

REPORT OF THE

**VIRGINIA SMALL BUSINESS
COMMISSION**

**TO THE GOVERNOR AND
THE GENERAL ASSEMBLY OF VIRGINIA**



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**COMMONWEALTH OF VIRGINIA
RICHMOND
1996**

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**Report of the
Virginia Small Business Commission
To
The Governor and the General Assembly of Virginia
Richmond, Virginia
1996**

To: The Honorable George F. Allen, Governor
and
the General Assembly of Virginia

I. INTRODUCTION

A. COMMISSION BACKGROUND AND PURPOSE.

Small businesses dominate the Virginia business scene. Over 60 percent of Virginia's businesses have fewer than five employees. And, businesses with fewer than 100 employees provide jobs for over half of Virginia's workforce. Yet, small businesses are acutely challenged in an economy trending toward larger and larger companies. Because of their size, small businesses frequently encounter difficulty accessing capital, developing effective marketing strategies, utilizing technology, and providing competitive health care benefits. These challenges prompted the Virginia General Assembly to establish a permanent legislative commission for small business.

Senate Bill 673 and House Bill 1759, approved by the 1994 Session of the General Assembly and signed into law, established the Virginia Small Business Commission. Establishing the Commission was the recommendation of a 1994 joint subcommittee studying ways to assist small business pursuant to Senate Joint Resolution 128 of 1993. The Commission's enabling legislation (Appendix A) gave it the following responsibilities:

- Evaluate the impact of existing statutes and proposed legislation on small businesses.
- Assess the Commonwealth's small business assistance programs and examine ways to enhance their effectiveness.
- Provide small business owners and advocates with a forum to address their concerns.
- Report annually its findings and recommendations to the Governor and the General Assembly.

The Commission is comprised of 14 members, including six members from the House of Delegates, four members from the Senate and four at-large members appointed by the Governor. The at-large members are required to be individuals with small business experience or expertise.

The following General Assembly members were appointed in 1995 to serve on the Commission: Senators Stanley C. Walker of Norfolk, Elliot S. Schewel of Lynchburg, Janet D. Howell of Reston, and J. Brandon Bell of Roanoke; Delegates A. Victor Thomas of Roanoke, Glenn R. Croshaw of Virginia Beach, Franklin P. Hall of Richmond, Vincent F. Callahan, Jr. of McClean, Robert S. Bloxom of Mappsville and I. Vincent Behm, Jr. of Hampton. 1995 Gubernatorial appointees were Robert A. Archer of Salem, Thomas E. Inman II of Williamsburg, Jorge M.P. Ponce of Centreville and Bernice E. Travers of Richmond.

B. SUMMARY OF THE COMMISSION'S 1995 ACTIVITIES.

Senator Stanley C. Walker of Norfolk was elected Commission Chairman; Delegate A. Victor Thomas of Roanoke was elected Vice-Chairman. During its inaugural year, the Commission convened three meetings--including two public hearings--in three separate regions of the state: Richmond in Central Virginia, Norfolk in the Tidewater area, and Herndon in Northern Virginia.

One of the Commission's statutory missions is to provide small business owners and advocates with a forum to address their concerns. The business community used the two public hearings to address an array of issues, including the business professional and occupational licensing (BPOL) tax.

The Commission also received briefings on (i) small business financing programs and (ii) innovative small business opportunities, including National Aeronautics and Space Administration's (NASA) high technology small business partnering program.

II. REPORTS RECEIVED BY THE COMMISSION

A. SMALL BUSINESS NEEDS ASSESSMENT.

Surveying small businesses to determine their needs and priorities is critical to the development of public policies affecting and promoting their interests. Robert Archer, a Commission member who chairs Virginia's Small Business Advisory Board ("the Board"), reported that the Department of Economic Development's Small Business Development Center (SBDC) and the Board were conducting a statewide small business needs assessment in 1995.

This survey will be similar to one conducted in 1989, and will examine both positive and negative attributes of the current Virginia business climate. Some of the positive attributes examined in 1989 included (i) pro-business attitudes of government, (ii) quality of life, (iii) Virginia's geographic location, and (iv) the availability of highly-skilled workers. Negative attributes examined were (i) the shortage of affordable housing in certain areas, (ii) high local business taxes, (iii) perceived inadequacy of public schools, and (iv) the high cost of health and liability insurance. It is expected that the survey will be completed in early 1996.

B. Small business and the Department of Economic Development.

The Commission was briefed at its Richmond meeting on activities within the Virginia Small Business Development Center (SBDC) program. This program is administered by the Department of Economic Development (DED) and is funded by federal grant dollars from the federal Small Business Administration (SBA) and the Commonwealth's general fund. Additional funding comes from a variety of local business organizations

Under the current program, twenty-one SBDC locations throughout Virginia provide free counseling and training seminars to business owners and individuals. Special emphasis programs offered by SBDC locations include programs focused on female entrepreneurship, pollution prevention assistance, and international exports. According to DED, the SBDC program's economic impact has been significant. Since its inception, SBDCs have counseled nearly 40,000 businesses and fostered over \$250 million in capital investment. Federal funding through the SBA currently provides all but \$250,000 of the SBDC's \$4 million annual budget. DED representatives suggested that while funding for the program is likely to be reduced in the current federal budget cycle, cuts may be in the range of 5 to 10 percent.

DED representatives also briefed the Commission on surety bond guaranty and direct bonding programs that Maryland and several other states have adopted to help small businesses to obtain bonding in conjunction with bidding on government contracts. The Maryland program uses an authority to guaranty reimbursement to sureties bonding qualifying small businesses. Under the Maryland program, the authority will guarantee up to 90 percent of a surety's losses resulting from a contractor's default with a maximum exposure of \$900,000. Applicants for this program must (i) have their principal place of business in Maryland or be a Maryland resident and (ii) employ fewer than 500 employees or have annual gross sales of less than \$10 million.

The Virginia Small Business Financing Authority ("the Authority") is another program aimed at providing Virginia business with financing needed for growth and expansion. Established by the 1984 General Assembly, the Authority's

administration is coordinated by DED. Currently, the Authority oversees a number of financing programs, including its industrial development bond and umbrella bond programs, and a child day care financing program. The day care financing program provides loans up to \$15,000 for infant care equipment, playground improvements and minor renovations to day care facilities. The Authority's economic impact was summarized as having provided \$181 million in financing and, according to DED estimates, nearly 15,000 jobs generating \$13.7 million in annual state sales and personal income tax revenues.

C. MICROENTERPRISE INITIATIVES.

The Department of Housing and Community Development reviewed for the Commission the status of the Virginia Enterprise Initiative. This SBDC-developed program is aimed at providing start-up capital to low- and moderate-income individuals who want to start businesses, but would probably not qualify for conventional business loans supported by the SBDC. The program has four components: training, technical assistance, micro loans and follow-up support. In fiscal year 1997, the program will have a budget of approximately \$1.6 million. This will fund 15 site demonstration projects.

D. NASA TECHNOLOGY TRANSFER PROGRAM.

The Commission received an extensive presentation from the Director of the NASA's Langley Research Center's Technology Applications Group. The Commission learned that NASA is targeting small business as a vehicle for commercializing high technology products developed at Langley. A Chesapeake, Virginia company, for example, is currently licensed to use a NASA patent in the production of missile cases--a product worth \$4-5 million per year to the company. The Center's representative told the Commission that the best way to support the NASA technology transfer program is through continued support of the Center for Innovative Technology (CIT). CIT was cited as the primary link between the NASA program and small businesses in Virginia.

III. SMALL BUSINESS INPUT TO THE COMMISSION

A. OVERVIEW.

The Commission convened public hearings in Norfolk's City Council chambers and at the Center for Innovative Technology in Herndon. At both meetings, the importance of small business to Virginia economy, and the mission of the Commission were emphasized. Small business representatives addressed the Commission on concerns involving business taxes, health care costs, and related issues. The Commission also received budget recommendations concerning the Small Business Development Centers and the Small Business Financing Authority.

B. BPOL TAX.

Several public hearing speakers, including a representative of the Hampton Roads Chamber of Commerce (see Appendix B), expressed opposition to the business, professional and occupational license (BPOL) tax. That the BPOL tax is based on gross receipts, without regard to profit or a business's ability to pay, is the principal source of small business discontent. BPOL, according to these speakers, places a disproportionate burden on start-up businesses, on businesses operating at a loss, and on businesses competing in highly competitive markets where profit margins are slim.

Concern about localities' broad latitude in determining BPOL business tax category was also expressed. For example, a business in one city may be classified as a "business service" subject to a maximum rate of \$0.36 per \$100 in gross receipts, while in another city, the same business might be classified as a "professional service," subject to a maximum rate of \$0.58 per \$100.

Several speakers expressed support for BPOL reform, but urged caution in view of localities' heavy dependence on BPOL revenue. They suggested that localities deprived of BPOL revenues might shift tax burdens to narrower business categories, such as the hospitality industry (e.g., hotels and restaurants).

C. HEALTH CARE.

Managed health care's impact on small business costs was also addressed. One speaker urged the Commission to support managed care programs as a means of continuing health care reform efforts that have moderated premium costs to small businesses and their employees. "Any willing provider" statutes were cited as examples of governmental erosion of managed care.

D. GOVERNMENTAL COMPETITION WITH PRIVATE ENTERPRISE.

Governmental competition with businesses in the private sector was cited as a source of hardship for small businesses. The Virginia Department of Transportation's competition with private aerial mapping firms in the area of "center line" roadway mapping (see Appendix C), and preferences given Virginia prison industries in public procurement were raised as examples of unwelcome competition with the private sector. According to one speaker, prisons captured 34% of the market for furniture in state procurement.

E. BUDGET RECOMMENDATIONS

During the Commission's public hearing in Norfolk, the Executive Director of the SBDC of Hampton Roads asked the Commission to support two budget recommendations (Appendix D). First, the Center recommended that the General Assembly appropriate \$500,000 for the Virginia Small Business Financing Authority's Capital Access Program. Second, the Center recommended an additional appropriation of \$750,000 to the SBDC network for manufacturing, technical, and international services.

IV. GENERAL ASSEMBLY ACTION ON ISSUES BEFORE THE SMALL BUSINESS COMMISSION.

A. BPOL UNIFORM ORDINANCE.

The 1996 General Assembly responded to concerns about BPOL taxes expressed by business owners to the Small Business Commission and to a joint subcommittee studying this issue. It enacted House Bill 293, legislation which provides a uniform ordinance for the business, professional and occupational license tax to be used by local governments. Most significantly, it establishes thresholds for BPOL tax liability. For example, in jurisdictions with a population of over 50,000, a business must have \$100,000 in gross receipts before any tax is paid; in jurisdictions with a population of more than 25,000 but less than 50,000, the threshold amount is \$50,000. In jurisdictions with a population of less than 25,000, there is no threshold amount.

The bill also clarifies that certain moneys received by a licensable business are excluded from its taxable gross receipts. These include (i) sales and other taxes collected from customers, (ii) previously taxed receipts, such as factoring accounts receivable, (iii) returns and allowances, (iv) loan proceeds, (v) returns of principal, (vi) rebates and discounts by the seller (not manufacturer's coupons), (vii) withdrawals from inventory and occasional sales, and (viii) investment income.

B. FUNDING FOR SMALL BUSINESS PROGRAMS IN THE 1996 BUDGET.

The Conference Report for the 1996 budget bills (House bills 29 and 30) adopted the General Assembly allocated money for several small business assistance programs. First, the Small Business Development Center program received a total appropriation of \$1,000,000, with \$500,000 appropriated in each year of the budget biennium. Second, \$1,000,000 was appropriated in the first year of the biennium to the Export Loan Fund program administered by the Small Business Financing Authority. Finally, \$500,000 was appropriated to the Center for Innovative Technology for a capital access program targeting small business.

V. CONCLUSION.

The Commission's activities in its inaugural year lays the foundation for its work in 1996 which will include an in-depth examination of capital access for agribusiness in the Commonwealth, pursuant to House Joint Resolution 34 assigned to the Commission for study.

Respectfully submitted,

Stanley C. Walker, Chairman
A. Victor Thomas, Vice Chairman
I. Vincent Behm, Jr.
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Vincent F. Callahan, Jr.
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§ 9-336. Small Business Commission established; purpose.

The Small Business Commission is hereby established as a legislative agency of the Commonwealth and is hereafter referred to in this chapter as the "Commission." The purpose of the Commission shall be, through the exercise of its powers and performance of its duties set forth in this chapter, to study, report and make recommendations on issues of concern to small businesses in the Commonwealth.

§ 9-337. Membership; terms; vacancies; chairman and vice chairman; compensation.

A. The Commission shall consist of 14 members as follows: six members from the House of Delegates, to be appointed by the Speaker of the House; four members from the Senate, to be appointed by the Senate Committee on Privileges and Elections; and four members from the Commonwealth at large, each of whom shall have previously demonstrated small business experience or expertise, to be appointed by the Governor.

B. All appointments to the Commission shall be for terms of four years. Vacancies occurring other than by expiration of term shall be filled for the unexpired term. Whenever any legislative member fails to retain his membership in the house from which he was appointed, he shall relinquish his membership on the Commission and the appointing authority who appointed such member shall make an appointment from his respective house to complete the term. Any member may be reappointed for successive terms.

C. The members of the Commission shall elect a chairman and a vice chairman annually.

D. Legislative members of the Commission shall receive such compensation as is set forth in § 14.1-18 and all members shall be reimbursed for their actual expenses incurred by them in the performance of their duties in the work of the Commission.

§ 9-338. Powers and duties of the Commission.

The Commission shall have the power and duty to:

1. Evaluate the impact of existing statutes and proposed legislation on small businesses.
2. Assess the Commonwealth's small business assistance programs and examine ways to enhance their effectiveness.
3. Provide small business owners and advocates with a forum to address their concerns.
4. Report annually its findings and recommendations to the Governor and the General Assembly.

§ 9-339. Staff; cooperation from other state agencies.

The Division of Legislative Services shall serve as staff to the Commission. All agencies of the Commonwealth shall assist the Commission upon request.



Testimony before the
Virginia Small Business Commission
Thursday, December 14, 1995

Chairman Walker, members of the Commission, good morning. I am Martha McClees, Vice President for Governmental Affairs with the Hampton Roads Chamber of Commerce. I am speaking today on behalf of the Chamber's 2,500 member small business firms who represent the backbone of the Hampton Roads' economy.

First I would like to thank Senator Walker and the members of the Virginia General Assembly who saw the wisdom of establishing this commission as a permanent legislative forum for small business. Small and new businesses face unique challenges that necessitate ongoing review and consideration. This commission will ensure that process.

There are two specific issues we expect will receive much debate during the 1996 Virginia General Assembly whose outcome will significantly impact small businesses. They are the debates concerning the business licensing tax or BPOL tax and the issues surrounding managed health care.

The business community would like to have the taxing authority that is given our localities to levy a BPOL tax substantially reformed and ultimately repealed. Most people agree that the BPOL tax is an unfair tax. It is based on gross receipts. It is imposed without regard to profit and without regard to ability to pay.

The BPOL tax places a disproportionate burden on start-up businesses, on businesses that operate at a loss and on businesses engaged in highly competitive markets where low profit margins are essential for success. A firm that is losing money must still pay the BPOL tax and can find itself paying more in local BPOL taxes than it does in both state and federal taxes combined.

Beyond the inherent unfairness of the tax, the BPOL tax is administered inconsistently by jurisdictions making it a confusing tax, particularly for companies with operations in more than one locality. Because localities have broad latitude in determining what businesses will fall under which tax categories, a business in one city may be classified as a "business service" subject to a maximum tax rate of 36 cents per \$100 in gross receipts while in another city the same business can be classified as a "professional service" and pay a maximum rate of 58 cents.

Government contract work is big business for small businesses in Hampton Roads. The BPOL tax can place a particularly onerous burden on these firms. Often a contractor will bid a job with the government and then subcontract portions of the work to other businesses in the area. Each of the subcontractors is subject to the BPOL tax for receipts earned from their portion of the contracted work. The lead contractor, however, is still subject to taxes on 100% of the contract receipts even though a portion of those receipts were passed through to subcontractors. Is this not double taxation?

These are just a few examples of the inequities inherent in the BPOL tax and why we ask for the Commission's support of efforts for immediate reform and ultimate repeal.

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Statement of
John M. Palatiello
Before the Commonwealth of Virginia
Small Business Commission
Center for Innovative Technology
December 14, 1995

Mr. Chairman, members of the Commission. I am John Palatiello. I live in Reston and operate a public affairs consulting firm in that community as well. My firm assists small businesses with government market and public policy issues. I also manage a trade association, known as the Management Association for Private Photogrammetric Surveyors (MAPPS) and work with many small companies in the surveying, mapping, engineering and geographic information field.

One year ago yesterday, I was in Virginia Beach for the Virginia meeting of the White House Conference on Small Business. At that meeting, I was successful in winning adoption of a resolution by the hundreds of small business owners at the conference which identified unfair government competition as a priority concern for small, private companies. Not only was my resolution adopted in Virginia, but in June it was one of the top 15 planks adopted by the national White House Conference on Small Business, when several thousand business owners from all 50 states gathered in Washington, DC.

In my research, I was surprised and disappointed to discover that there is no law, policy, executive order or any other guidance in Virginia that declares it to be the policy of the Commonwealth to rely on the private sector for the commercially available goods and services the government needs, nor to protect small business from unfair competition by the government.

It is my experience that the Commonwealth of Virginia is engaged in numerous activities that duplicate or compete with the private sector. Whether it is mapping, aerial photography, surveying, engineering design, maintaining buildings, mowing lawns, printing, running camp grounds, or dozens of other activities, the Commonwealth (both state agencies and in the political subdivisions) operate in-house capabilities using State employees that duplicate and in some cases compete with small business. I believe there is a critical need for the Commission to support an investigation of State agency activities, development of an inventory of those activities that can be better performed by the private sector, and put in place a mechanism by which those activities can be closed down so the private sector can step in, privatized by converting a government activity to a private sector activity or by contracting out to the private sector those activities that are commercial in nature.

Such a process is exactly what Governor Allen supported as a member of Congress when he cosponsored H.R. 4430, the Freedom from Government Competition Act, in the 102nd Congress. A copy of the current bill in Congress, identical to the one the Governor cosponsored, is attached to this statement. I would urge the Commission to recommend that the Governor issue an Executive Order similar to this legislation, or recommend that the General Assembly enact such a bill for Virginia.

Numerous States, cities and counties have had great success with privatization initiatives. I believe it can work in Virginia. This process transforms State government from being a source of competition to a source of business for the private sector, especially small business.

I have also discovered that there is a lack of a provision in the Virginia Code to permit the Commonwealth (both State agencies and counties) to act on unsolicited proposals from private firms.

I am aware of firms that contemplated submitting unsolicited proposals to State agencies and counties in Virginia for activities ranging from operation and maintenance of public golf courses to building GIS data bases, but decided against such initiatives when found that action by a government body is not specifically authorized in the Code.

The Code requires agencies to use a competitive process for all procurement, usually a defined government need and a resulting request for proposals (RFP). If a government body wishes to act on an unsolicited proposal submitted by a private firm, the agency must accept the proposal, develop a RFP, solicit proposals and award a contract to the lowest bidder (or negotiate with the most qualified firm if the service falls within the definitions of professional services).

These requirements (found in the Virginia Public Procurement Act, Chapter 7, Title 11 Code of Virginia) provide a dis-incentive for firms to provide innovative proposals to government agencies, and acts as a barrier to privatization of government activities. It would be counter-productive for a private firm to submit proprietary information to a government agency only to have that information included in a public RFP for the firm's competitors to see.

Furthermore, other government agencies (including State universities) are not bound by these requirements. An agency can award a "contract" in response to an unsolicited proposal from another government agency (including State universities), since this is an inter-agency transfer, not a contract.

In addition to being a dis-incentive for private firms to submit unsolicited proposals, these two facts result in an unfair advantage to government agencies (particularly universities) and unfair government competition with the private sector.

To remedy this situation, I would respectfully request your support for legislation to establish a legal process for receipt of unsolicited proposals. For your convenience, I have enclosed that portion of the Federal Acquisition Regulations (48 C.F.R. 15.500 - 509) which outlines the Federal process for receipt of unsolicited proposals. This process works well and is a good model for potential State legislation.

Ladies and gentlemen, how are we to have economic growth and development in the Commonwealth, how are we to have economy and efficiency in our State government, how are we to have thriving small businesses, when our government is taking tax dollars from our citizens and using that money to go into businesses that compete and duplicate with private enterprise?

I would welcome the opportunity to work with the Commission to draft and implement a plan that says, "Virginia is Open for Business." Thank you for the opportunity to share my thoughts. I would be pleased to answer any questions you may have.

PRESENTATION
VIRGINIA SMALL BUSINESS COMMISSION

December 14, 1995

BY

The Small Business Development Center
of Hampton Roads, Inc.

Presenter: William J. Holloran, Jr.
Executive Director

Senator Walker, members of the Commission, good morning. My name is Bill Holloran and I am the Executive Director of the Small Business Development Center of Hampton Roads. The Center is a non-profit organized as partnership between the Hampton Roads Chamber of Commerce, Thomas Nelson Community College, the Small Business Administration, and the Virginia Department of Economic Development. The SBDC services the Hampton Roads metropolitan area and the Eastern Shore of Virginia as part of the Virginia Small Business Development Center network in conjunction with the Virginia Department of Economic Development. The Center provides managerial and technical assistance in the form of business planning, marketing assistance, financial assistance, and export assistance through one-to-one counseling for businesses from 0 (start-up) to 200 employees.

The SBDC provides direct service to preventure and start-up clients as well as existing businesses by offering client-specific service and acting as a clearinghouse to other organizations in the region that may be able to fulfill the user's needs. These techniques allow the Center to use a small staff and (1) provide comprehensive services to virtually any small business, and (2) actually compliment and not duplicate any services that are currently available. The Center's private sector support considers this an efficient operation; our governmental support considers this an effective use of taxpayer money.

The Center's Board of Directors and fiduciary organizations has directed me to ask the Commission to consider two recommendations at this time.

The recommendations are made recognizing the budget limitations always faced by the Commonwealth of Virginia. When funding requests are indicated they are meant as priorities as the budget allows. Should the funds be available, it should be remembered that these types of expenditures are not for consumption, but represent investment with a payoff in jobs, income, and enhanced tax base.

1. Appropriate \$500,000.00 for the Virginia Small Business Financing Authority's Capital Access Program.

Access to capital remains a critical concern for small businesses. Many of you know there has been a fundamental change in the commercial lending environment in the past five years. Credit requirements of many banks are considerably more stringent than they were during the mid to late 1980's - and all indications are they will stay that way.

Government loan programs such as the Virginia Small Business Financing Authority fill a gap the private sector does not fulfill by taking slightly more risk than commercial institutions - usually with guarantees and sometimes with direct loans.

The Virginia Small Business Financing Authority programs have an excellent reputation for their ease of use. Moreover, the program's economic impact over the years has been substantial, creating or

saving 14,197 jobs, representing \$181 million dollars in capital investment, and generating \$13.7 million dollars in tax revenue.

The agency will be requesting funding during this General Assembly for an innovative financial program directed at small businesses called the Virginia Capital Access Program. Patterned after similar programs in nineteen (19) states, the Capital Access Program is based on a portfolio insurance concept. This is different from the loan by loan guarantee program typical of government financial programs.

The program establishes a reserve fund for banks to use to cover losses from a portfolio of loans which the bank makes under the program. The reserve is owned and operated by the Virginia Small Business Financing Authority, and each bank participating in the program has its own separate loan reserve account. Payments are made into a bank's reserve fund each time the financial institution makes a loan under the program. The bank pays a premium of the principal amount of the loan, the borrower contributes a similar amount, and the state matches the bank and borrower's premium. Premium's can range from 6% to 14% creating a reserve that will allow the bank to absorb a higher loss rate than it could tolerate on its conventional loans.

This program is unique and a good idea. Banks enroll and make the decision on loans eliminating bureaucratic review of loans. The reserve account means loans that otherwise would not get done, can be accomplished. All types of loan from working capital to real estate are possible. A \$500,000.00 appropriation in each year of the biennium budget will support \$10.5 million in financing which should allow loans to between 200 and 250 businesses each year in Virginia.

Similar programs in other states have shown strong performance in assisting existing small businesses, start-up firms, technology firms, and women and minority owned businesses.

The Center would also ask the General Assembly to exercise diligence in assuring the Financing Authority and its financial programs remain available for small businesses. There are a number of potential organizational changes being considered for the Virginia Department of Economic Development where the Financing Authority is housed. The Center is concerned the inclusion of the Financing Authority in a new Department or Authority might result in the funds for this program being used for marketing purposes for the attraction of new business to State, and not for loans for small business. The broad legislative language that established the Financing Authority could potentially allow this.

The attraction of new businesses is important to the State of Virginia and we are having some great successes. But an economic development program centered solely on attraction ignores the needs of approximately fifty (50%) percent of the tax base represented by small businesses. And small businesses is where the majority of job generation occurs in our economy.

2. Consider appropriating an additional \$750,000.00 to the Small Business Development Center network for manufacturing, technology, and international services.

The Commonwealth of Virginia's historically sound business climate, and quality of life make it a good place to bring a small business, expand a small business, or create a small business. These firms do not generally require real estate deals, major infrastructure improvements, or incentives but they do need capital and managerial and technical assistance for their firms to expand. They do not result in 1,000 or more jobs at a shot. However, these firms grow every day. Recently the Center has worked with a firm on the Eastern Shore that is in the process of employing 35 high-tech jobs, an aeronautical manufacturer on the Peninsula that will add 98 research and development jobs, and a machine manufacturer expanding in the southside Hampton Roads area that will add 31 jobs to site three real-life examples.

We once again do not want to downplay the importance of economic development efforts directed at attracting larger businesses to the Virginia economy, but simply recognize the importance of small businesses as the source of virtually all significant job growth. Small businesses need access to client-specific services but are simply incapable of affording the costs of major consulting firms. The SBDC in Hampton Roads has been identified as a major delivery mechanism for many of the planned small business economic development efforts, and I hasten to add there is someone like me that serves every county and city represented on this committee and throughout the State. Therefore, we respectfully request consideration of increased funding for the program. You should know increased funding will have to be matched by local sources. The local fiduciary organizations of the Hampton Roads Center will match those resources. Many other SBDC's in the State would receive similar support.

Thank you for your time and consideration. I will be happy to answer any questions.

