further job cuts.

None of this would have happened if the SBA had honored their word to provide timely disaster relief. In fact, the irony is that, after we contacted the SBA in October 2001 to inquire about possible disaster relief and whether, as a travel agency with annual commission revenue exceeding the $1,000,000 size standard, we even qualified, the SBA not only encouraged us to apply but asked us to participate in the attached 10/20/01 newspaper article announcing the expansion of the economic disaster loan program. We were hesitant to publicize our need because we didn't want to scare our employees or customers; however, we agreed to assist the SBA in publicizing the program so as to help the SBA and other hurt businesses. To date, **170 days** since September 11th and **130 days** since the SBA publicized our application, the SBA and OMB still have not provided us with disaster assistance.

CHRONOLOGY OF EVENTS:

10/16/01 Our Commercial Financing Consultant (Nathan Schecter) called the SBA Office in Albany to inquire about available disaster relief. Nathan was advised that the Economic Injury Disaster Relief loan program had just been expanded to include upstate New York. Familiar with SBA financing, Nathan explicitly asked if, in general, size standards applied to disaster loans and if, in particular, our 3-year average revenue of $2,541,100 (which exceeds the artificially-low $1,000,0000 size standard for travel agents) would pose a problem. The SBA representative called back stating that size standards did not apply and that the Zone 1 Disaster Office in Niagara Falls told him to send in the application.

10/17/01 My partner and I, still uneasy about the size standard issue, called the Niagara Falls disaster office and were told "this program is designed for you...send it in."

10/19/01 We participate in the SBA's press release regarding expansion of disaster loan program and our application. Attached article appears in media on 10/20/01.

11/21/01 Nathan and I submit detailed bound/tabbed application book, containing all required forms and exhibits. Application is conservatively structured in the amount of $925,000 at 4% over 10 years (although loan limit then was $1,500,000 at 4% over 30 years). Loan request sought $600,000 to cover actual/anticipated revenue losses, plus $325,000 in escrowed monies to cover 36 months of P&I debt service.

11/23/01 Niagara Falls calls confirming receipt, compliments package, asks a few questions.

12/3/01 Niagara Falls called to inform me that my application has been declined because my firm exceeds the size standard!

12/4/01 Nathan calls Niagara Falls and is told that, but for the size standard, my firm would qualify for the requested loan. Nathan is told that 45% of disaster loans or over 400 applications have been declined due to size standard constraints.

12/4/01 Nathan and I contacted Congressman John Sweeney for liaison services.

12/23/01 In recognition of the high declination rate due to size standards, and with Congressman Manzullo's help, HR 3338 is passed with amendment enhancing economic disaster loan program as follows:

- Increasing maximum loan amount from $1,500,00 up to $10,000,000.
- Expands no-payment/no-interest period from 1 year to 2 years.
- Added not-for-profit and financial institutions to list of eligible businesses.
- Empowered SBA Administrator to promulgate new size standards for next 12 months.

01/10/02 President Bush signs HR 3338, which becomes PL 107-117.

01/22/02 SBA claims different interpretation of PL 107-117. SBA continually rebuffs requests made by Congressman Sweeney and others to raise travel agency size standard from $1,000,000 to at least $2,500,000 so that our application can be approved. Finally, we are left no choice but to submit request to OMB for an Executive Order.

01/25/02 SBA representative in Albany tells group of local bankers that my company has likely been hurt more than any business in New York State's Capital District as a direct result of the September 11th terrorist attacks.

01/31/02 SBA adjusts revenue-based size standards by 15.8% for inflation since 1994; however, travel agencies are not increased.

02/11/02 OMB returns for reconsideration the request for executive order.

02/15/02 We receive invitation to testify before you here at the House Small Business Committee.

THE SIZE STANDARD:

Per the SBA's size standard table, there are 1,152 size standards.

Of these, 12 are neither employee-based nor revenue-based (as they pertain to utilities and banks).

Of the 1,152 size standards, 602 are employee-based. Those employee-based size standards have a range of 100-1,500 employees, with an average of 561 employees and a median of 500 employees. By comparison, I now employ only 40 people, which is less than 1/10 of the overall employee-based size standard average.

Of the 1,152 size standards, 538 are revenue-based. Those revenue-based size standards have a range of $750,000 to $29,000,000 with an average of $8,100,000 and a median of $6,000,000. Within these revenue-based size standards, no retail or service category has a lower size standard than travel agencies and, in fact, there are only 46 categories with lower size standards (and those are all agricultural).

My current 3-year average revenue is $2,450,000 and I currently employ 40 people. **By any measure, I am a small business.**

Within the travel industry, 75% of travel and lodging is booked by travel agencies. In fact, travel agents are Agents-At-Law for the travel providers. The travel and lodging providers operate the physical assets and travel agents book the sales. However, inexplicably, within the travel industry, travel agents who book the sales for the travel and lodging providers, have the lowest revenue-based size standard. Beyond the obvious of air, rail and cruise providers, other examples are as follows:

BUSINESS TYPE	SIZE STANDARD
Tour Operators	$6,000,000.
Hotels	$6,000,000.
Motels	$6,000,000.
Bed & Breakfast	$6,000,000.
All other Travel Arrangement and Reservations Services	$6,000,000.
Travel Agents	$1,000,000.

What is the rationale behind having a lower standard for those that book the sales (that is, travel agents) than those for whom the sales are booked (that is, the travel and lodging providers)? While it is true that our revenue is based upon the commission that we earn for booking the sales, with such a high percentage of sales booked by travel agents, we should have a size standard more accurately reflecting the volume of sales that we conduct. Likewise, the size standard for travel agents does not reflect inflation, the consolidation that has occurred in the travel agency industry, nor does it accurately reflect the expensive and crucial New York/Boston/DC corridor in which my firm operates.

OUR COMPANY:

Our employment base is as follows:

STATUS	Pre 9/11	Post 9/11
Full-Time	39	30
Part-Time	11	10
TOTALS	**50**	**40**

Our 3-year average commission revenue is as follows:

YEAR	AMOUNT
1999	$2,593,729.
2000	$2,579,866.
2001	$2,174,564.
AVERAGE	**$2,449,386.**

MARKET SIGNIFICANCE:

The 11-county Capital District (consisting primarily of the Albany-Schenectady-Troy SMSA) contains 1,100,000 people. We are a 2nd tier market served by one airport. In our market, my firm books 26% of travel and employs 24% of the total travel distribution employment base. We handle travel for 125 agencies of the State of New York and many of the area's other large employers. And, as you know, the State of New York has instituted an austerity budget. If we are left to wither on the vine and, possibly even go out of business, no other firm in our market possesses the physical or financial resources to fill the sales or employment void that we would leave. The result would be travel disruption and increased unemployment in our already impacted marketplace.

NEED FOR ASSISTANCE:

The following chart reflects national travel volume since September 11th , together with our travel volume since September 11th:

MONTH	ARC	A.T.U., Inc.
Sept 01	-43%	-52%
Oct 01	-40%	-31%
Nov 01	-31%	-21%
Dec 01	-21%	-34%
Jan 02	-23%	-19%

Comment: ARC stands for Airline Reporting Corporation, the industry payment clearinghouse for airline and rail sales.

CLOSING / REQUEST FOR ACTION:

Per the attached month-by-month revenue analysis, 2001 was 14.42% lower than our prior 3-year pre-terrorism average and was 15.71% lower than one year ago (2000). However, these are yearly totals. Since September 11th, business has been down by 23%-51%.

As a direct result of the September 11th terrorist attacks, we have lost the following revenue:

MONTH	AMOUNT
09/2001	$122,706.
10/2001	$ 78,353.
11/2001	$ 33,601.
12/2001	$ 63,282.
01/2002	$ 40,872.
TOTAL	**$339,814.**

Travel has not returned to pre 9/11 levels. At the current trend, and assuming no further terrorist attacks or negative publicity, travel probably won't return to normal levels until at least 3rd Quarter 2002 and perhaps not until 2003. Therefore, we anticipate total revenue losses of $600,000 +/-. Our request for a $600,000 economic injury disaster loan was right on target.

We now need your help. PLEASE use your influence to get the SBA to raise the size standard for travel agencies to at least $2,500,000 or, in the alternate, grant us immediate special dispensation so that we can get our much-needed loan and retain our employees.

Please understand, I am not asking for a grant like the airlines received. I am asking for a loan which, adding insult to injury, I will have to pay back with interest. When those three planes hit on September 11th, I lost $600,000 that I will never recapture. I am not asking for a hand-out. I am only asking for equitable treatment and a little assistance. In the end, it is me that will be borrowing so that I can continue to make my $25,000/week payroll and it will be me that has to repay the loan. Please help me stay in business and to weather this storm. Thank you for your time and assistance.

COMPARATIVE MONTHLY REVENUE ANALYSIS

Prior 3-Year Average (1998-2000) vs. Terrorism-Impacted 2001

Albany Travel Unlimited, Inc.

MONTH	1998		1999		2000		PRIOR 3-YEAR AVG.		2001 (Terrorism-Impacted)		VARIANCE (2001 vs. Avg)	
	$	%	$	%	$	%	$	%	$	%	$	%
January	$ 177,032	7.23%	$ 188,486	7.27%	$207,132	8.03%	$ 190,883	7.51%	$ 216,062	9.94%	$ 25,179	13.19%
February	$ 200,810	8.20%	$ 195,871	7.55%	$213,987	8.29%	$ 203,556	8.01%	$ 197,049	9.06%	$ (6,507)	-3.20%
March	$ 275,109	11.23%	$ 259,034	9.99%	$282,064	10.93%	$ 272,069	10.71%	$ 251,562	11.57%	$ (20,507)	-7.54%
April	$ 231,043	9.43%	$ 219,834	8.48%	$249,431	9.67%	$ 233,436	9.19%	$ 230,871	10.62%	$ (2,565)	-1.10%
May	$ 177,825	7.26%	$ 196,145	7.64%	$191,684	7.43%	$ 189,218	7.45%	$ 225,809	10.38%	$ 36,591	19.34%
June	$ 206,120	8.41%	$ 206,389	7.96%	$216,275	8.38%	$ 209,595	8.25%	$ 210,287	9.67%	$ 692	0.33%
6-Months	***$ 1,267,939***	***51.76%***	***$ 1,267,759***	***48.88%***	***$1,360,573***	***52.74%***	***$ 1,298,757***	***51.11%***	***$ 1,331,640***	***61.24%***	***$ 32,883***	***2.53%***
July	$ 149,158	6.09%	$ 159,065	6.13%	$147,992	5.74%	$ 152,072	5.98%	$ 133,108	6.12%	$ (18,964)	-12.47%
August	$ 184,434	7.53%	$ 207,341	7.99%	$227,151	8.80%	$ 206,309	8.12%	$ 163,608	7.52%	$ (42,701)	-20.70%
September	$ 234,855	9.59%	$ 266,831	10.29%	$237,905	9.22%	$ 246,530	9.70%	$ 115,199	5.30%	$ (131,331)	-53.27%
October	$ 226,305	9.24%	$ 248,188	9.57%	$256,081	9.93%	$ 243,525	9.58%	$ 177,728	8.17%	$ (65,797)	-27.02%
November	$ 187,450	7.65%	$ 230,329	8.88%	$162,459	6.30%	$ 193,413	7.61%	$ 128,858	5.93%	$ (64,555)	-33.38%
December	$ 199,563	8.15%	$ 214,216	8.26%	$187,705	7.28%	$ 200,495	7.89%	$ 124,423	5.72%	$ (76,072)	-37.94%
6-Months	***$ 1,181,765***	***48.24%***	***$ 1,325,970***	***51.12%***	***$1,219,293***	***47.26%***	***$ 1,242,343***	***48.89%***	***$ 842,924***	***38.76%***	***$ (399,419)***	***-32.15%***
TOTALS	**$ 2,449,704**	**100.00%**	**$ 2,593,729**	**100.00%**	**$ 2,579,866**	**100.00%**	**$ 2,541,100**	**100.00%**	**$ 2,174,564**	**100.00%**	**$ (366,536)**	**-14.42%**

True & Accurate to the Best of My Knowledge as of February 27, 2002 by:
Rodney R. Klassovity, C.E.O.

COMPARATIVE MONTHLY REVENUE ANALYSIS

2000 vs. Terrorism-Impacted 2001

Albany Travel Unlimited, Inc.

	2000		2001		VARIANCE	
MONTH	$	%	$	%	$	%
January	$207,132	8.03%	$ 216,062	9.94%	$ 8,930	4.31%
February	$213,987	8.29%	$ 197,049	9.06%	$ (16,938)	-7.92%
March	$282,064	10.93%	$ 251,562	11.57%	$ (30,502)	-10.81%
April	$249,431	9.67%	$ 230,871	10.62%	$ (18,560)	-7.44%
May	$191,684	7.43%	$ 225,809	10.38%	$ 34,125	17.80%
June	$216,275	8.38%	$ 210,287	9.67%	$ (5,988)	-2.77%
6-Months	***$1,360,573***	***52.74%***	***$ 1,331,640***	***61.24%***	***$ (28,933)***	***-2.13%***
July	$147,992	5.74%	$ 133,108	6.12%	$ (14,884)	-10.06%
August	$227,151	8.80%	$ 163,608	7.52%	$ (63,543)	-27.97%
September	$237,905	9.22%	$ 115,199	5.30%	$ (122,706)	-51.58%
October	$256,081	9.93%	$ 177,728	8.17%	$ (78,353)	-30.60%
November	$162,459	6.30%	$ 128,858	5.93%	$ (33,601)	-20.68%
December	$187,705	7.28%	$ 124,423	5.72%	$ (63,282)	-33.71%
6-Months	***$1,219,293***	***47.26%***	***$ 842,924***	38.76%	***$ (376,369)***	***-30.87%***
TOTALS	$ 2,579,866	100.00%	$ 2,174,564	100.00%	$ (405,302)	-15.71%

True & Accurate to the Best of My Knowledge as of February 27, 2002 by:
Rodney R. Klassovity, C.E.O.

DOW INDUSTRIALS	30 industrials	9,204.11	+46.89
TIMES UNION BLOOMBERG	60 regional stocks	244.04	-.17
NASDAQ	4900 stocks	1,671.31	+19.69
GOLD	NY Mercantile	$260.10	+.90
DOLLAR	VS. YEN	121.17	-.01
BONDS	30-YR. TREASURY	5.36	+.04

BUSINESS

EXECUTIVE
BUSINESS EDITOR
Marlene Kennedy
454-5492
clkennedy@timesunion.com

Boost offered to businesses affected by attacks

Capital Region *Small Business Administration to take applications for low-interest disaster loans*

By DANIELLE T. FURFARO
Business writer

When the U.S. Small Business Administration's nationwide Economic Injury Disaster Loan program goes live on Monday, Daniel O'Connell, director of the Capital Business Resource Center, an arm of the SBA, expects to be very busy taking applications.

"Some businesses are reluctant to borrow their way out of trouble, which is good, but many businesses had expected to have some working capital and they need it to continue," said O'Connell.

After first instituting the low-interest loan program in New York City and Washington, D.C. last month, the SBA is now offering the low-interest disaster loan to any business across the nation that may have been affected by the terrorist attacks of Sept. 11.

"You could have a hotel in Hawaii that's suffering because tourism is down," said Bernard J. Paprocki, director of SBA's Syracuse district, which includes the Capital Region. "The economic devastation of these events has spread a long way."

Many types of business, from restaurants to consulting to manufacturers, have felt the slowdown.

"We're a fairly large agency and we are down about 30 to 40 percent in business," said Rod Klassowitz, co-owner of the Clifton Park-based Albany Travel Unlimited Inc., who has already picked up his application for a loan. "And looking into the future I don't think it's going to come back as soon as we all would like, so we've got a double whammy."

Through the program, affected businesses may apply for loans of up to $1.5 million. The interest on the loan is 4 percent, with a maximum loan term of 30 years.

Klassowitz said he has not yet decided what loan amount he will ask for, but he plans to use the funds to pay bills, such as overhead and payroll, that might be in danger otherwise.

Through the program, affected businesses may apply for loans of up to $1.5 million. The interest on the loan is 4 percent, with a maximum loan term of 30 years.

Most regular banks are charging 7.5 percent or 8 percent, said O'Connell, and require quicker payment.

Already 400 loan applications in the New York City-area have been approved, said O'Connell.

For more information about the program, visit the disaster assistance program Web site at http://www.sba.gov/disaster.

TESTIMONY OF THE

AMERICAN SOCIETY OF TRAVEL AGENTS

INTERAMERICAN TRAVEL AGENTS SOCIETY

and

SOCIETY OF GOVERNMENT TRAVEL PROFESSIONALS

Before the

UNITED STATES HOUSE OF REPRESENTATIVES

HOUSE SMALL BUSINESS COMMITTEE
ON
IMPACT OF SUBSIDY RATE CALCULATIONS ON
SMALL BUSINESSES

Presented by:

Jacquelyn Alton, CTC
CWT/Almeda, Inc.
450 Meyerland Plaza
Houston, TX 77096
713-592-8000

February 27, 2002

Mr. Chairman, members of the Committee, my name is Jackye Alton. I am the owner of CWT/Almeda Travel, Inc. in Houston, Texas. I thank you for this opportunity to speak to you today regarding the Small Business Administration's (SBA) size standard, especially as it pertains to the travel agency industry. As a member of the American Society of Travel Agents (ASTA), the InterAmerican Travel Agents Society (ITAS) and the Society of Government Travel Professionals (SGTP), I am honored to present this joint statement on their behalf.

ASTA, established in 1931, is the world's largest and most influential travel trade association with over 26,000 members in more than 170 countries. Its mission is to enhance the professionalism and profitability of members worldwide through effective representation in industry and government affairs, education and training, and by identifying and meeting the needs of the traveling public.

ITAS, established in 1953, is the largest and oldest association of African-American owned and operated travel agencies in the world.

SGTP is the national, non-profit education forum for all components of the $20 billion government travel market. Since 1984, SGTP has been an all-encompassing and inclusive association for government travel/finance managers, suppliers and travel agents whose primary objective is to facilitate and promote best practices and a spirit of innovation in government travel.

The travel agency community is very grateful to you, Mr. Chairman, and this Committee for the time and effort spent to assist small businesses in dealing with the aftermath of September 11. We also applaud the Small Business Administration (SBA) for opening, nationwide, the SBA Economic Injury Disaster Loan program that has helped many small businesses with much-needed financial assistance. Although there are

some positive signs of improvement in the travel and tourism industry, much will depend on the U.S. economy and consumer confidence to travel in the months ahead.

Travel agents serve as the only one-stop, neutral source of comprehensive information and counseling about an incredibly complex, constantly changing array of fares and services that confronts the general public. Air travel still represents 54 percent of the travel agency product mix and agencies still account for about 75 percent of the air travel sold in the United States. Agents sell roughly 90 percent of all cruises and almost 100 percent of all tour packages.

Ninety-five percent of all travel industry firms are small businesses that are local and family owned. Eighty-five percent of travel agency jobs are held by women, many of whom are flextime mothers and single. The vast majority of travel agencies are independently-owned. Seventy percent of owners and managers are women.

Long before the events of September 11, the travel agency industry began to experience significant changes involving size as well as numbers. According to a 1998 Lou Harris survey of travel agencies, since 1995 the number with revenue under $1 million had decreased 35 percent and the number of travel agencies with revenues over $2 million had increased 46 percent. Travel agencies are getting larger, better managed, with a more diverse revenue base.

We are all painfully aware of what has happened to the declining levels of travel agency commission income. The cost structure of travel agencies has changed dramatically as well in the past several years. The introduction of "seamless travel management" has shifted expenses from relatively labor intensive to relatively capital intensive. Labor dropped from 55 percent of total costs in 1995 to 45 percent in 1998,

and is much lower today. Hence, the cost of entry into the travel agency industry now requires more up front investment, beyond the day to day cost of incremental labor.

At present, the current SBA size standard for travel agencies is $1 million as measured by total revenues, but excluding funds received in trust for an unaffiliated third party, such as bookings or sales subject to commissions. Travel agents, in statements about their business, often measure their total airline sales by the total dollar volume of airline tickets processed through their agency. But, this measure of "total sales" can be misunderstood and make these small businesses appear to be much larger than they actually are. Travel agency business size (gross revenue) should be measured by combining commissions earned from the airlines (and other suppliers) and service fees earned from agency customers as is recognized by the SBA but frequently misstated by those in the business.

ASTA, ITAS and SGTP support increasing the SBA travel agency size standard from $1 million to $3 million of income. Increasing the size standard will restore the competitive viability of locally owned, family businesses. It will also make the SBA loans programs available to additional agencies that are now considered too big to qualify under the current size standard. We respectfully request Congressional support of this SBA initiative.

By increasing the size standard more agencies, currently considered too large, will be eligible for small business government contracts and set-asides as well. Transaction-based contracting has established itself as the basic practice of Corporate America – including federal government programs. Current government regulations, contracting procedures, including an emphasis on past performance, and the cutting edge way

corporate American now does business with technology resources is taking away from travel agents the opportunities to compete successfully in an open marketplace unless we are able to grow.

A few firms dominate air travel generated by travel agencies that are business travel oriented. Sixty-nine percent of total air comes from just six agency organizations. All except two percent comes from the top 62 agencies, according to the current *Business Travel News* (BTN) study. Increasing the size standard to $3 million of income still keeps competition within a market area, among locally owned, family businesses.

Doing business with the government dramatically changes the competitive positioning of a travel agency within its traditional marketplace. A recent SGTP study showed that Department of Labor (DOL) wage determinations are substantially above what small travel agencies might be paying their part-time, related and other employees for existing niche market activities. Also, up front capital commitments to adequately service government makes these firms less competitive and more vulnerable elsewhere.

Some specialists in the small travel agency bidding process have observed that levels of competition among travel agencies have dropped dramatically. One federal agency that attracted 51 responses to its RFP received only five responses the next bidding cycle. Government set-asides attract fewer respondents at the current $1 million level. Increasing the size standard to $3 million would produce more interest, provide an incentive for incumbents to re-bid on their accounts, and yield better value for the U.S. Government and its taxpayers.

Since September 11, forces moving travel agencies to seek the depth of resources and economies of scale of large size have been greatly accelerated. Increasing the small business size standard for travel agencies is urgently needed at this time.

Thank you, Mr. Chairman, for the opportunity to present ASTA, ITAS and SGTP views. I would be delighted to answer any Committee questions.

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