THE STATE OF THE SMALL BUSINESS ECONOMY AND IDENTIFYING POLICIES TO PROMOTE ECONOMIC RECOVERY

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THE STATE OF THE SMALL BUSINESS ECONOMY AND IDENTIFYING POLICIES TO PROMOTE ECONOMIC RECOVERY

Wednesday, January 14, 2009

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

The Committee met, pursuant to call, at 10:06 a.m., in Room 2360, Rayburn House Office Building, Hon. Nydia M. Velázquez [Chair of the Committee] Presiding.

Present: Representatives Velázquez, Clarke, Kirkpatrick, Dahlkemper, Moore, Schrader, Schock, Graves and Luetkemeyer.

Chairwoman VELÁZQUEZ. Good morning. I call this forum to order.

Last month, the National Bureau of Economics made it official. The country is in a recession, and it has been for over a year now. Of course, most Americans already knew this. From plunging consumer confidence to soaring unemployment, the signs were and continue to be everywhere. In December alone, we lost a half million jobs, bringing last year's job loss to a 63-year high.

Work has already begun to turn the economy around. The end goal of this recovery effort should be growth and job creation, two areas in which small businesses excel. After all, small firms are the engine of our economy. They not only create 80 percent of all new jobs, but they also represent 99 percent of American businesses. Today, however, they are struggling to play their traditional role of economic catalyst.

In this morning's forum, we will look for ways in which small firms can assume that role once again. We will also discuss the current economic climate and the roadblocks it has created for our country's entrepreneurs.

From the local tech to the mom and pop restaurant down the street, small businesses are suffering everywhere. Many have been forced to close up shop all together.

At a hearing in November, this Committee met Thomas Franke, an entrepreneur whose 83-year-old family business had managed to ride out the Great Depression but was unable to endure the current downturn. In November, his business closed its doors for good.

All across the country entrepreneurs like Franke are struggling to secure the capital they need to survive. According to the Federal Reserve Senior Loan Officer Survey, 75 percent of commercial banks have tightened lending standards to small firms. On top of that, 90 percent of respondents said that they have upped the cost of small business credit lines.

During past downturns, small businesses have managed to survive on loans from the Small Business Administration, but today even those loans are disappearing, with lending down almost 60 percent since last year. As funding dries up, many entrepreneurs are taking desperate measures, from maxing out credit cards to draining 401(k)s.

It doesn't have to be this way. The resources of the SBA loan program could be leveraged to help break the financing logjam. Our Nation should use targeted tax incentives to increase investments, generate cash flow and encourage small firms to hire workers. Tax policies can also help spur innovation and encourage investors to put resources behind promising startups.

If we have learned anything in the last year, it is that there is no single silver bullet fix for our financial woes. With that said, we also know that if we are going to bring our economy back on track we are going to have to start with the fundamentals. That means job creation and economic growth.

As the backbone of the American industry, small businesses can help accomplish both. But before small firms can revive the economy, they will need to survive the recession. In today's forum, we will look for ways to ensure that they do both so that they can play their historic role as economic catalyst.

I am delighted everyone could join us for this discussion and I look forward to your input on this issue.

Now I would like to yield and welcome the new ranking member of the minority side, our colleague, Sam Graves. I look forward to working with you. As you all know, we had a great relationship with the previous ranking member. I have really enjoyed the work that we have done in the past on the 7(a) and SBIR programs, and I look forward to two productive years.

Mr. GRAVES. Thank you, Madam Chair. I, too, look forward to two productive years and intend to conduct myself exactly the same way as Representative Chabot did and thank you for holding this roundtable. I think it will be a positive and active working relationship between the chairwoman and I and the Committee as we move forward in a very bipartisan manner to address the vital issues facing small businesses. So thank you very much for your opening.

During the past few months, Congress and the American public have heard that it is important to stimulate the economy but almost nothing about what America's small businesses need. As larger enterprises lay off workers, small businesses will help to fill that gap, either through the hiring of new employees or the creation of new enterprises. I hope this hearing will correct that oversight.

In developing an economic stimulus package, I am heartened by the President-elect's willingness to hear new ideas and consider elements of the economic stimulus package—reconsider elements of that package. I would expect that he understands the importance of small business in the economy and seriously considers the suggestions offered at today's event.

Any stimulus package that helps small businesses must include significant tax cuts. In many ways, tax cuts will provide small business owners with more liquid assets that enable them to allocate resources in the manner most designed to grow their businesses.

Whatever we may think of the wisdom, as far as the wisdom of the Federal Government is, it is small business owners that have the real expertise in creating growth in the American economy. That capacity should be fostered through the appropriate tax cuts.

Support for tax cuts does not mean that infrastructure investments should be ignored. There is little doubt that an appropriate investment by the Federal Government and infrastructure can provide jobs to unemployed Americans. However, I would caution that any such program carefully consider the long-term economic benefits as well as the short-term gains.

Investment that has long-term benefits should receive priority over projects that are simply designed to increase employment on a temporary basis. For example, projects to reduce reliance on imported oil or to increase broadband access throughout America should have a higher priority than projects that are designed simply to get a piece of the pie.

I am looking forward to hearing from our witnesses about what infrastructure investments and tax policies will have both short-term and long-term payoffs. Again, I want to thank the chairwoman for convening this important event; and I hope that leaders of the House and Senate seriously review what has been discussed here today in the further development of a stimulus package and spark real economic growth.

Again, thank you, Madam Chair, and I yield back.

Chairwoman VELÁZQUEZ. Thank you.

Now I would like to welcome all the members of the panel, especially Mr. Ted Allison.

We will apply the 5-minute rule. You are watching the clock there. It will tell you when your 5 minutes are up.

Mr. Ted Allison is President and CEO of the St. Joseph Area Chamber of Commerce in Missouri. With over 1,000 members, the St. Joseph Area Chamber of Commerce works to create an environment that allows businesses to succeed in this community.

Welcome.

STATEMENT OF TED ALLISON, PRESIDENT AND CEO, ST. JOSEPH AREA CHAMBER OF COMMERCE, ST. JOSEPH, MISSOURI

Mr. ALLISON. Thank you. It is truly an honor for me to be here and give testimony on behalf of the business community of St. Joseph, Missouri, a small MSA of about 125,000 people in northwest Missouri. As is in most local economies, small businesses in St. Joseph represent the vast majority of private sector employment.

Ladies and gentlemen, 93.5 percent of net employment growth in the United States from 1989 to 2005 was created by small businesses. The small business sector employs more scientists and engineers than the large business and higher education sectors. Small businesses are also far more productive, as they generate five times more patents per research and development dollar than big businesses and 20 times more than universities.

While 80 percent of the registered voters in America agree that our government should encourage more entrepreneurship, public policy continues to give a disproportionate preference to the big business sector. The small businesses sector delivers a higher yield for dollar of public investment than big business and offers the greatest potential for rapid economic recovery and growth in quality jobs.

Immediate action from Congress is imperative. Therefore, I hereby submit the following recommendations for your consideration that I feel would stimulate rapid economic recovery for the small business sector:

One, increase the current 2.5 percent set aside allocation for Federal research and development funding to 5 percent for Small Business Innovation and Research grants, what we often call SBIRs.

Two, encourage the development of local angel capital networks by establishing a 20 percent tax credit for individual investors participating in the deployment of angel capital funds.

Three, establish a 20 percent tax credit to encourage private contributions to qualified nonprofit or publicly owned business incubators.

Four, improve access to market research data, training programs and SBIRs by substantially increasing the Federal funding to put more SBDC counselors in the field.

Number five, provide additional funding toward entrepreneurial education programs for local school districts, colleges and universities.

Six, encourage growth of college accredited internships by providing tax credits to sponsoring small businesses.

Number seven, reduce excessive regulatory standards for small businesses by exempting them from Section 404 of the Sarbanes-Oxley Act.

Number eight, take aggressive action to reduce the cost of health care insurance and provide a 20 percent tax credit to insure individuals and employers contributing to employee health care coverage.

Nine, improve the availability and reduce the cost of fully developed building sites in publicly owned or 501(c)(3) non-profit business parks by increasing funding for EDA grants towards infrastructure.

Ten, improve access to commercial loans by increasing the government guaranteed percentage on SBA 7(a), reduce qualification standards, eliminate loan fees, and incrementally forgive the SBA portion of 504 loans for each quality job created that provides health care benefits to its employees.

Eleven, enhance credit access for entrepreneurs through the expansion of local revolving loan fund programs funded through EDA grants by lowering the local match requirement.

Number twelve, increase the tax credit for dependent children to $2,000 and extend the credit to age 21 if the child is a full-time college or technical training student, provided the parents are contributing at least half of their college expenses.

Thirteen, reduce tax rates for small businesses with gross receipts of less than $2.5 million.

Fourteen, exempt the first $30,000 of small businesses net earnings from self-employment tax.

Fifteen, reduce or eliminate the corporate capital gains tax.

And, sixteen, extend bonus depreciation, increase section 179 expansion provisions, and adopt a temporary investment tax credit.

Again, I thank you for this opportunity; and I welcome any remarks or questions you may have.

Chairwoman VELÁZQUEZ. Thank you, Mr. Allison.

[The statement of Mr. Allison is included in the appendix at page 79.]

Chairwoman VELÁZQUEZ. Our next witness is Mr. Tim Ehmann. He is the Senior Project Manager for O'Connell Electric in Victor, New York. Founded in 1911, O' Connell Electric is a full service regional contractor serving the diverse electrical needs of a wide range of clients.

Mr. Ehmann is testifying on behalf the National Electrical Contractors Association. NECA provides service to the $130 billion electrical construction industry across the United States.

Welcome.

STATEMENT OF TIM EHMANN, SENIOR PROJECT MANAGER, O'CONNELL ELECTRIC, VICTOR, NEW YORK, ON BEHALF OF THE NATIONAL ELECTRICAL CONTRACTORS ASSOCIATION

Mr. EHMANN. Madam Chair, Ranking Member Graves, members of the Small Business Committee, thank you for the opportunity to appear before you today. It is an honor and privilege to appear before a Committee that has tremendous impact on my business and the thousands of electrical contractors who operate as small businesses.

I am Timothy Ehmann, representing O'Connell Electric of Victor, New York, which has been in business since 1911 and is a member of the National Electrical Contractors Association. I am a senior project manager specializing in emerging electrical construction markets, including renewable energy technologies like wind power, converting landfill gas into electric power and solar photovoltaic. I also work in the natural gas and utility security industry.

NECA is the nationally recognized voice of the $130 billion electrical contracting industry that brings power, light and communications technologies to buildings, communities and homes across the U.S. NECA's 119 local chapters advance the industry through advocacy, education, research and standards developments.

I am thrilled at the opportunity to speak regarding the upcoming economic stimulus legislation that will soon be deliberated before Congress. My testimony will focus on two elements that need to be included in the upcoming legislation.

Green jobs. President-elect Obama's $1 trillion stimulus plan emphasizes significant investment in transportation and infrastructure, including roads, bridges and dams. NECA supports these infrastructure projects that will help spur economic growth and create jobs. NECA also believes the emphasis must be placed on investment in buildings such as our schools, hospitals and public facilities through investment in green energy construction and high performance buildings. We therefore seek provisions that would require the construction and retrofitting of energy efficient buildings.

From the proper installation and maintenance of wind turbines to light rail and mass transit systems, O'Connell Electric is playing an increasingly important role in the building of the new American infrastructure.

The size and scope of electrical contracting businesses has fundamentally expanded over the past several years, thanks largely to Federal and State tax incentives. O'Connell Electric and hundreds, if not thousands, of other NECA contractors have made renewable energy an integral part of their business strategy. In turn, this has facilitated job creation, contributed to the construction of more energy efficient buildings and moved our Nation towards energy independence.

Electrical contractors support numerous other industries through our work—solar panel manufacturers, software developers and inventory managers—and we must hire additional personnel to perform both the pre-construction work and the actual building projects.

The green job creation for construction of alternative energy sources such as wind farms is immense. Over the course of the last 5 years, O' Connell has become increasingly involved in the construction and maintenance of large wind energy generation fields throughout New York State. Our revenues from clean energy technologies has gone from about $1 million to more than $20 million, which represents more than 25 percent of our total revenues. Such an increase in revenues can contribute to job creation. The influx of renewable energy projects has allowed O'Connell to hire 50 new employees.

O'Connell Electric's experience is not unique. It is a shared experience among NECA contractors. Due to the increased demand for personnel equipped with the skills to install and maintain these new technologies, the growth of the solar and wind industries, for example, has triggered increased investment in research and development, manufacturing and distribution.

I am encouraged by the economic stimulus proposal that President-elect Obama has begun to lay out, which could create as many as 2 to 3 million green jobs. The electrical contracting industry would stand to benefit from several of the provisions being mentioned, including group re-lamping and installation of updated energy efficient heating and cooling systems for the Federal Government.

Federal tax incentives provide the necessary offset to a capital investment that clean and renewable energy technology require to be constructed and utilized.

The economic stimulus legislation is not only an opportunity to stop the economic contraction our Nation is facing but also the opportunity to create confidence and long-term sustainability of the renewables market. We therefore ask for the extension of Federal incentives for renewable energy sources. These extensions would provide necessary predictability in a marketplace that often suffers from projects being delayed or put on hold because of the temporary nature of the renewable energy tax incentives.

Another key policy that would provide predictability within the market would be an increase and expansion of the production tax credit, which incentivizes the generation of energy through clean, renewable resources like wind power and solar.

The credit crunch has put funding sources at risk for many clean energy projects. Consequently, we support the expansion of the Clean Renewable Energy Bond Program, which provides financial incentives for investment by consumer-owned utilities in new renewable electrical generation facilities.

Madam Chair, I have witnessed firsthand the effects of what happens to jobs, to business growth and to the economy when these incentives are suspended or reduced. If the cost of market entry is not addressed and the investments are not made to incentivize the renewable energy markets, I assure you that the electrical contracting industry as well as numerous other industries will become stagnant or contract, creating job loss and reduce business revenues. It is absolutely critical to fund and expand Federal programs for a renewable energy market. They are the vehicle to create economic stimulus and provide our Nation with a chance to build a new energy economy.

Thank you, Madam Chair. On behalf of O'Connell Electric and the National Electrical Contractors Association, I appreciate the opportunity to appear before this Committee.

Chairwoman VELÁZQUEZ. Thank you, Mr. Ehmann.

[The statement of Mr. Ehmann is included in the appendix at page 82.]

Chairwoman VELÁZQUEZ. Our next witness is Mr. Steve Massie. Mr. Massie is the President of Jack L. Massie Contractor, Inc. in Virginia. Massie Contractor provides a full range of services in every step of the construction process.

Mr. Massie is here to testify on behalf of the Associated General Contractors of America. AGC represents more than 32,000 leading firms in the industry, including general contractors, specialty contractors and service providers and suppliers.

Welcome, sir.

STATEMENT OF STEVE L. MASSIE, CEO, JACK L. MASSIE CONTRACTOR, INC., WILLIAMSBURG, VIRGINIA, ON BEHALF OF ASSOCIATED GENERAL CONTRACTORS OF AMERICA

Mr. MASSIE. Thank you, Madam Chair and Ranking Member Graves, for this opportunity to testify. I am here testifying today on behalf of the Associated General Contractors of America, better known as AGC.

My name is Steve Massie. I am CEO of Jack L. Massie Contractor of Williamsburg, Virginia. We specialize in highway site and utility construction. I am also the immediate past President of the Associated General Contractors of the America.

AGC's members are comprised of a diverse group of general contractors, specialty contractors, suppliers and providers that engage in all areas of commercial construction. In a strong economy, the construction industry employs more than 7 million people and annually represents more than $1 trillion in economic activity. Today, however, construction companies and our employees are suffering as the economy continues to deteriorate. Contractors are terminating employees.

Our company has already reduced our work hours by 33 percent. A further reduction to 50 percent will take place today while I am up here; and the next step, unfortunately, for us would be layoffs.

AGC supports construction as a economic stimulus both through enhanced construction spending and through construction tax incentives. Nonresidential construction employment peaked in January of 2007 and has steadily decreased over the last 24 months.

AGC's Chief Economist reports that an additional layoff of construction personnel ranging from 10 to 15 percent nationwide is possible if the economy does not turn around. He also estimates that every $1 billion invested in infrastructure projects would create over 28,500 jobs, add $3.4 billion to the gross domestic product and about $1.1 billion to personal earnings.

An infusion of Federal infrastructure funding would have a direct stimulus effect by providing opportunities for contractors to compete for work. Once projects are awarded, firms will be able to put people on the project in approximately 30 days.

A recent survey showed of AGC members showed that every type of construction market has seen a downturn. Seventy-two percent of respondents have laid employees off in the past 6 to 12 months. Sixty-five percent anticipate laying off employees in the next 6 to 12 months.

However, 85 percent would defer layoffs or hire additional workers if States received Federal stimulus. Seventy-three percent would purchase new equipment if markets improved. I know these statistics hold true for our company.

The study also shows that there is available workforce capacity to build these projects, and once the money begins to flow workers will quickly be put to work.

Additional Federal infrastructure funding will improve our economic efficiency and make our country more competitive. In Virginia, Governor Tim Kaine has stated that Virginia has, and I quote, more than a billion dollars in ready to go bridge, highway, rail, transit, port and airport projects that have been through appropriate local, regional and State planning processes and that can be under contract within 180 days.

Tax provisions should also be a part of this debate. AGC believes Congress should extend expensing, depreciation, energy efficiency and worker training tax policies to create additional incentives to invest in America. One provision that is of particular concern to AGC is the repeal of the 3 percent withholding on Federal, State and local contracts.

Without action by the 111th Congress, firms that receive contracts with funds derived from the economic recovery package would ultimately face a Federal tax withholding requirement that exceeds the average net revenue on construction projects. The provision is unnecessary because the performance bonds required for Federal work ensure tax compliance. AGC urges Congress to include a repeal of the 3 percent tax withholding law in the upcoming economic recovery package.

The country needs your help. The current shortfall in infrastructure investment provides a unique opportunity. With material capacity, readily available labor and a backlog of deferred projects, the construction industry stands ready to build now. Increases in infrastructure investment can put people to work quickly and will have a direct, immediate and dramatic impact on the economy.

Again, thank you very much, Madam Chairman, for the opportunity to testify today for AGC.

Chairwoman VELÁZQUEZ. Thank you, Mr. Massie.

[The statement of Mr. Massie is included in the appendix at page 87.]

Chairwoman VELÁZQUEZ. Our next witness is Mr. Robert W. Therrien. He is the President of the Melanson Co., Inc., a roofing contractor in Keene, New Hampshire. Mr. Therrien is a member and serves as President of the National Roofing Contractors Association with approximately 4,000 members. NRCA is the trade association that represents professional roofing contractors worldwide.

Welcome.

STATEMENT OF ROBERT W. THERRIEN, JR., PRESIDENT, THE MELANSON CO., INC., KEENE, NEW HAMPSHIRE, ON BEHALF OF THE NATIONAL ROOFING CONTRACTORS ASSOCIATION

Mr. THERRIEN. Thank you Madam, Chairwoman and members of the Committee. Thank you for the opportunity to testify on behalf of the National Roofing Contractors Association.

I am Rob Therrien, President of the Melanson Company, a roofing contractor based in Keene, New Hampshire; and I now serve as President of the National Roofing Contractors Association.

The roofing industry is uniquely positioned to play a significant role in quickly stimulating economic growth and job creation across this Nation. However, the Tax Code contains an obstacle that is limiting economic activity in the emerging green building sector.

Congress can address this problem by including the Green Roofing Energy Efficiency Tax Act, or GREETA, in the economic stimulus legislation now being considered. This investment in the emerging green economy will immediately help jump-start our economy.

By accelerating demand for green roofing systems, GREETA will create 40,000 new jobs in the manufacturing and construction industry; add $1 billion in taxable annual revenue to the economy; reduce the U.S. energy consumption by 13.3 million kilowatt hours annually; cut carbon dioxide emissions by 20 million pounds per year; and save small business millions of dollars through a simpler and more equitable system of taxation and lower energy costs.

GREETA amends the Internal Revenue Code to provide a 20-year tax depreciation schedule for commercial roof systems that meet specific energy efficiency standards. Passage of GREETA is necessary because between 1981 and 1993 the depreciation schedule for non-residential property was increased from 15 years to 39 years. However, the current 39-year depreciation schedule is not a realistic measure of the average life expectancy of a commercial roof, which is about 17 years.

The large disparity between a 39-year depreciation schedule and 17-year average life span of a commercial roof serves as a major disincentive to building owners to replace their failing roofs. A building owner who replaces a roof before 39 years have elapsed may have to continue to depreciate for tax purposes, even though their roof no longer exists. As a result, many building owners choose not to only do piecemeal repairs, most often with outdated technology, but they do this rather than replace their failing roof in its entirety with new, energy efficient materials. This problem is slowing the adoption of more advanced energy efficient roofs.

GREETA will rectify this situation by reducing the tax depreciation schedule for commercial roof systems from 39 years to 20 years on roofs that meet benchmark energy efficiency standards. Enactment of this legislation will accelerate the adoption of energy efficient commercial roof systems by eliminating the disincentive in the Tax Code for building owners to install such systems.

Enactment of GREETA would also benefit millions of small business owners by eliminating the need to depreciate more than one roof in instances where the roof must be replaced before the 39-year depreciation schedule has been completed.

Given the many economic as well as environmental benefits of GREETA, this legislation enjoys strong support among business groups as well as organized labor.

NRCA greatly appreciates your support, Madam Chairwoman. As a co-sponsor of GREETA, it looks forward to working with you and other members to enact this legislation into law.

A related short-term incentive to increase employment in the commercial roofing sector could be to provide a 50 percent bonus depreciation for energy efficient roof replacements. This would permit an owner to deduct 50 percent of the adjusted basis of the qualified roof replacement placed into service in the years of 2009 and 2010. This would provide a greater incentive for building owners to initiate energy efficient roof replacements in the economic downturn, and I would say also supports funding for green infrastructure improvements in our Nation's building sector and in the economic stimulus legislation you are looking at.

We believe that current trends towards the adoption of green buildings are keen drivers in the economic growth of our industry. We are working to maximize economic, environmental and energy conservation benefits of green buildings.

Roof services, for example, across this Nation offer an economic, ready to use platform for the production of renewable solar energy. The U.S. Right now possesses 225 billion square feet of stable roof surface among its existing commercial and residential buildings. If only one-third of this area could be used for solar energy production through photovoltaic systems, our roofs would generate over 50,000 megawatts of power annually, or approximately 8 percent of our current generating capacity.

In conclusion, including GREETA for funding for green infrastructure improvements in the economic stimulus legislation will immediately create more jobs and more green collar jobs while also benefiting the environment and conserving energy. Again, thank you for this opportunity to testify today. I would be pleased to answer any questions the members of the Committee may have.

[The statement of Mr. Therrien is included in the appendix at page 92.]

Chairwoman VELÁZQUEZ. I would like to address my first question to Mr. Massie.

A massive stimulus bill is going to require increasing a budget deficit that is already over $1 trillion. This requires careful assessment of what policies will generate the largest bang for the buck.

For your business, in terms of your own perspective, can you tell us about those initiatives? Whether they be tax or infrastructure, which will generate the most jobs?

Mr. MASSIE. I need to be careful that that is not a completely self-serving answer.

When I talk to the people at home, the people that work for us, everybody likes the idea if you reduce their taxes they have more money to spend, but it won't do any good if they don't have a job making money in the first place. And, quite frankly, we are right at 170 employees right now, and they are smart people, they have a lot of common sense and see what is going on in our area.

There is a competitor of ours for 30-some years who is gone. That company no longer exists. And the typical worker in our industry absolutely loves a 60-hour week. They kind of base their life on working that many hours at that level of income. We cut our workweek by 33 percent about 2 months ago. Today, while I am here, we did cut it to 50 percent; and we have not laid people off as of yet. And there is some work that we have gotten in the last month and a half, but it is all little jobs, nothing big. And the people see it and, quite frankly, the employees are scared. So the idea of being able to put people to work where they know they can come every single day and be able to create income within themselves is very, very important to them.

Chairwoman VELÁZQUEZ. Thank you.

Mr. MASSIE. I think that is the best way I can answer that.

Chairwoman VELÁZQUEZ. Would any other members of the panel like to comment on that question?

Mr. ALLISON. I would like to commend the gentleman. I think his statement that people first have to be employed before they can pay taxes—quite frankly, I think a great majority of Americans don't mind paying their fair share of taxes. They just like to know where it is going. Of course, we could argue all day long about we would like to pay lower taxes, but, again, the important thing is just to be among the living and employed and having that great opportunity to be a taxpayer.

I think what we are experiencing at this point in our local economies is a problem of confidence, consumer confidence and confidence among the business community. You have people that, as we speak, are juggling issues and trying to make decisions that will affect many people's lives. So I just implore you to act boldly and quickly because time is of the essence. Every day that goes by, more damage is being done.

Chairwoman VELÁZQUEZ. Thank you, Mr. Allison.

Mr. Ehmann, last year, Congress passed legislation extending the renewable energy tax credit for electricity generation. This year, however, many key incentives are set to expire. How would extending this renewable energy programs act as a stimulus in moving our economy forward?

Mr. EHMANN. A perfect example of what that yearly production credit does to the large wind industry, we have experienced it. It is a yearly issue; and, of course, you extended it until 2009. What that is doing right now is a construction process in a large wind firm is a 10- to 12-month construction period. The development of that project could be 2 years before that.

The overall problem with that is the utility interconnect is usually a 14-month process. Where actually all those numbers put into the equation with a definite end date of the production tax credit ending each year adds severe instability to a normal construction project. It is an unnatural curve when people can't make the decision right now to say, okay, can we get—with all these lengths in our schedule, can we get them done by December 31st?

And as of this date right now, you would be hard pressed to have any project moving forward. As a matter of fact, of the 15 projects that I know of in the northeastern United States, I think there are only two committing to get under way right now.

It isn't just giving us another year. It is more like give us 2 years or 3-year pieces. Then you have an economic smoother curve and let a project develop. Instead of a project being crimped into such a short period of time where you have an unnatural amount of overtime and trucking and economic issues that need time to be addressed and are all forced into a short window—you have people putting up wind turbines in the evenings under light, as soon as the day gets shorter; and there is a big rush to get them done by December 31st. And by some time in November, oh, the production tax credit—and everybody can relax. But they can't relax. They have already committed.

So it is making a very unnatural construction curve. We are doing it and setting records and unbelievable hurdles are being made over, but there are sacrifices. It could be environmental, it could be safety, or it could be trucking.

Chairwoman VELÁZQUEZ. What about cost?

Mr. EHMANN. Costs are incredibly higher. That is the whole thing. From January to March you are trying to economize a job, and then June through December you are just spending like a—

Chairwoman VELÁZQUEZ. Okay, thank you, Mr. Ehmann.

Mr. Therrien, Congress is facing a number of competing proposals, and we want to select, of course, the ones that promote energy conservation most effectively. How would shortening the depreciation schedule for green roof systems accelerate innovation and demand for energy efficient commercial roofs?

Mr. THERRIEN. There are several ways that we have the opportunity to do that. One of the interesting scenarios that we have is the industry is poised and ready. We already have extremely efficient insulations that we can utilize. We have reflective roof systems which help with the heat island effect. Vegetative roof systems are continuing to grow and develop a sector of our industry. Solar roof systems continue. As I said, we have a platform for solar that is unmatched and ready to go to work. Also, there are opportunities for wind up on our roofs.

One of the interesting things we find about this legislation is the industry is ready to go. Ninety-five percent of the products that are used and brought to the project are developed in the United States. So when we go to work as contractors, our manufacturers and supply chain go to work, too. We are ready to put boots on the roof, quite frankly. We have the opportunity to go to work immediately with no delay.

As many of the gentlemen here noted today, we are in a slow time naturally because of the time of year in my region in the

Northeast. But the economy itself has slowed our workloads back, and we don't have the same workloads that we have seen in the past. So, therefore, we do have the opportunity to get more guys back on the roofs, get them to work and give them an opportunity to earn a decent wage and income.

Chairwoman VELÁZQUEZ. Thank you.

Mr. Graves.

Mr. GRAVES. Thank you, Madam Chair.

My question, I guess, is for everybody. I don't know. It is kind of a tough one.

I am struggling with what we are seeing in the country today. Because it is a very vicious cycle. People are conserving, and they are trying to get by. They are worried about losing their jobs, so they are spending less. So that means manufacturers are selling less, which means they are not expanding. Which means people in your business, if you are a contractor, you are not building or helping them build for expansion. Then you lay off people or whatever the case may be because you are not building. Manufacturers lay off people, and then people lose their jobs, and then they are not paying taxes. And it just goes around and around and around.

Mr. Allison, as head of a chamber in a city, you are seeing it with small businesses. How much of this is almost like a self-fulfilling prophecy? We continue to be told, day after day after day, how bad the economy is and how bad it is going to get. And so people continue to conserve and continue to hold back with the idea that, my gosh, I may lose my job next week or in a month. And all that does is again make it even worse and make it even worse.

Now we are talking about the government coming up with a stimulus package and providing all of the jobs. Does the government create jobs or is it small business that creates job? I am trying to figure out what is the best way to do this.

You touched on green roofs, bonus depreciation for green roofs. Maybe we should expand it for anything, trying to get manufacturers or whoever is in business out there to expand, maybe take that leap of faith. We know this thing is going to turn around eventually, sooner or later. It always does. It is cycles. If we give them all the tax opportunities that we possibly can to expand their business, which will obviously put contractors to work to add that new equipment, to update their equipment, to change out all of those trucks and try to get new trucks, whatever it takes—should we be looking at this in a huge, broad spectrum and get those businesses and manufacturers to expand?

Again, I am not so sure that government—I don't think government creates jobs. I think the private sector creates jobs. That is where job creation is. I am curious. You can address—and I would like to hear from each one of you. You can address how much of this is just continuing to be battered on the radio and TV about how bad it is and how much worse it is going to get. And how much of a role does that continue to push us into the government spending?

The chairwoman pointed out, rightly so, there has been a lot of money spent, a tremendous amount of money spent; and it adds to the deficit which was already there. How much farther can we go? When is enough, enough?

I would just be curious from each of you. Mr. Allison, you first.

Mr. ALLISON. Congressman Graves, I appreciate the opportunity to address that.

I agree government should not be the primary creator of quality jobs. Obviously, you need great people working in government; and we appreciate their dedication. However, the private sector is what makes that possible. What we have going on right now is a crisis in not only access to capital, not only a problem with our energy sector, a consumer confidence crisis. We can go on and on.

Let's not forget really what this great country has been most known for throughout history is creativity, it is innovation capacity, it is entrepreneurial spirit; and that still exists, that still exists. There are people out there today in laboratories all across America that have products they are trying to bring forward. They often have laboratory incubator environments around them. They have assistance from a myriad of different resources. However, just look at public policy. 2.5 percent of Federal R&D dollars are going to SBIR grants. What about the other 97.5 percent?

As I said earlier, small businesses—in particular those with SBIR grants—are far more productive in obtaining patents for new products and bringing those to market than big business and/or universities. If I had to pick from the 16 components that I have recommended today, I would say that that is probably the first starting point. Because if you do, if you raise that to even 5 percent, that still leaves big business and universities, the other 95 percent. Then I think we have taken a major leap in assisting the entrepreneurs in bringing their products to market. And if they do and they are successful and the percentage of success is very high, then they are going to be building buildings, they are going to be buying equipment and employing people in quality jobs with health care benefits. Aren't those the goals we are trying to pursue?

I just think too often we have neglected the golden goose here. Nothing against big business. Obviously, we have great challenges with the auto industries and aerospace and so forth. We must maintain those industries. But Main Street cannot be forgotten.

We have people as we speak that are waiting to see what Congress and the new administration are going to do. And if you want to know what the real vacuum has been, it is leadership. They are waiting for a signal. So I ask you to give them that signal. Thank you.

Mr. GRAVES. Mr. Ehmann.

Mr. EHMANN. I believe along with large wind we are very involved in residential photovoltaic, solar electric and solar hot water; and small wind is another one of our things that we supply. And what you are saying, what I see the government has is the capacity with the incentives to push that industry. That industry is being taken advantage of. Solar electric is being taken advantage of today; and through the incentives, both Federal and State levels, they are working. The people are generating electricity. Reducing their cost of electricity is their goal. They, therefore, have more money in their pocket. That is their incentive. And their incentive is not only just to do something green, but it is also as a return in their pocketbook.

Both the solar hot water and the small wind, those are not incentivized as well. The problem with that is it is a little bit more out of the residential guy's pocket, a little longer payback. It is harder to jump that hurdle. If you can incentivize those any much—better than they could—they are viable products.

People want their dependence, their electric bills less. They want their heating bills less. And those are your working class people. And what it does is it creates jobs for me as an installer. It creates jobs for our salespeople. It creates jobs for maintenance people. Because all of these are electrical generating devices. They are generating at the house level. They will need maintenance in the future.

It isn't that you will install it and go away. You will have a maintenance plan and go back after 2 years. You have to maintain your systems and make sure they are operating and make sure the grid connection is maintained and make sure the electric grid is safe. Everybody has the potential to back-feed the electric grid. So it just creates more and more jobs. And that is working well.

Mr. GRAVES. Mr. Massie.

Mr. MASSIE. I am going to answer a little bit different.

My clients—I work for the Federal, State and local governments; and we also work for private investment. On the private side, what we see our clients doing is, one, they have to be able to get money. What is the credit market and is money available that they can afford?

Right now, they are doing two things. They are waiting to be able to get the money, and they are also waiting to see what you are going to do. What is going to be the pattern of the new administration in this Congress? And how long is it going to take them to become comfortable that, yes, I see a path that they are headed on, and I feel comfortable that they are going to stay on that path, so that they don't get in trouble again by starting to borrow money and starting to go back to work, getting comfortable and then all of a sudden there is a change in direction and, oh, no, we are back in trouble again.

We had one project that we were working on where the owner went bankrupt. It just came to a screeching halt. We have other projects where they didn't go bankrupt, but we came in to work one day and they said, go home. So the private sector is very, very leery and they want access to money on terms that they can make money. And, right now, they can't and they are waiting for direction before they start going back to work again.

From the local, State and Federal Governments, they just don't have any money to spend. So, from that perspective, yes, it will take money to get back to building the projects, whether they are buildings or highways or whatever they may be. From an infrastructure standpoint, it will not happen until money is available to do it.

So my answer for you is both. From a private point, it is still getting back to the government and what are the policies and the regulations that they are going to have to adhere to. But they have to have a level of comfort that this administration and this 111th Congress is heading in a direction, and they are going to stay in that direction. You can't be all over the board with everything.

Our line of work, we work around the weather. What is the weather, today, tomorrow and the next day? We have gotten to where we can handle that. What absolutely bamboozles us is what is going to come out of Washington and predicting what that's going to be on the long term. Because we make huge investments on capital, whether it is the owner or us.

Right now, we are going through a renewal of equipment, had been doing it for the past 4 years where we are getting more efficient and more environmentally friendly equipment. We stopped. We still have a list that we are working on, but we quit because we don't know where things are going.

Chairwoman VELÁZQUEZ. I am going to have—Mr. Therrien, do you want to make a brief comment?

Mr. THERRIEN. I will attempt that, yes.

Quite frankly, I agree the legislation is a slight tweaking of our current tax policies. It is not making something go away that exists now. It is shortens it and puts guys to work. It gives us an opportunity to stay within a realistic time line and scale. But the depreciation if it is retarding spending on new energy efficient roofs. That is not putting my guys to work, and that is what we are looking to do with that legislation.

I will also echo some comments about the 3 percent withholding and the fact that that truly is a net income of most construction firms in this country, I believe. So, basically, you are taking that off the table for our ability to have the needed capital to go to work. It does affect our overall income, which affects our loan and our ability in our lines of credit as well as our bonding.

I don't think there are many State and local groups that are very happy about the prospect of having to collect this and do the processing work associated with it. So I am hopeful that some slight tweaks in the depreciation schedule would do a great step forward to helping our industry continue to grow and prosper.

Chairwoman VELÁZQUEZ. Your time has expired.

I will recognize the gentleman from Oregon, the Fifth Congressional District, Mr. Schrader, for 5 minutes.

Mr. SCHRADER. Thank you very much, Madam Chair.

Only Mr. Allison referred to the Small Business Association in a somewhat oblique manner and their role in the recovery and stimulus package. I am curious—this is the Committee on Small Business—if any of you would see an enhanced role for the Small Business Administration in terms of perhaps providing the loans that Mr. Massie is talking about, some of the cash flow that is out there, so it can go to small business and not just business in general.

Mr. ALLISON. Well, sir, let me first explain I comment a lot about the SBA programs because I get exposed to them probably more frequently than the other colleagues here. But, as I said earlier, you have an environment right now where so many small businesses need assistance.

We have an SBDC counselor in our chamber office, and we are very fortunate to have this brilliant young lady, but the fact is she is overbooked, she is underfunded, stretched too thin. It is one of my recommendations this morning for Federal funding to make it possible to put more SBDC people out in the field along with the action of moving from 2.5 percent of the set aside of Federal research and development funds to 5 percent. That is a giant leap, but you have still left the other 95 percent with big business and universities.

I think if you look at the facts, small business has delivered the results: Five times more patents issued for public funds per dollar of public funds than big businesses, 20 times more patents than universities.

I think the SBDC is an avenue that can be pursued quickly to get some rapid results. EDA as well. EDA is in the practice of offering grants to communities. One that I was experienced with several years ago, they provided monies for infrastructure in the development of a new local business park that was primarily designed for small businesses. Today, that business park is relatively full, with thriving new businesses with new rooftops.

So, in my view, I think that much of what we could do isn't—we are not talking about a lot of money here. Federal dollars are already being put out there in research and development. I am talking about changing the allocation ratio a little bit. Put a little more into where you get more results.

Thank you.

Mr. SCHRADER. Could the others comment?

Mr. EHMANN. Yes. Even though O'Connell Electric and the solar electric business in New York State—we are a large electrical contractor, but 35 out of the 40 NYCERTA-approved installers out there are one, two and five-man shops. I do know them. I do know individually friends who are doing the same business we are. What happens when this downturn or incentive runs out and they only have three or four jobs lined up that are essentially 2 months worth of work? They pull back. They don't expand.

At O' Connell, we are able to reallocate our forces to another division. Small businesses aren't able to do that. They just have their normal employees, and then they don't want to lay them off, so they stretch out their jobs and eventually don't reinvest. So I see them not buying a new truck or a new way to do their work better because they don't have the work booked for the next 3 months, 4 months.

So they are holding back. They are definitely holding back and trying not to lay off their people. They are working a little less efficiently. Whereas if they had some work booked, they would be buying some new technologies and keeping their 8 and 10 and sometimes 12 people working.

Mr. MASSIE. I think anything that we look into will help. You are going to have to study what is the best way to do it. The small businesses are fantastic, okay? I am one. Okay? And we do invest in new technology. What we have found by doing it, we have an advantage over larger companies that we compete with and we can do work cheaper, faster and just as long as we take advantage of it, but to take advantage of it has got to be there and we have to have the money to be able to do it.

Mr. THERRIEN. I think the SBA is a good vehicle to run things through. I mean, I think if you can allow small businesses such as mine or any others to have the ability to access loans, short-term loans, to get through the timeline of the projects, whether they are working with anybody at this panel or any of our other brothers in the construction industry, it is a good deal. And I think that that is an opportunity that affords us a way or a vehicle to get that money to these small businesses.

Chairwoman VELÁZQUEZ. Time has expired. The gentleman from Missouri, Mr. Luetkemeyer.

Mr. LUETKEMEYER. I have one question for Mr. Therrien. You made a comment during your testimony and you quoted a figure of 8 percent savings with regards to energy, that if we put a solar system on every roof or on a third of the roofs in the country. Can you tell me how you came up with the figure? Is it total daylight exposure for that period, average daylight exposure for everybody in the country, part of the country? Just give me some background.

Mr. THERRIEN. I believe those figures were from the Center for Environmental Innovation in Roofing. They are the ones that provided the figures in the background. Some of the other figures that I have also cited were from a Ducker study done by the National Roofing Contractors through their Alliance for Progress Group. It is part of our foundation and they did a Ducker study back in 2003, which also cited many of the job creations, as well as the areas of savings that would be—that were used. And that is included in the Ducker study that we have.

Mr. LUETKEMEYER. Can I get a copy of that study because that is a great figure? It certainly shows the ability to conserve and to look at alternative sources. But if your figure is every—a third of the roofs with 100 percent of daylight for 24 hours, I—

Mr. THERRIEN. I think these are realistic with—

Mr. LUETKEMEYER. We need to have some idea of how you came up with those figures.

Mr. THERRIEN. I know in the Ducker study, for instance, some of the things they looked at was also the difference in the amount of return. Monies wise, it is completely different in Phoenix, Arizona, than it is in Keene, New Hampshire, because the sunlight, the daylight and the amount of available light, cloud days and everything else are taken into effect. So they did have a flowing chart looking at the country and that type of demographic because it is a reality of how sun hits this country.

Mr. LUETKEMEYER. As you point out, I think the alternatives look at different—should be looked at in different areas. I mean, wind in certain areas, solar in other areas. Whatever we can do. If I could get ahold of that study, that would be great. I would appreciate it.

Mr. THERRIEN. I would be happy to get it to you.

Mr. LUETKEMEYER. I yield back the balance of my time, Madam Chairman.

Chairwoman VELÁZQUEZ. Thank you. The gentleman from Kansas, Mr. Moore.

Mr. MOORE. Thank you, Madam Chair. Small businesses in this country have been particularly hard hit by the freeze in the credit markets because without access to credit, particularly short-term credit, most small businesses have a difficult time maintaining current operations. This seems to be exactly the time that the Small Business Administration should be able to be there to ensure that businesses have access to credit. But the amount banks have loaned through SBA's general business loan guarantee program has fallen substantially over the past year. My question to any of the panel members is what steps do you believe Congress and the Small Business Administration can take to ensure that viable small businesses have access to the credit they need to maintain operations or make capital investments? Any of you have thoughts about that?

Yes, sir, Mr. Allison.

Mr. ALLISON. Yes. I would like to refer back to Item 10 in my recommendations, referring to the SBA 7(a) and 504 programs. I agree that right when we need them the most, that access to commercial credit has fallen off. Not that—you know, you could blame any one particular thing, but this is a great concern.

Mr. MOORE. Certainly.

Mr. ALLISON. Main Street needs SBA lending and frankly commercial banks, because of the current shift towards more regulation, more scrutiny, which we can certainly understand given where we have been over the last year in the financial market, but let us not overreact and take it all out on the small business sector. And really this is what I see is probably one of the greatest problems in the capital end of the problem, is you have got local banks that are sitting on money, even with SBA taking the majority of the risk. However, I do recommend that SBA take a greater percentage of the underwriting of these loans in this—in at least the interim period and that we think in terms of lowering qualification standards, that we exempt fees, anything we can do to streamline it and make money more accessible and quickly.

Mr. MOORE. Any of the other panel members have a comment?

Mr. THERRIEN. I have a quick one. Our line of credit fortunately because of our fiscal year we wound up renewing it before everything got to a really bad place and I finished my year end at the end of October. So my bankers quite frankly even made statements that thank God you are renewing your line of credit right now because it could change if we are looking at this in the first quarter or the middle of next year and it could be altogether different next year. So I think unfortunately small business isn't getting a direct line of the bailout monies. And so anything we can do to help allow our lenders the ability to give us needed lines of credit to continue to operate our business would be very valuable.

Mr. MASSIE. We did the exact same thing. We had our line of credit set up just prior to all of this. So that part is good.

Mr. MOORE. Very good.

Mr. MASSIE. But just to yield time, I have to agree with what has been said so far.

Mr. MOORE. Thank you, sir. Thank you, Madam Chair.

Chairwoman VELÁZQUEZ. Thank you. The gentleman from Illinois, Mr. Schock. No questions. Ms. Clarke. Ms. Dahlkemper.

Mrs. DAHLKEMPER. Thank you, Madam Chairwoman. Mr. Ehmann, I wanted to ask you a question regarding renewable energy tax credits. As I talked to people during the campaign, many expressed big concern on the time. And you talked 2 to 3 years. But I have actually heard that most people in these industries actually look at something further out than that in terms of a length of time where we would really be able to have the benefit and see these industries really flourish and grow. Could you just address that?

Mr. EHMANN. I think 2 years would be anything better than one. But I think the number is 5 to be personally—because product development or project development in these large wind farms right around our area in western New York, they are a 3-year, 4-year—from inception, from out there handshaking with the communities. The communities ramp up and they ramp up for these projects. They get excited, they get mad, they get everything. They ramp up to this thing. And everybody from all the suppliers, the truckers, the gravel people, everybody ramps up to this, and then all the sudden time frames. And if somebody misses a time frame and—or if some—a developer who is looking at different sites throughout the United States, if one can't be built in a time frame, they will just resort to another: It really falls off of that community that loses out, the community that built themselves up and then it is just a decision, a checkmark didn't fit their box and they—they are off the table. But having a nice, smooth, you know, curve of the production—of the tax credit not being there, limit being there, would, you know, let these people make decisions, make supplies available, make good decisions and not be forced to be behind the eight ball. And so longer periods are—it helps with the communities and the financial people.

Mrs. DAHLKEMPER. And, Mr. Therrien, maybe you can address this because this actually has more to do with solar in terms of those I talked to. Competitively in a global world—actually I think we are falling behind, because other countries have put out tax credits up to 12 years, 20 years out. So the development of these products are such that—some of our manufacturers are actually moving overseas for product development because of those incentives. Maybe if you could address that?

Mr. THERRIEN. We are seeing that. One of the interesting things was this past fall we got invited by Performance Roof Systems. It is a company that is based—has operations in Kansas City for the U.S. and they also produce over in Belgium. And the tax incentives that they have enjoyed using their DERBIWHITE product, which is a reflective roof in conjunction with FINFILM solar panels in both Belgium and France, they basically can't keep up with the demand for it because the incentives there and the return on investment—we saw some spectacular projects where it was Belgium's largest telecommunications television station. Did their whole roof entirely in panels in a solar project to reduce the demand on the community for electricity, and it is working for them, even in an environment in Europe which has many of the same cloud cover issues that we have here within the United States and the like. It is not a northern—northern Europe is still very much like the—from D.C. north in this country, and yet the projects still work for them and we are seeing that development.

Mrs. DAHLKEMPER. I appreciate that. I just think it is time for some bold action in this area and I think further tax credits would actually help us to get there.

Chairwoman VELÁZQUEZ. Ms. Clarke.

Ms. CLARKE. Thank you very much, Madam Chairwoman, and to Ranking Member Graves. I am honored to serve with you once again in the 111th Congress. Let me start by just congratulating you, Madam Chair, on becoming chairperson of the Congressional Hispanic Caucus. If you conduct the caucus in the same way and manner that you have conducted your hearings in this committee, I have no doubt that you will be successful and accomplish many great things.

Now to the concern that brings us all here today. Small businesses from the construction to the financial services industry are daily facing enormous challenges. They continue to suffer from what many say is one of the worst recessions this country has ever experienced. So it is imperative that our government plays a critical role in assisting our Nation's small businesses, which will create jobs and especially for the unemployed and working poor in urban communities and communities across our country. As we all know, President Bush failed to implement the SBA's women's procurement program, but the administration was quick in its demand for $700 billion to bail out the so-called financial giants of Wall Street. So I urge my clients to move with swiftness to help small business that will help stimulate and sustain our communities and, by extension, our economy. It is my hope that the second economic stimulus package adequately addresses our Nation's small businesses and addresses, establishes and reinforces objectives that ensure minority and women-owned businesses will fully participate in contracting opportunities created by the infrastructure improvement plan and economic recovery plan.

My first question is to Mr. Robert Therrien and to Mr. Steve Massie. It is almost definitive that the second economic stimulus package, Congress will target infrastructure improvement projects. It appears that this will be extremely favorable towards the construction industry, which is suffering from this economic downturn. Balancing the need for small business productivity, hiring and retention of dedicated workforce is truly a challenge. We are trying essentially to develop a win-win-win economic policy that is critical to the future prosperity of our civil society. Do you support pre-apprenticeship programs in your sector to benefit disadvantaged workers, especially if these programs are targeted towards green jobs, and do you know of any successful pre-apprenticeship programs that benefit disadvantaged workers that can be used as a model? And please explain the difference between a pre-apprenticeship program and apprenticeship program.

And just so you know, I am from Brooklyn, New York and that is why I come from this perspective. Thank you.

Mr. THERRIEN. I know that I am not very astute with the pre-apprenticeship or apprenticeship programs per se that come through the organized labor. I am an open shop contractor. And I know we do have our own training protocols and procedures. I will quite frankly tell you up until recent time, we would take anybody that will walk through the door, had a pulse and could pass a drug test and just about put them to work. So that is where we were in New Hampshire and Vermont where I operate out of, had very low unemployment rates and still enjoy relatively low unemployment rates fortunately. But we sit there and we work hard to train our people and retain our people.

One of the biggest things we work on is not just system installations in the products that we install, one of the first things we do is spend the first day with them working solely on safety. Because one of the things we do run into in our industry especially is when we do have an accident and it is a fall especially, it is a significant issue. And the result is not a good product. So safety is paramount importance to our country. We work hard to train in that and then we work with training with the systems at hand. While I don't understand these programs exactly, training is very important. One of the things that our association has done is actually started to put training programs online. Roofing 101, basic roofing program of just getting people to understand roofing, is actually online now so our workers can do this on their own time. We bring them in on rain days and the like, when it is snowing out and it gives us the opportunity to help train our guys. We have got reach programs which are energy efficiency programs. There is a section on vegetative roofs, on solar roofs and the like that you can take online through the association to better understand what it is that is demanded of you in our industry.

Mrs. DAHLKEMPER. Thank you.

Chairwoman VELÁZQUEZ. Time expired.

Mr. Westmoreland.

Mr. WESTMORELAND. Thank you, Madam Chairwoman, and I want to thank you for having this important hearing. Coming from a construction background, I understand what is happening in the economy right now.

Mr. Massie, how many projects would you say that you might have where you are ready to go to work and people cannot get financing?

Mr. MASSIE. Well, half a dozen.

Mr. WESTMORELAND. So from what we have seen originally, we were told that our credit was in a major accident on the expressway and it had all the lanes blocked with business loans, car loans, student loans, backed up in the traffic, and this $350 billion or $700 billion was supposed to clear that out of the way to allow this credit to flow. What I have seen in my district and what I have heard all over the State of Georgia and throughout the construction industry is that this credit is not flowing as of yet, even though we spent $350 billion so far with the main objective of that to make sure that there is credit out there to keep especially small business going. Was that your understanding of what this was supposed to accomplish?

Mr. MASSIE. Yes, sir.

Mr. WESTMORELAND. Mr. Ehmann, I wanted to ask you a question. I have read your testimony here and you talked about that your company over the last 5 years, I guess with green technology, had gone from 1 million to $20 million in revenue. And you talked about adding 50 new employees. Is this—the 50 new employees over a 5-year period, a 1-year period?

Mr. EHMANN. In the past 5 years, we have probably added across New York State 7 to 10 new office personnel that are strictly project managers, estimators and salespeople across our three offices in New York, and the balance of those projects are the technicians that are in the field and those are permanent employees. And those technicians that we have trained specifically for large wind, solar power interconnection, utility interconnection and those are— the luxury we have with those other 40 employees is we share them in our other—

Mr. WESTMORELAND. I understand. But is 50 over a 5-year period; is that correct?

Mr. EHMANN. 50 permanent. When you are in construction— when you need 40 electricians on one project, we just don't get those journeymen electricians—

Mr. WESTMORELAND. What is your total full-time employment?

Mr. EHMANN. About 500.

Mr. WESTMORELAND. I understand. Let me ask you this. How many people would you say are actively employed on a single wind farm or one of these wind farms that you were talking about?

Mr. EHMANN. Electricians I just finished—and just last week I was at a finish-up project meeting and we had four major subcontractors on the project. The project made the North American Wind Power Magazine as a model project. It was in western New York. And one thing that doesn't make the paper is our safety report at the beginning of the onset of meeting and basically we report our craft hours and before the four subcontractors, craft manpower hours was over 220,000 man-hours performed from May 1st to December 31st of last year on one project. Those are craftsmen working on the job. It doesn't include engineering or—

Mr. WESTMORELAND. About how many people would you say that was?

Mr. EHMANN. There were probably over 2—over 200 people for 1,000 hours a piece. Half a year—

Mr. WESTMORELAND. We are going to have to start a lot of wind farms to employ 2 or 3 million people on some of these green projects. How much on one of these wind farms, just out of curiosity, what is the cost per kilowatt hour of electricity generated versus a coal plant or a hydro plant?

Mr. EHMANN. I cannot answer that for you specifically, but I can get you that information as testimony backup.

[The information is included in the appendix at page 56.]

Mr. WESTMORELAND. If you will do that. And last, Mr. Allison, down with the Chamber, one of the things—we had the Chamber calling us about the stimulus package, asking us to do it. Not the stimulus, but the bailout originally. A lot of my Chamber members are coming back and saying I don't know if this was a good idea or not because we haven't gotten any relief from the credit. What is the Chamber of Commerce doing as far as putting your 2 cents into the release of the other 350 billion and some ideas that you might have for what that money really and truly needs to be doing?

Mr. ALLISON. Well, sir, I can only speak for my own Chamber of Commerce in St. Joseph, Missouri. And obviously no disrespect to the U.S. Chamber or the Missouri Chamber of Commerce. But on Main Street, we get it, that this is something we have to do. The patient is on the table and in intensive care. So we need to take some action that we wouldn't otherwise take, hoping at some point we will get him off the table and back out there. So there is no question, we are going to have to take aggressive action. I think the question is, can we do it, learning from recent experiences. And

I didn't fly here today in a private corporate jet, nor did any of my colleagues. We work day to day with average people that as I said before, they don't mind paying their taxes. They are just thankful to be employed and hoping that things are going to work out.

As I have already asked, I think that if we look at the facts, small business delivers. Time and time again there has been studies done that shows that per dollar of public investment at every level of government, small business brings a much greater return on desired outcome. And I have outlined some ideas here and my colleagues have that I just ask that you work with the incoming administration to get their attention that it is not all big business. This country was built on small business and will continue to be so, and I think that there are steps we can take without spending more money. As I said earlier, changing the allocation percentage on Federal research and development dollars from 2 1/2 to 5 percent, if you just spent the same R&D dollars that you have in previous years, you have at least put more of that towards an area where you are going to get a lot more results. I mean, there are some steps that can be taken to help ignite this thing.

Chairwoman VELÁZQUEZ. Time is expired. We are going to have a second panel and there is going to be some votes coming up. I just would like to take this opportunity to thank you all for being here this morning and let me just say that we agree with you. We conducted two hearings regarding the bailout of the TARP money and made it very clear to the administration that we understood that the $350 billion will not have the effect of trickling down to help small businesses facing the credit crunch that they are facing today. But in this coming week, we are going to be setting up the parameters for the remaining of the TARP money.

And let me say that this committee is run in a bipartisan manner. I really believe that there is no Republican or Democratic approach when it comes to small business issues. But that doesn't mean that we will not disagree sometimes. I found myself this morning agreeing with Mr. Westmoreland regarding the credit crunch that small businesses are facing. And Mr. Graves, let me just say that for the first time in 8 years, I really agree with Mr. Cheney when he said that Reagan proved deficits don't matter.

This is a monumental economic crisis that requires a monumental response, and it might mean growing the deficit. To all of you, thank you very much. You are excused.

I call on the second panel to please take your seats. The committee is called to order.

Our first witness on the second panel is Ms. Margot Dorfman. Ms. Dorfman is the founder and CEO of the U.S. Women's Chamber of Commerce. Ms. Dorfman has an extensive background in business, business ownership, publishing and nonprofit leadership. The U.S. Women's Chamber of Commerce is the leading national voice advancing economic opportunities for women in America. Welcome.

STATEMENT OF MARGOT DORFMAN, FOUNDER, CEO, U.S. WOMEN'S CHAMBER OF COMMERCE

Ms. DORFMAN. Chairwoman Velázquez, Ranking Member Graves, members of the committee, thank you again for the opportunity to speak on behalf of America's small business owners at this important time. The future of America small businesses are in your hands. Through your earnest work towards the promotion of economic recovery, you will profoundly influence the future of millions of small businesses and their employees and their families and communities. Literally, the future of the American dream is in your hands today.

We all know too well the challenging economic times we are in and the need to act swiftly, strongly and with focused precision to bring about economic recovery. Time is of the essence for Congress and the incoming administration to act. Consumer spending is down. Many of the States, cities and counties have budget shortfalls which will cause local government spending to decline. Unemployment is up, business lending is in a free fall, commodities and health care costs are rising and business margins are declining. To promote an economic recovery, we encourage you to consider policies and investments that will energize consumer, business and government spending, jump start lending, and return liquidity to the lending markets, and bring down the cost of doing business. The Small Business Administration and targeted small business policies can have a great impact in these areas.

First, I ask you to support targeted small business spending as we leverage investments in infrastructure, new energy technology and health technology. It is vitally important that we ensure an appropriate percentage of these investments be made with small businesses. It has been discussed that a sizeable amount of the investment in our economic recovery will come through the funding of State and local government infrastructure needs. This committee should assure that these funds at both Federal and local levels require the Federal mandated 23 percent participation by small business and that all socioeconomic goals be met without exception.

Next, as small business lending is in a free fall, it will require very strong action to stop. Loan volume has dropped dramatically, thanks in large part to the collapse of the secondary market for small business loans. And this free fall has brought about other negatives as well. We strongly recommend that the SBA act as a catalyst, disburse small business lending. The SBA should directly process small business loans and, when necessary, provide high government guarantees. Let the SBA fully process and close loans, providing the loan as an asset for purchase by the bank. We recommend that funds allocated towards unfreezing secondary markets include appropriate requirements for inclusion of small business lending. There must be secondary market participation so that lenders can sell portions of these assets to make new funds available for additional loans. The SBA should also establish programs and guarantees to bolster confidence in the secondary markets so as to encourage investor participation and increased liquidity. To further drive liquidity and prevent against the potential of rising default, the SBA should be able to engage in refinancing and underwriting, enabling lenders and borrowers to leverage this option to save the loan relationship and prevent default or bankruptcy.

The SBA should also relax the rules on refinancing and be able to raise their guarantee so as to bring greater elasticity and save loan relationships. For example, many small business owners have turned to credit cards to cover their cash flow shortfalls and in many instances the equity in their home that was leveraged to establish a loan may have declined.

We also recommend that the SBA relax some of the rules that add cost and delays to securing a loan like life insurance requirements and job creation requirements.

The final area of attention should be bringing down the cost of doing business. We recommend a combination of tools be used to decrease the cost of doing business generally and decrease the cost associated with keeping employees. We support the reduction in short-term suspension of payroll tax, the abolishment of self-employee tax on health insurance, giving small businesses the ability and incentives to form their own health insurance groups, and extending the net operating cost carry back rules for longer terms.

In closing, I ask you to act now. As we watch the falling business lending statistics and the climbing unemployment numbers, I can assure you that the next fatality will be marked by a declining number of small businesses and increased number of business and personal bankruptcies. The majority of the recommendations I have outlined today are short-term positions aimed at getting small business lending moving quickly, improving small business cash flows, and assuring that the one-time big investment in infrastructure includes small businesses.

As you complete the work on legislation to spur on economic recovery, please save the broader strategic moves for later. For now, just focus on specific steps to help small businesses get moving back into a positive direction. Thank you.

[The statement of Ms. Dorfman is included in the appendix at page 97.]

Chairwoman VELÁZQUEZ. Thank you, Ms. Dorfman. I welcome Mr. Paul Merski, who is the Senior Vice President and Chief Economist for the Independent Community Bankers Association. Before joining ICBA in 1999, he was the top policy adviser to Senator Connie Mack and served as the Chief Economist of the Joint Economic Committee of Congress. ICBA represents community banks of all sizes and charter types throughout the United States.

Welcome.

STATEMENT OF PAUL MERSKI, SENIOR VICE PRESIDENT, CHIEF ECONOMIST, INDEPENDENT COMMUNITY BANKERS OF AMERICA

Mr. MERSKI. Chairwoman Velázquez, Ranking Member Graves, and members of the committee, I am pleased to present the ICBA's views on the small business economy and on recommendations to promote an economic recovery. ICBA represents 5,000 community banks throughout our country, and community banks are independently owned and specialize in small business relationship banking. Notably half of all small business loans under $100,000 are made by community banks. Forty-eight percent of small businesses get their financing from community banks with 1 billion and under in assets.

Today our small businesses are facing the most difficult economic conditions in decades and accessing credit is getting more problematic due to the turmoil in the credit markets. The National Federation of Independent Business Index of Small Business Optimism has dropped to its lowest level since it began in 1986. Additionally, the free fall in SBA lending is cause for alarm and immediate action. Therefore, fiscal policies focused on restoring consumer confidence, broad credit availability, a robust housing market and job growth are all vital to an economic recovery.

We all know that many of our Nation's largest lenders and money center banks tripped up on subprime lending, toxic investments and now they are the ones pulling in their lending, writing down losses, and rebuilding their capital. However, there is another story out there. Thousands of community banks represent that other side of the financial story. Community banks rely on relationships in their communities, not on relationships with investment banks or hedge funds. Community bankers actually live and work in their communities that they serve and they certainly do not put their customers in loan products that they cannot possibly repay.

While community banks did not cause the current turmoil, they are very well-positioned and willing to help get our economy back on track. To complement the aggressive monetary policy easing, ICBA recommends additional fiscal incentives, including individual and small business tax relief, enhanced home buyer tax credit, expanding SBA programs and Subchapter S tax reforms.

Additionally, we really need to address our fair value accounting system and improve community banks' access to the TARP and TALF programs that this committee has worked hard on.

SBA lending programs are vital. SBA lending should serve as a counterbalance during these challenging credit times for small businesses. Unfortunately, what we see is a dramatic drop in the dollar amount and number of small business loans being made. While the typical commercial small business loan has a maturity of 1 to 3 years, SBA 7(a) loans typically average 12 or more years in maturity. This lowers the entrepreneur's monthly loan payments and frees up needed cash flow to start or grow the small business.

ICBA recommends immediately offering a super SBA loan program for 1 year as an economic stimulus to help small businesses access the capital they need. This could be an expedited 7(a) loan program with a 95 percent guarantee for small business loans up to 500,000.

The vicious downward cycle in the housing sector must also be broken. Extending the $7,500 first-time home buyer tax credit and removing the repayment provision will help jump-start home sales, stabilize home prices, and address foreclosures.

ICBA also recommends an immediate increase in the annual limit on tax-exempt municipal bonds from 10 million to 50 million. This would create greater low cost funding for local projects such as school construction, water treatment plants and other municipality projects.

Chairwoman Velazquez, ICBA greatly appreciates your efforts to work with the Treasury and the Federal Reserve in successfully launching the TALF program. By providing liquidity to issuers of consumer asset backed paper, the Federal Reserve facility will enable more institutions to increase their lending.

ICBA also appreciates the Small Business Committee's attention to the TARP capital purchase program. Community banks are very concerned that 3,000 financial institutions still do not have access to the capital purchase program.

In conclusion, community banks did not cause this financial crisis, but we certainly will be there to help ensure our Nation's small businesses will have the access to credit that they need.

I appreciate the opportunity to testify. Thank you.

[The statement of Mr. Merski is included in the appendix at page 100.]

Chairwoman VELÁZQUEZ. Thank you, Mr. Merski.

Our next witness is Mr. Alan Roth. He is the Senior Vice President of USTelecom. Prior to joining USTelecom, he was a former Staff Director and Chief Counsel to the House Energy and Commerce Committee. Welcome back.

USTelecom is the premier broadband trade association representing service providers and suppliers for the telecom industry. Welcome.

STATEMENT OF ALAN ROTH, SENIOR EXECUTIVE VICE PRESIDENT, USTELECOM ASSOCIATION

Mr. ROTH. Thank you, Madam Chairwoman. Madam Chairwoman, Ranking Member Graves, members of the committee, as you said, the USTelecom Association is the Nation's leading broadband industry trade group, representing service providers, manufacturers, and suppliers of advanced communications, applications and entertainment. We appreciate the opportunity to share with you our perspectives on the emerging American reinvestment and recovery plan, and on what policy approaches in that package can encourage the deployment and adoption of broadband and thus provide consumers with its many life enhancing benefits while stimulating job creation and the growth of small businesses.

And, Madam Chairwoman, like you and Ms. Clarke, I come from Brooklyn, New York, and my mother grew up in your district. So I especially appreciate the opportunity to appear here today before you.

You are no doubt familiar with our two largest members, Verizon and AT&T. But we are also proud to count many more midsized companies and hundreds of small ones in our membership ranks. Indeed, the vast majority of the companies we represent are rural providers. They are generally small businesses serving small communities. Collectively they are at the forefront of building America's broadband infrastructure, and they are united by a shared determination to deliver innovative voice, video and data services to their customers, including in turn the small business customers they serve, a commitment we know this committee shares.

Page 2 of my written testimony includes three stories from a remote community in the Pacific Northwest that illustrate how broadband can be used to start or grow small businesses anywhere in America. I encourage you to study those examples more closely because they explain why broadband has emerged as an essential driver in 21st century American life.

Like the telephone networks, electrical grids and pipelines of the 20th century, broadband is now propelling forward virtually every category of the U.S. economy. Achieving the objective of universally accessible broadband—an objective we support—requires policies that encourage vigorous investment in the sophistication and capacity of the Nation's broadband networks, as well as innovative public-private partnerships to reach every pocket of our geographically vast Nation. We are delighted that policymakers in both branches and on both sides of the aisle have recognized the importance of broadband to the Nation's economic health.

Let me hasten to note that as an industry, we are not asking Congress for financial help to fund our ongoing operations or to execute our business plans, which do call for the continued investment of very substantial sums in broadband buildout. But in response to the interest the President-elect and leading Members of Congress have shown in using the economic recovery package to stimulate increased broadband deployment and adoption, particularly in unserved areas of the country that are sparsely populated and hardest to reach, we have developed a series of ideas and approaches calculated to accomplish those desired ends.

First, we encourage the 111th Congress to fund two of the 110th Congress' major accomplishments, the Broadband Data Improvement Act, commonly known as Broadband Mapping bill, and the Rural Utilities Service Broadband Loan Program, which was significantly reformed in the 2008 Farm bill.

Next, some of our member companies, particularly those in areas where the population density is very low so that the cost of buildout and operations are conversely very high, have suggested the creation of a one-time grant program to assist in the cost of initial deployment to unserved areas for which reliance on private capital alone cannot suffice.

In the tax area, a refundable consumer tax credit of up to $30 per month per household to offset the cost of broadband subscriptions for low-income, unemployed, and rural Americans would expand opportunities for those individuals who currently are least likely to be connected to the Internet. An investment tax credit targeted to incentivize more, and more rapid, broadband deployment will also help to increase the availability of affordable broadband to small businesses and residential consumers across the country. And extending the bonus depreciation provision that expired on December 31st would encourage companies to accelerate their capex plans, including broadband deployment projects.

Broadband and small business are each an essential building block in our economy. If we want those businesses and their communities to thrive, we must ensure that broadband's many benefits, such as better health care, education, and a cleaner environment, are made accessible to all Americans.

So whether you adopt the specific ideas we have set forth or look at proposals being suggested by others, we hope you will incorporate three basic principles into your consideration. First, maintain an economic and regulatory climate that continues to encourage private sector investment in broadband infrastructure; second, look carefully at the consumer side of the equation by addressing barriers to broadband adoption; and, third, make sure broadband deployment policies are focused on remaining unserved, underserved and high cost areas. Adherence to those principles will contribute to both the short-term recovery and long-term prosperity we all seek.

We thank you for your invitation and your consideration of our views.

[The statement of Mr. Roth is included in the appendix at page 112.]

Chairwoman VELÁZQUEZ. Thank you, Mr. Roth.

Our next witness is Mr. Grant Seiffert. He is the President of the Telecommunications Industry Association. Mr. Seiffert oversees the policy standards, trade show, and marketing efforts for TIA. TIA is the leading trade association representing the global information and communications technology industry.

Thank you.

STATEMENT OF GRANT SEIFFERT, PRESIDENT, TELECOMMUNICATIONS INDUSTRY ASSOCIATION

Mr. SEIFFERT. Thank you, Madam Chairwoman and Ranking Member Graves, and other members of the committee. TIA represents over 500 companies in the information communications technology industry through standards development, advocacy, business opportunities, trade shows, and marketing intelligence, and for over 80 years we have enhanced the business environment. Today our members' products and services empower consumers in every industry in marketing, including health care, education, security, public safety, transportation, the government, the military, the environment, and entertainment.

And in these difficult economic times, TIA has looked closely at the ICT industry to see how the member companies can facilitate a rapid recovery and promote the continuing expansion of the Nation's information communications infrastructure. TIA hopes to support Congress in the creation of policies that deliver on the promise of broadband technology for the American people. Information communications technology is vital to our Nation's economy and society. Whether ICT has an impact on both large and small businesses is indisputable. The sum of all other industry segments in consumer activities which ICT affects, however, is often underrated and perhaps immeasurable.

According to the U.S. Department of Commerce's Bureau of Economic Analysis, the ICT industry accounted for 4 percent of GDP in 2007, and accounted for over 20 percent of real GDP growth in that year. Thus, the significant slowdown we have experienced in this industry may have a meaningful effect on the health of the overall U.S. economy in the economic recovery. Without directed measures to combat this slowdown, real GDP growth and productivity will be negatively impacted.

The economic crisis has had a debilitating impact on the sector's growth and survival. TIA's membership is made up of approximately 80 percent of small and medium-sized businesses. Start-ups and garage inventors are the life blood of our industry. Innovation that results from high risk endeavors many times leads to the household names we have become familiar with over the years. However, the current economic crisis is contributing to the crippling of this essential part of the innovation cycle, making it difficult, if not impossible, for these groundbreaking technologies to be realized.

According to the National Venture Capital Association, in all of 2008 there were just six companies that have gone public and compared to that with several hundred of the many, many the past several years. These numbers illustrate the unwillingness of otherwise independent inventors to take personal financial risks in an uncertain marketplace. The significant pan-industry downturn has threatened the promising economic opportunities of the industry. Under these market conditions, investors will not continue to support increased broadband infrastructure buildout, yet the United States cannot afford to sit idle while other countries continue to strive ahead in deploying widespread broadband networks.

Our Nation's near and long-term economic welfare, jobs and leadership all depend on the continuous success of broadband deployment. Broadband deployment and other industry growth relies in part on the government's next steps.

There are early actions the government can take to change this course. First, do no harm, and let me personally thank you again for your work in the committee's work on Sarbanes-Oxley and how it has impacted small businesses. Second, including broadband incentives in the stimulus package will lead to job growth and have a direct impact on the continuing impact of our Nation's economy. We call on this committee to support broadband incentives in the stimulus package currently being considered.

TIA's proposal outlines the types of deployment adoption, supply and demand side incentives that should be included in a package to most effectively achieve the goal providing broadband to all Americans. It is important to note that jobs will be created from such a plan. An estimate put forth by the Communications Workers of America indicated that for every $5 billion invested in broadband, it would create 97,500 direct jobs and 2.5 million jobs throughout the economy in the near term.

TIA, representing the communications manufacturers, suppliers of all broadband platforms, believes that the full panoply of broadband technologies will be needed to ensure universal deployment in America.

Other groups have called for direct grants for rural broadband deployments. TIA agrees and would suggest a $25 billion grant program for the deployment of broadband infrastructure in unserved areas. The grant program would be a technology neutral opportunity for interested providers to bid for partial subsidies to provide broadband service at minimal speeds and appropriate capabilities.

We would also ask that there be an expensing provision in investment tax credits for both wireless and wireline networks allowing for greater incentives for the deployment of high capacity networks.

Congress should also consider that it will stimulate the demand for broadband. It is indisputable that broadband provides a host of benefits to communities, especially rural communities. To that end, the stimulus package should include measures that would help drive broadband demand, including vouchers for loaning to Americans, including both adults and students so that they may purchase laptops and mobile handsets. A tax credit for small and medium-sized businesses who purchase or upgrade their PCs, laptops, mobile handsets, broadband equipment services also should be implemented.

In conclusion, it is without question that broadband is an accelerator for our economic development, providing significant benefits for many industries. Without broadband access, work or productivity increases—will not increase. Jobs are created and wages will grow. Broadband enables operators to offer more services to consumers for less, creating added efficiencies in both time and money. And in addition, related industries grow with the continued deployment of broadband. As broadband penetrates and rates increase, there will be a resulting demand for more advanced computer and home networking equipment.

In the near term including broadband deployment and adoption incentives and public safety networking equipment will have a direct impact on the recovery of the ICT industry. We applaud Congress' position and, of course, we also like to recognize President-elect Obama's desire to include infrastructure funding in the economic stimulus legislation and encourage Congress to place a priority on the deployment of the most critical 21st century infrastructure, broadband technology.

And I would like to thank you for the time this morning.

[The statement of Mr. Seiffert is included in the appendix at page 124.]

Chairwoman VELÁZQUEZ. Thank you, Mr. Seiffert. Mr. Merski, if I may, I would like to address my first question to you.

We have heard many small financial firms express concerns that the Fed's TALF would not be adequate or timely enough to resolve issues in the SBA secondary market. Can you discuss the continuing need to address the secondary market issues for SBA loans?

Mr. MERSKI. Thank you, Madam Chair. That is an excellent question that gets at the point of concern for many small business lenders, the fact that the secondary market for many small business loans and consumer loans is completely frozen, and your efforts to bring in the Federal Reserve, bring in the Treasury Department to address those have had some very positive results with the Federal Reserve and Treasury working to start this new TALF program. But you are absolutely correct that it needs to be structured in a way that works for the SBA loan poolers, structured in a way that works to help open the secondary market for consumer loans, credit card businesses and small business lending. So we are continuing to work with the Federal Reserve and the Treasury Department to make that work, and we will continue to call upon you and this committee to make sure that is a robust program and works as you intended it to work. We have yet to see the final implementation of that program, and the number one concern we have from lenders is that the secondary market for their loans is frozen. So they can't sell off their loans on their books now and create new loans. And that has to be addressed. So we appreciate your help on that.

Chairwoman VELÁZQUEZ. Thank you.

Mr. Roth, broadband connectivity can be a critical economic driver. Small firms rely on broadband to expand their markets and become more competitive. To what extent could broadband-related dollars translate into immediate jobs for American workers, and more importantly, how long will it take? Months, years?

Mr. ROTH. Thank you, Madam Chairwoman. With regard to our suggestion of one-time grants for broadband buildout, particularly to unserved areas, there is a positive side to having lots of old infrastructure and old telephone lines out there. And that is that our companies already have the rights-of-way, they already have the conduits, they already have the basic building blocks in place. So they could put a lot of people to work quickly, digging trenches, laying new lines, upgrading existing equipment and employing salespeople to serve new customers. So in that respect, in terms of new service to unserved areas, we think there actually is great potential there for broadband grant programs.

There is also an RUS, or Rural Utilities Service, telecom loan program that I spoke about in my testimony. Our understanding is that in the last go-around, in the fiscal year 2008 go-around, that program was oversubscribed by $250 million, showing that there is a great deal of interest among smaller companies that are eligible for those loans seeking assistance that RUS was not able to provide. A relatively small amount of money, about a half million dollars in appropriations, could underwrite about another $250 million in loan authority and fulfill all of those pending requests, which could come forth very, very quickly.

Chairwoman VELÁZQUEZ. Thank you. Mr. Seiffert, would you like to comment?

Mr. SEIFFERT. I absolutely agree fully. I mean, there are lots of— well, let me just start with saying given the fact that in 2008, 180,000 employees in our sector lost their jobs. So if the grants and different programs were to stimulate broadband investment in new infrastructure buildout you have a lot of people ready to go back to work. I absolutely agree with Mr. Roth and his assessment.

Chairwoman VELÁZQUEZ. When it comes to broadband access, policy incentives can play an important role in encouraging deployment, a public-private partnership come from a rapid and extensive deployment. Can you talk to us about why further incentives and funds are necessary, even though the private market is generating demand for broadband?

Mr. SEIFFERT. Sure. And it goes back to the issue of unserved communities and communities that the economics don't work as well in the larger market. And so a public-private partnership is one way to get around the market conditions and make sure that companies can get a return on that investment. And so we support that.

Chairwoman VELÁZQUEZ. Mr. Graves. No questions. Mr. Schrader.

Mr. SCHRADER. Question for Ms. Dorfman. I am trying to follow up on Bart's comments. In my State oftentimes there is a lot of lip service paid to limited minorities and small businesses and their access to some of the larger construction grants and/or opportunities like the stimulus. And they never really happen. Is there a better way that you or the Women's Chamber has come upon that we should be using to deliver funds to make sure that there is adequate representation by women and minority small business?

Ms. DORFMAN. Thank you. What we have found is that women have really relied heavily on SBA lending because they often aren't able to access traditional loans, and so putting the money into the SBA lending programs and making sure that they do have access to those programs would be the first, I think, way to get into the money into their hands.

Mr. SCHRADER. Thank you very much.

Chairwoman VELÁZQUEZ. Ms. Clarke?

Ms. CLARKE. I think you took my question, Mr. Schrader, but I will try. Ms. Dorfman, I just want to thank you for testifying today because I believe the U.S. Women's Chamber of Commerce is a great organization and is always in the forefront of fighting for women-owned businesses.

On October 28th of 2008, you had testified before this committee that Congress should take legislative action to help restore the flow of credit and capital to small business owners as soon as possible. In particular, you mentioned that the SBA should relax the rules on credit worthiness and job creation requirements. Can you give us a little bit more insight into—and give us some guidance as to how we can achieve this?

Ms. DORFMAN. Sure. Thank you very much. What we see out there is that—I mentioned the credit cards—small businesses, women-owned firms in particular, rely heavily on using their credit cards when they have a shortfall of funding. Additionally, when we look at the housing market, the loans that have been given to them have relied on their equity in their home or, if they are looking to get a new loan, it always attaches their home to it. So the equity that might have been there in the past won't be there now.

So those are some of the issues. If we can allow some of the SBA funding to be used for maybe the credit card debt that they have already taken out, which in the past has not been the case, doing some of those innovative funding for the loans, I think that would ease the pain greatly.

Ms. CLARKE. Can you just quickly speak to the job creation requirement?

Ms. DORFMAN. Sure. Right now what we are seeing is our members are struggling to keep their doors open and keep the employees that they already have. If you were to say we will give you some money, but you have to hire—and I think there is something out there about a $3,000 and then you get—but you need to hire somebody if we have that. And we are talking about a job that might be $50,000 for an employee. That doesn't even cut it and they are struggling to keep their doors open. It doesn't make a lot of sense right now.

Ms. CLARKE. So would you then think or say that if we incentivized employee retention—

Ms. DORFMAN. Yes.

Ms. CLARKE. —that would help at least to just sort of stabilize things, and were the SBA able to do some sort of refinancing—

Ms. DORFMAN. Yes.

Ms. CLARKE. —for those businesses, this that would be a helpful tool.

Ms. DORFMAN. Absolutely. That would be great. Thank you.

Ms. CLARKE. Thank you, Madam Chair.

Chairwoman VELÁZQUEZ. Mr. Merski, I would like to ask you a last question, since we are going to be dealing with the TARP reform on Financial Services where I serve.

Although this recession started from the collapse of the mortgage lending, recent economic indicators have raised significant fears about witnesses in other types of financing, particularly commercial real estate and consumer credit. Do you believe that efforts such as the Treasury's capital purchase plan or the Fed's TALF will be adequate to help small banks weather the extended economic downturn if credit defaults continue to spread?

Mr. MERSKI. That is a very good question. And the programs—the capital purchase program and the TALF that you were instrumental in jump-starting are going to help, but the banking sector has already written off about $700 billion in real estate value that they will not be paid back on. So if you think about the economics of it, about 60 percent of all small business lending is backed up by some sort of real estate collateral. And, as we pointed out in our testimony, unless you stem this decline in real estate values, whether it is commercial real estate or individual's homes, the financial credit crisis and economic crisis is going to continue to get worse, not better.

So as the Congress is looking at fiscal stimulus plans to match what the Federal Reserve has done on cutting interest rates to nearly zero, additional policies have to be put in place to stem the tide of declining real estate values, because that is what the collateral is for many small business loans. And also the fact that, until this real estate is stabilized, banks are going to have a very difficult time of lending more.

Chairwoman VELÁZQUEZ. Thank you.

Mr. Seiffert, the availability of broadband can be broken down into two groups, areas with access and areas where high-speed access is not yet affordable or reliable. While it is clear we should be reaching underserved markets, can you discuss the importance of high-speed Internet and how does improving it generate economic opportunities?

Mr. SEIFFERT. Well, for starters, any consumer business, higher speed improves experience. It makes everything real time and creates efficiencies across the board.

We still as a country have to focus on our national broadband strategy and create incentives to upgrade our current infrastructure to next-generation broadband infrastructure and through the recommendations we have suggested through expensing and direct tax cuts. We believe that will stimulate that investment for these next-generation broadband networks for all consumers as well as small, medium and large businesses. We should not be satisfied with the current state of our broadband infrastructure.

Chairwoman VELÁZQUEZ. Well, we have to go to the floor, but let me thank all of you for your willingness to be here this morning. And I don't have to remind you that, in all the discussion about this economic downturn, people need to understand that small businesses must have a seat at the table. If we want to get this economy back on track again, we need to create jobs. Those jobs will be created by small businesses. So we are going to make this forum today part of a report that will be provided to the Democratic leadership and the new Members of Congress.

So thank you again, and I look forward to working with you, and this forum is now adjourned.

[Whereupon, at 12:10 p.m., the forum was adjourned.]

CONGRESSWOMAN YVETTE D. CLARKE

Prepared Statement Before the Small Business Committee Meeting on "The State of the Small Business Economy and Identifying Policies to Promote an Economic Recovery.

January 14, 2009

As we begin the 111th Congress, we must recognize that Minority Business Enterprises (MBEs) are critical to the overall success of the U.S. economy and the business case for increased investment in MBEs is growing stronger and more evident. Minority Business Enterprises generate more than $661 billion in annual sales and employ approximately 4.7 million people. From 1997 to 2002, the number of minority firms grew at a rate of 35 percent demonstrating that MBEs are one of the fastest growing business sectors in the U.S. economy and generate long-term employment and economic growth in their local neighborhoods, cities, and states, especially in underserved communities.

Minority-owned firms are a legitimate contributor to the U.S. economy and cannot be overlooked in the American Recovery and Reinvestment Act. Obstacles remain for MBEs in a good economy and in a crisis; MBEs face even worse conditions than traditional businesses. Therefore, I insist that this Congress support MBEs in the American Recovery and Reinvestment Act by providing access to contracts, access to capital and access to bonding.

When it comes to access to contracts, we need to promote minority business participation by encouraging federal, state, and local procurement to minority business enterprises. The current thresholds are unrealistic today. There should be a requirement to expand the federal size limitation for Disadvantaged Business Certification. The Small Business Administration currently defines the size limitation at $750,000. This presents major difficulties for small minority contractors, for if they meet the federal DBE size threshold, they would be unlikely candidates to secure bonding when bidding on larger contracts. Most state and local thresholds are under $1 million.

We must unbundle infrastructure projects. Federal agencies continue to bundle contracts that could be performed by small businesses (or that have historically been performed by small businesses) into large mega-contracts that are too large for small businesses to bid on. Currently large project contracts from many of the City and State agencies, as well as the Federal Government, are too large for small companies. Consequently, the number of contracting actions for small businesses declined by 31 percent from 2003 to 2004. To address this problem, some of the more progressive agencies in New York, like the New York City School Construction Authority has created a special mentor program which continues to serve as a national model for creating sound business development opportunities for small business. That program allocates specific funds and projects targeted for small MWBE firms. Other agencies should consider examining this model and implementing it or a variant of it to encourage small business participation.

The American Recovery and Reinvestment Act must include provisions requiring reporting. The reporting of prime and sub-prime contractor awards to small and disadvantaged businesses should be required to ensure full inclusion of minority businesses. I recommend full application of contract diversity requirements in the Federal Acquisitions Regulations.

When it comes to access to capital, there should be a stronger emphasis on SBA lending. The 7(a) and 504 loan programs need to be expanded so that more small businesses are able to secure loans as needed. Relaxed standards and reduced fees for these lending programs should also be implemented. We need to enhance SBA's authority to refinance community development loans under its 504 program and revise the job creation goals of the program.

We can improve access to bonding by expanding the SBA Guarantee Bond Program by increasing the $2 million contract limit. Most agencies require bonding for their projects. Many small companies have difficulty in obtaining the required bonding and are thus prohibited from bidding on many public projects where bonding might not be needed.

We must also expand the Department of Transportation Bonding Program by increasing the contract limit and line of credit. The six banks that currently administer the program should also be expanded to accommodate more demand.

The economic recovery is critical to the future prosperity of our society. Therefore, I urge my colleagues to consider these priorities to be included the American Recovery and Reinvestment Act.

As an addendum, I would like for this Congress to consider the challenges below for minority and women business enterprises:

- ***PERSONAL NET WORTH LEVELS.*** Small disadvantaged business thresholds are unrealistic today. The personal net worth standard of $750,000 (which includes retirement savings) is too low and needs to realistically reflect cost of living increases. In addition, the current cap for small disadvantaged businesses also needs to be increased.

- ***LARGE CONTRACT BUNDLING.*** According to recent reports, only 21% of all public contracts are awarded to small businesses. Large contracts need to be unbundled to make it feasible for smaller companies to bid on contracts they are capable of completing. Currently large project contracts from many of the City and State agencies, as well as the Federal Government, are too large for small companies. As a result, these companies are precluded from bidding.

  In addition, large bundled projects impose excessive bonding limits and require long term cash flow commitments which small businesses cannot meet. Bundling also creates an additional layer of management, adding cost without value to the taxpayer.

One proposal could be that regulations and/or legislation require that construction contracts be unbundled when they exceed certain dollar limits. Some pending recommendations include: $7 million (for Department of Defense), $5 million (for Department of Energy, General Services Administration and NASA) and $2 million (for all other agencies). If an agency proposes any bundled contract in excess of these amounts, these contracts should be approved by agency representatives before the contract solicitation is published.

Some of the more progressive agencies in New York, like the New York City School Construction Authority has created a special Mentor Program which continues to serve as a national model for creating sound business development opportunities for small business. That program allocates specific funds and projects targeted for small MWBE firms. Other agencies should consider examining this model and implementing it or a variant of it to encourage small business participation.

- ***SMALLER CONTRACT BUNDLING.*** Bundling is taking another form in agencies where previously smaller projects were available. Increasingly, in some agencies that have good records of small business participation, there is evidence that smaller contracts are being bundled together in the name of cost-savings. However, this practice eliminates the opportunity of smaller contractors to bid on these projects.

- ***BONDING.*** Most agencies require bonding for their projects. Many small companies have difficulty in obtaining the required bonding and are thus prohibited from bidding on many public projects where bonding might not be needed. Again, bonding education and bonding programs that are targeted to small MWBE businesses are an added assist to this challenge.

- ***SINGLE SOURCE CERTIFICATION.*** Despite a company's approval by City and State certifying agencies, agency certification procedures for a company in some agencies has been delayed and complicated, further impeding the small business owner from bidding on available projects.

- ***JOINT VENTURE RESTRICTIONS.*** Companies that may want to participate in joint ventures for the purpose of merging capabilities and resources to bid on a project are hampered by duplicate insurance and bonding requirements. This practice needs further review to ensure that joint ventures may be singularly insured and bonding to encourage increased JV contract opportunities.

- ***INTEGRITY OF CONTRACT COMMITMENTS.*** Once a subcontractor's prices are used and that subcontractor is included as a subcontractor of record in a contract award, that subcontractor should be used for those services once an award is granted. Lack of audits and quality control procedures are evident with many agencies, and, as a result, many 'subcontractors of record' in an award are not actually engaged for the work. Trade associations advocate stronger controls on this practice by government agencies charged with those responsibilities. One trade association, the Women's Builder's Council, recommends that subcontracting plans an awards be amended to require:

(1) Identification of the subcontractor to be used on the project with a brief description of the work and approximate dollar value of the work to be performed.
(2) Provide reasons for the removal or substitution of a subcontractor based on the contractor's unwillingness or inability to perform certain contract requirements.
(3) Require the government agency to withhold payment from the prime contractor if a listed subcontractor is not contracted to perform the work or grounds for its removal has not been substantiated and properly with an equal subcontractor.
(4) Allow the right of an action by a subcontractor who is listed in the Subcontracting Plan when that subcontractor is not used or replaced according the required removal or substitution proposals.

25x'25
AMERICA'S
ENERGY FUTURE

Recommendations for Economic Recovery and a Clean Energy Future

25x'25 National Steering Committee

December 15, 2008

As the new, incoming Administration and Congress looks for ways to boost the U.S. economy, the 25x'25 Steering Committee believes that now is the best time to implement renewable-energy and energy-efficiency initiatives that can drive and maintain economic recovery. In support of those initiatives, the Steering Committee today offers President-Elect Barack Obama and members of Congress a package of twelve new recommendations that will bolster the U.S. economy, create new jobs and insure a clean energy future.

These recommendations underscore the longstanding 25x'25 position that an investment in a renewable-energy and energy-efficient future will not only generate hundreds of billions of dollars in economic growth, putting hundreds of thousands of people back to work, but also enhance our national security and improve our environment.

The twelve recommendations boost federal renewable energy programs by calling for additional investments totaling some $4.14 billion, an outlay that could ultimately help generate hundreds of billions in new annual revenues and millions of new jobs. The proposals target programs that accelerate markets the wind energy, solar power, biomass, geothermal energy, hydropower and biofuels industries. The package also calls for a renewed look at government support for advanced biofuel production, including increased funding in the form of grants specifically aimed at the construction of commercial-scale, cellulosic production facilities. The proposals underscore the critical role USDA and its programs can and will play in the promotion of a clean energy future and a robust economy

A national study undertaken by the University of Tennessee Department of Agricultural Economics shows that if America's farms, ranches and forestlands are empowered with the policies and incentives needed to meet 25 percent of the nation's energy needs with renewable resources – biofuels, biomass, wind energy, solar power, geothermal energy and hydropower – an estimated $700 billion in new, annual economic activity would be generated, and 4 million to 5 million new jobs would be created.

The following 25x'25 economic recovery recommendations will lead to long-term, comprehensive energy strategy that will accelerate the production of all forms of renewable energy and create new renewable energy markets.

Increase funding for the Rural Energy for America Program (REAP).
The Rural Energy for America Program, authorized under Section 9007 of the Energy Title of the 2008 Farm Bill, provides grants or loan guarantees for renewable energy systems and energy efficiency improvements for agricultural producers and rural small businesses. The program is currently funded at $255 million over four years, with additional annual authorization of $25 million. The limit on the maximum amount of the combined loan and grant is 75 percent of the funded activity and the grant portion cannot exceed 25 percent of the cost of the activity. The program, in existence since 2002, is

continuously oversubscribed and many valid projects are rejected because of limitations on USDA funding. Increasing funding for REAP will generate temporary construction jobs in rural America along with permanent jobs operating and maintaining renewable energy facilities. As an example, a 104 megawatt wind power project in Oregon, financed through REAP, generated over 30 permanent jobs in Gilliam County, Oregon.

Proposed funding for REAP: $250 million annually, $500 million over two years.

Increase funding for the Repowering Assistance Program.
The Repowering Assistance Program, authorized under Section 9004 of the Energy Title of the 2008 Farm Bill provides loans and loan guarantees to help biofuel plants convert their heating and power fuel supply to biomass and reduce their dependence on fossil fuel-powered boilers. Payments would be made for installation of new systems that use renewable biomass or for new production of energy from renewable biomass. The program is currently funded at $300 million over four years, with additional $25 million in annual authorization. According to the Renewable Fuels Association 172 biorefineries are in operation today. Installation of renewable biomass boilers will generate construction and maintenance jobs and contribute to cleaner air and environment.

Proposed funding for Repowering Assistance: $150 million annually, over two years.

Broaden the authority and increase funding for the Biorefinery Assistance Program.
The Biorefinery Assistance Program authorized under Section 9003 of the Energy Title of the 2008 Farm Bill provides loans and loan guarantees to construct commercial-scale advanced biofuel facilities. Loans may be up to 80 percent of the cost of the project not to exceed $250 million. It also provides grants for demonstration-scale advanced biofuels plants. Despite existing federal grants and loan guarantees, the collapse of the credit markets has stalled construction of the nation's first commercial-scale cellulosic biorefineries. Of six projects selected by the U.S. Department of Energy in 2007 to receive up to $385 million in federal support, only one has begun construction. It also has slowed the conversion of existing grain-based ethanol plants to dual feedstock biofuels production facilities. The economic recession may therefore delay progress toward meeting cellulosic and advanced biofuels targets in the Renewable Fuels Standard and slow progress toward curtailing greenhouse gas emissions.

Additional funding for the Biorefinery Assistance Program will reduce investor risk and provide construction and operations jobs in rural communities. Consideration should be given to broadening the authority to utilize direct federal grants to expedite the construction of first generation advanced biorefineries and to modify or retrofit existing grain-based ethanol plants to convert cellulosic biomass to biofuels. Knowledge gained and experience with these operations would rapidly drive down costs associated with second-generation cellulosic biofuel plants and result in private-sector investment in their construction.

Proposal for Biorefinery Assistance Program: increase and fully fund mandatory and discretionary levels, at $500 million in year one and $1 billion in year two, and consider expanding the use of the grants to facilitate the construction of first generation cellulosic biofuel plants.

Fund the Bioenergy Crop Assistance (BCAP).
The Bioenergy Crop Assistance Program was authorized under the 2008 Farm Bill to support the establishment and production of eligible crops for conversion to bioenergy, and to assist agricultural and forest landowners with collection, harvest, storage, and transportation of these crops to conversion facilities. The rules for the program have not been developed, and no mandatory funding is provided in the authorizing legislation. Twenty-one cellulosic biorefineries are in the planning stage of construction, to begin operations by 2010, but without full and immediate funding of BCAP to provide incentives to farmers to grow dedicated energy crops, feedstocks may not be available, jeopardizing investments and threatening the commercial scale production of advanced biofuels.

Proposed for Bioenergy Crop Assistance Program: implement BCAP in 2009; fund at $250 million annually, $500 million over two years.

Invest in Biofuel Infrastructure Projects

A comprehensive federal initiative should be developed and funded to address biofuel infrastructure, distribution and delivery issues. A coordinated plan should be developed and significant federal funding provided for biofuel distribution infrastructure projects. Biofuel pipeline feasibility studies need to be completed. The federal government should help finance the construction of new pipelines, as well as address rail capacity for biofuels. Funding for E-85 Corridor programs should be expanded and funding should be made available to facilitate the manufacturing and deployment of blender pumps. The federal government should promote the use of flex-fuel vehicles, by creating a federal FFV fleet and increase funding for battery technology development. In addition, advanced biorefineries, most of which are in planning stages, often await permitting for long periods of time. The processing of these permit applications must be expedited.

Proposal: Increase federal investments in biofuel distribution infrastructure, including financing to expand rail capacity, pipeline construction, and strong incentives for E85 and blender pumps, the number of which should grow as more flex-fuel vehicles are registered in a region. Provide strong incentives to speed up commercial use of flex fuel vehicles and their use by federal entities. Expedite permitting for advanced biorefineries.

Fund the Community Wood Energy Program.

The Community Wood Energy Program authorized under the Food, Conservation, and Security Act of 2008, provides grants to state and local governments and communities to develop wood energy plans and to acquire and upgrade community wood energy systems in communal facilities, such as schools, town halls, libraries. The program would use woody biomass as a primary fuel for such projects.

Proposed funding for the Community Wood Energy Program: 20 million annually, for two years.

Increase funding for and extend Clean Renewable Energy Bonds (CREBs).

The Energy Policy Act of 2005 provides electric cooperatives and public power systems with the ability to issue Clean Renewable Energy Bonds (CREBs). The CREB is a renewable incentive for not-for-profit utilities, comparable to the Production Tax Credit (PTC) that is available to investor-owned utilities. Not-for-profit utilities that serve 25% of the nation can not access the PTC. CREBs support a wide variety of projects, including wind, biomass, geothermal, solar, municipal solid waste, small irrigation power, and hydropower. CREB funds would support both large- and small-scale projects, and would generate jobs both in installation of renewable energy technologies and in manufacturing of the required component parts. The program is already over-subscribed, at $800 million in current mandatory spending.

Proposal for CREBs: extend the program through 2010 and provide additional bonding authority of $2.5 billion.

Restructure the Production Tax Credit and Investment Tax Credit for renewable energy electricity sources.

Currently, a PTC or an ITC is given in a form of a tax credit to be claimed against income for developers of and investors in renewable electricity projects utilizing biomass, solar, wind, hydro, marine, landfill gas, geothermal and other clean sources of energy. The credit is currently non-transferrable. Furthermore, in many cases other incentives reduce the amount of the Production Tax Credit or an Investment Tax Credit. For example, a biomass Production Tax Credit is reduced by half when a Combined Heat and Power (CHP) Investment Tax Credit is also used for the same project. State and government financing also reduces the PTC amount a renewable energy project can receive.

According to recent analysis by the American Wind Energy Association, the failure to restructure the PTC and provide a rapid long-term extension could result in the loss of 89,000 jobs and $16 billion in investment in the wind energy industry alone. Renewable energy development relies upon transactions with major financial industry players, because renewable electricity is a capital intensive industry. The current economic crisis has removed many major financial investors from tax equity markets, dramatically reducing the ability of many renewable power developers to realize the intended benefits of available tax incentives.

Thousands of megawatts of new renewable energy power capacity for 2009 could be cancelled or delayed as a result, unless the tax credit system is restructured, and PTCs are extended over five years. In addition, equity strapped industries may not be able to increase investments in geothermal, biomass, solar and hydropower projects. According to the National Renewable Energy Laboratory, if the PTC were transferable to lending institutions, or if it were applicable as prepayment on any loans, the wind, solar, biomass, geothermal, hydro and other renewable energy industries could fully utilize the PTC and the ITC. In a time of economic downturn, full use of the ITC and the PTC is essential for the renewable energy sector to continue attracting investment and prevent job loss.

Proposal: Restructure the federal Production Tax Credit and Investment Tax Credit for all sources of renewable electricity to allow for accelerated depreciation, refundable credits and transfers between persons/entities, and enable projects to utilize other financial incentives without a reduction in the amount of ITC and PTC that an entity can claim.

Extend the Production Tax Credit and Investment Tax Credit for five years:
Production and investment tax credits serve as primary incentives for investors to develop wind, solar, geothermal, hydro, marine and other forms of electricity from renewable sources. Wind industry developers, for example, are eligible for a production tax credit of 2.1cents per kilowatt hour generated in the first 10 years of operation. Manufacturing of both wind turbines and solar panels is growing in the United States, bringing jobs to rural areas. More than 50 new or expanded wind industry manufacturing facilities have been announced or opened since January of 2007, creating tens of thousand of high paying jobs while providing clean and reliable energy. However, an unstable PTC/ITC policy serves as a disincentive to investors, particularly in this time of economic distress. The solar industry, for example, estimates that if PTC were not extended in 2008, the solar PV sector alone would have lost $8.1 billion in investment and a net 39,800 jobs in 2009.

Proposal: Extend the Production Tax Credit and Investment Tax Credit for renewable electricity sources for five years.

Increase the Production Tax Credit for renewable electricity produced from biomass, hydro, green gas and other renewable sources of energy:
Currently producers of renewable electricity from wind and geothermal sources of energy receive a Production Tax Credit of 2.1cents per kilowatt hour. Other producers of renewable electricity receive half this amount. Additional renewable electricity could be generated in the United States if developers who produce renewable electricity from biomass, hydro, renewable gases and other sources of energy received the same credit as is currently allowed for wind and geothermal electricity developers.

Proposed funding: Create a level playing field for producers of renewable electricity by increasing the Production Tax Credit for biomass, marine, hydro, marine, green gas, waste and other renewable energy sources of electricity to a level equivalent to that received by wind and geothermal energy producers.

Improve tax incentives for Community Wind:
Community wind is a type of wind development that focuses on investment from local communities, rather from an outside investor. The National Renewable Energy Laboratory (NREL) estimates that smaller community wind projects contribute twice as many jobs and income to a local community than a larger wind plant financed by outsider investment. An average community wind plant of 20 MW can provide up to 41 jobs and $4 million in local income, as opposed to an outside-investment 40 MW plant's

18 jobs and $1.3 million in income for the community. However, community wind investors' income off the plant is often passive. Under current regulations passive income has to be quite large to fully use the credit. Regulations should be changed to allow for local wind investment projects to count against active income of the local investors. Such a change will generate more interest in, and investment by communities in local clean electricity sources.

Proposed: Allow community wind developers to count tax incentives against active income.

Fund Smart Grid and improve electricity transmission:
The Federal government should appropriate funds for the Smart Grid Investment Matching Grant Program created under Energy Independence and Security Act of 2007. The program provides reimbursement for 20 percent of qualifying Smart Grid Investments. Within two years, the stimulus effect of this provision will become apparent, through significant new job creation in renewable energy electricity sector, as more electricity sources will be able to capitalize on a better grid system. 300GW of wind power are awaiting grid connection. In order for the wind industry to expand, 12,000 miles of new transmission lines are needed, as well as a smart grid management system. The Department of Energy reports that transmission is the number one barrier preventing rapid long-term expansion of wind energy use. Without adequate transmission capacity, the nation risks losing existing jobs in wind turbine manufacturing and installation. A more efficient, reliable transmission grid will also reduce electricity costs to consumers in states with high peak rates.

Proposed funding for Smart Grid: $1.3 billion for smart grid investment.

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25x'25 is a diverse alliance of agricultural, forestry, environmental, conservation and other organizations and businesses that are working collaboratively to advance the goal of securing 25 percent of the nation's energy needs from renewable sources by the year 2025. 25x'25 is led by a national steering committee composed of volunteer leaders. The 25x'25 goal has been endorsed by nearly 800 partners, 30 governors, 14 state legislatures and the U.S. Congress through The Energy Independence and Security Act, which was signed into law by President Bush on December 19, 2007. 25x'25 is a special project of the Energy Future Coalition (EFC). The EFC is a broad-based non-partisan public policy initiative that seeks to bring about change in U.S. energy policy to address overarching challenges related to the production and use of energy.

January 6, 2009

Honorable Harry Reid Majority Leader United State Senate	Honorable Nancy Pelosi Speaker House of Representatives
Honorable Richard Durbin Assistant Majority Leader United States Senate	Honorable Steny Hoyer Majority Leader House of Representatives

Dear Majority Leader Reid, Speaker Pelosi, Senator Durbin and Representative Hoyer:

To help resuscitate our nation's economy and create hundreds of thousands of well-paying jobs, we ask you to support strong funding for agriculture-based clean energy development programs in the economic recovery package. Our three-part recommendation includes the following:

First, we recommend including at least $1.2 billion/year in mandatory supplemental appropriations for important Farm Bill Energy Title programs. In catalyzing the construction and operation of new clean energy facilities, the Farm Bill Energy Title programs are major job creators. For example, the Rural Energy for America Program already is funding new wind and solar power, biogas, bioenergy, geothermal and energy efficiency projects in nearly every state in the country. The Bioenergy Crop Assistance Program will accelerate dedicated energy crop plantings. A Biorefinery Assistance Program will help build new advanced biofuels production facilities, which require additional financing in a tight credit environment to break ground.

Second, Congress should extend the federal Production Tax Credits (PTC) for renewable energy, cellulosic biofuels, and biomass for five years. Congress should change the structure of the PTC, solar and fuel cell investment tax credits (ITC) and accelerated depreciation related to renewable electricity production to make these provisions fully refundable; projects also should be able to utilize other financial incentives without a reduction in the amount of ITC and PTC that an entity can claim. Further, renewable tax credits generated in 2008 and 2009 should be permitted to carry back against tax liability over the past decade to the extent of new renewable investment in 2009. Congress also should create a level playing field for producers of renewable electricity by modifying the PTC so that all renewable energy sources of electricity will be eligible for the full credit. These improvements will improve industry's access to capital, catalyze new project development, drive new job creation and increase the tax base for communities across the country.

Third, we encourage you to extend and expand successful clean renewable energy and conservation bond programs which provide PTC-like incentives for electric cooperatives, public power, and municipalities to build new renewable energy facilities and invest in energy efficiency. Similar to the incentives available to local investors and others, these bond programs will create thousands of well-paying jobs and diversify our nation's energy supply.

In sum, these agriculture energy programs will generate billions of dollars in new economic activity across the country. They will provide new jobs in construction and plant maintenance and operation. They also will stimulate local ownership and infrastructure development, put people back to work and generate much-needed tax revenue to finance schools, roads and other public needs.

Thank you for your consideration.

Sincerely,

25x'25 Alliance
American Agri-Women
American Coalition for Ethanol
Association of Consulting Foresters
Association of State Energy Research & Technology Transfer Institutions
Biomass Power Association
Biotechnology Industry Organization
Ceres
CHS, Inc.
Clean Energy First
Climate Solutions
Environmental and Energy Study Institute
Environmental Law & Policy Center
Forest Landowners Association
Intertribal Council On Utility Policy
John Deere
Native Wind
National Alliance of Forest Owners
National Association of Forest Service Retirees
National Association of State Energy Officials
National Association of Wheat Growers
National Corn Growers Association
National Farmers Union
National Rural Electric Cooperative Association
National Sorghum Producers
National Wildlife Federation
National Woodland Owners Association
North American Equipment Dealers Association
Pinchot Institute for Conservation
Society of American Foresters
Solar Energy Industries Association
Southern Alliance for Clean Energy
The Farm Credit Council
The Stella Group, Ltd.

NACS®

Dave Carpenter

President and Chief Executive Officer

J.D. Carpenter Companies

On Behalf of

The National Association of Convenience Stores

Before the

U.S. House Committee on Small Business

The State of the Small Business Economy and Identifying Policies to Promote Economic Recovery

January 14, 2009

The Association for Convenience & Petroleum Retailing

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Chairwoman Velazquez and Members of the Committee, thank you for the opportunity to provide you with my views on the state of the small business economy and identifying policies to promote economic recovery. My name is Dave Carpenter and I am President/CEO of J.D. Carpenter Companies. My company, which is headquartered in Urbandale, Iowa operates 6 gas stations and convenience stores throughout Iowa under the name ShortStop.

I am here today representing the National Association of Convenience Stores ("NACS"). NACS is an international trade association representing the convenience store industry. The industry as a whole includes about 145,000 stores in the United States, generated $577.4 billion in sales in 2007, sells nearly 80 percent of the gasoline in the nation, and employs about 1.7 million workers. It is truly an industry for small businesses; more than 60 percent of convenience stores are owned by one-store operators. NACS also helped found the Merchants Payments Coalition, which includes about 20 national and 80 state trade associations from diverse industries, to help promote a more competitive and transparent system of credit card interchange fees.

The industry is also represented by the Society of Independent Gasoline Marketers of America ("SIGMA"). SIGMA is a member of the Merchants Payments Coalition and subscribes to the views expressed in this testimony regarding the interchange fee system.

I want to thank you for holding this hearing today. Small businesses like mine face a difficult business climate. Last year, as the cost of gasoline rose to more than $4 per gallon much attention was paid to the burden this put on consumers. And it did burden consumers.

Believe me – I heard about it. But little attention was paid to the burden this placed on retailers. Suddenly, my cost for filling the tanks at my stations jumped from $81,000 to $175,000. I needed about twice as much credit to keep operating my business as I had before. Luckily, I was able to make that work, but many others in my industry were not. In fact, in July 2008, the Wall Street Journal reported that 3,000 individual gasoline retail outlets had been forced to close in the year prior to their story. As prices fell this fall, some in our industry were better able to finance the cost of new product and recover some of their losses, but it was a difficult year for our industry.

The financial crisis adds additional uncertainty to our prospects. Prices typically rise in the spring during the changeover from winter to summer gasoline. I have serious concerns about whether the credit will be there for many retailers to keep buying gasoline when that happens. And there is no question that retailers going out of business can reduce competition at the pump, resulting in higher prices for consumers.

Congress may make the credit squeeze harder as well. The excise tax on tobacco may be increased very significantly this year and some have discussed making this increase apply to all inventory that retailers have not yet sold. This could require retailers to get credit simply to cover the taxes owed on their current inventory. Whether this credit will be available is an open question.

One thing that is very difficult for a business owner like me to take is that the same banks that got us into this crisis are pulling back on credit and taking billions of dollars in government money. That part you know. What you may not know is that those same big banks are fleecing the retail industry with outrageously high interchange fees that have skyrocketed from $16.6 billion in 2001 to $48 billion in 2008.

We don't yet have the full 2008 numbers, but in 2007 the entire convenience store industry made a total of $3.4 billion in pre-tax profits. In order to simply process our card transactions, however, our industry paid $7.6 billion in fees to the credit card industry. That is an astronomical number, the largest in the history of our industry, and was the second year in a row that card fees exceeded the entire industry's pre-tax profits. Prior to 2006, card fees were the number one issue for my industry – and those fees had never exceeded our entire pre-tax profits. I have included with my testimony a chart showing the dramatic rise in card fees paid by my industry and the corresponding drop in profits that we have seen. These card fees are now on average the second highest operating cost for businesses in my industry. Only labor is more, but card fees are more than rent, utilities and other overhead items. The small businesses in my industry simply will not survive if this situation does not change.

The credit card market is structured in a way that prevents competitive market forces from checking the increase of interchange fees. Visa has thousands of member banks – as does MasterCard. Regardless of the fact that some of these banks are huge, including such behemoths as Bank of America, JP Morgan Chase, Citigroup, and Wells Fargo, they present themselves to retailers as a united front in the guise of Visa or MasterCard. Even the largest retailers in the country have no ability to deal with these banks when they pool their collective market power in this way – and small businesses routinely get the worst deals possible.

Not only are some interchange fees tiered to favor large businesses over small ones -- but the credit card companies have consistently imposed additional security standards that impose large costs on retailers. And those fixed costs can create larger burdens for small businesses. The card companies impose these security standards without any meaningful consultation with retailers and without recognizing that they themselves create the security problems they are trying to address. If the card companies didn't take the money from a retailer in some cases when it turned out that a consumer committed fraud, then retailers would not be forced to keep information about their transactions. But retailers must keep that information in order to protect their revenues from the banks. That creates a security risk for the data. In addition, if the card companies required consumers to use their PIN numbers at the point of sale almost all fraud could be averted. While this would save retailers millions and millions of dollars in security fixes, and save consumers many of the problems associated with identity theft, the card companies prefer not to do it. In fact, the banks often create incentives for consumers not to enter their PINs on debit transactions even though that would make the transactions more secure, because the banks make more money in interchange when the consumer uses a signature.

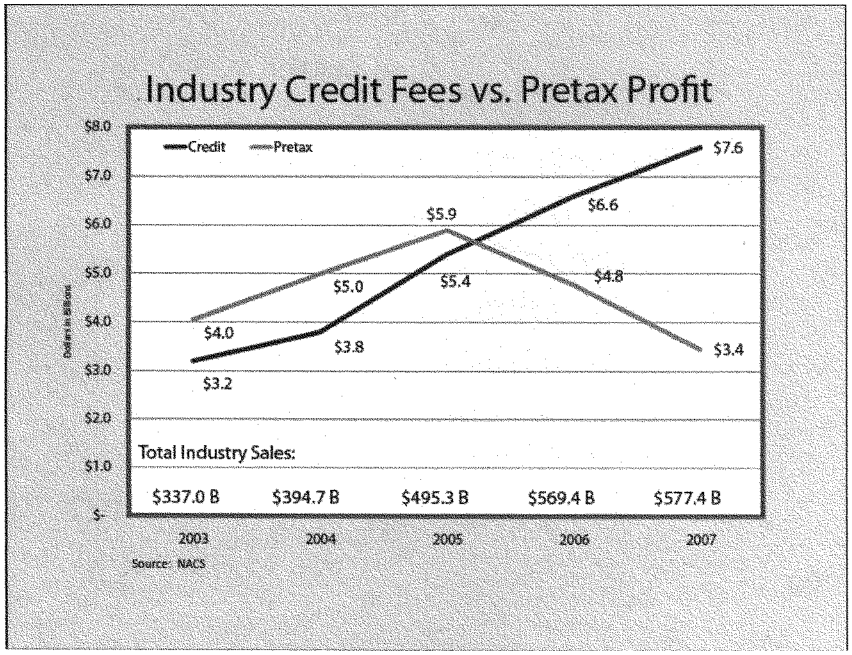
The card companies also have anticompetitive rules in place that keep any market forces from checking interchange fee increases. For example, the card companies have a non-discrimination rule that prohibits retailers from having different prices when more- or less-expensive cards are used. That means there is no advantage for cards that may wish to charge less money. Visa and MasterCard also have an "honor all cards" rule that requires any retailer to accept every single one of their credit cards in order to have the ability to accept one of them –

no matter how much higher the interchange fee is for some of the premium cards they offer. The card companies also place difficult constraints on retailers that would like to give consumers discounts for using cash. In my industry, for example, several retailers – including a one-store operator – were threatened with fines of $5,000 per day because Visa did not like the way their pricing signs that showed the cash discount looked. Just to give you a sense of the impact of that threat, the $5,000 would in one day wipe out more than one-fifth of the entire annual profits of the average convenience store. The practical effect of these rules, as you might imagine, is that very few retailers are willing to give their customers a cash discount and risk incurring the punitive wrath of the credit card companies.

None of this makes sense for small businesses or consumers, but the big banks that control the credit card system have designed it that way. Not only that, but the design of the system has helped make credit cards the next wave of the financial crisis. The huge interchange fees being collected by the banks create an incentive for the banks to ignore the risks of consumer delinquencies. Even if someone gets into trouble years down the road and can't pay, the bank has collected huge fees on the purchases along the way. So, banks push consumers deeper into debt and add on other fees and traps to squeeze money out of their consumers. And the truth is, if the consumer can't pay, most (or all) of those losses are taken by the investors who hold securities made up of credit card debts. So, banks still make big money on fees and the rest of us get stuck holding the bailout bag. If we don't change this system now, we'll be asking for the same type of crisis to hit us again in the future.

These are tough economic times and many factors, including limits on access to credit, make them tougher. I cannot emphasize enough the negative impact of these interchange fees on small businesses. Fixing that problem is my industry's top priority and has been for years. Small businesses, consumers, and our credit economy will remain in peril until we address this problem.

Thank you for giving me the opportunity to provide you with my views. Please do not hesitate to contact me or NACS if we can provide any additional information or answer any questions you may have.


Industry Credit Fees vs. Pretax Profit
Credit
Pretax
Dollars in Billions
$8.0
$7.0
$6.0
$5.0
$4.0
$3.0
$2.0
$1.0
$-
$7.6
$6.6
$5.9
$5.4
$5.0
$4.8
$4.0
$3.8
$3.4
$3.2
Total Industry Sales:
$337.0 B
$394.7 B
$495.3 B
$569.4 B
$577.4 B
2003
2004
2005
2006
2007
Source: NACS

NATIONAL ELECTRICAL CONTRACTORS ASSOCIATION

Statement for the Record

of the

NATIONAL ELECTRICAL CONTRACTORS ASSOCIATION

Committee on Small Business

U.S. House of Representatives

For the Meeting

The State of the Small Business Economy and Identifying Policies to Promote an Economic Recovery

January 14, 2009

NATIONAL ELECTRICAL CONTRACTORS ASSOCIATION
3 Bethesda Metro Center ★ Suite 1100 ★ Bethesda, MD 20814 ★ 301 657 3110 ★ 301 215 4500 FAX
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Introduction

Madam Chair, Ranking Member Graves, Members of the Small Business Committee, thank you for the opportunity to appear before you today. It is an honor and privilege to testify before the committee that has tremendous impact on my business and the thousands of electrical contractors who operate as small businesses.

I am Timothy Ehmann, and I represent the National Electrical Contractors Association (NECA) and O'Connell Electric of Victor, New York. O'Connell Electric has been in business since 1911 and has been a member of the NECA for most of that time. I am a senior project manager specializing in emerging electrical construction markets, including renewable energy technologies. I work on projects ranging from wind power and converting landfill gas into electric power to solar photovoltaics and utility security.

NECA is the nationally recognized voice of the $130 billion electrical contracting industry that brings power, light, and communication technology to buildings, communities, and homes across the United States. NECA's 119 local chapters advance the industry through advocacy, education, research, and standards development.

I am thrilled at the opportunity to speak with you today regarding the upcoming economic stimulus legislation soon to be deliberated before Congress. My testimony focuses on two elements that must be included in the economic stimulus package. The first, is need to further incentivize renewable energy technologies, specifically in the wind and solar industries. My company is very involved in these technologies, and I will demonstrate how these incentives are beneficial for the environment, job creation, and in helping our nation achieve energy independence. The second element of my testimony will focus on specific incentives that will provide opportunities for America's small businesses.

"Green" Jobs

President-elect Obama's $1 trillion stimulus plan emphasizes significant investment in transportation and infrastructure, including roads, bridges, and dams. NECA supports the President-elect's plan in addition to the rebuilding of our nation's schools, hospitals, and public facilities through investment in green energy construction and high-performance building practices. The inclusion of green provisions for these types of projects would not only stimulate economic growth, but would also spur job creation, promote energy efficiency, and move our nation toward greater energy independence.

The cornerstone of a green economy that promotes green collar job creation rests in renewable energies, energy efficiency, and green building.[1] From the retrofitting of existing infrastructure to the construction of high-performance and LEED-certified buildings, NECA contractors are playing an increasingly larger role in creating an economy that is ever more reliant upon domestic, clean energy sources.

According to various reports, including those published by the National Institute of Building Sciences [NIBS],[2] the Management Information Service,[3] and NECA's ELECTRI International,[4] an economic expansion based on emerging green markets would create an estimated 3 million jobs, including hundreds of thousands for electrical contractors. In addition to fostering long-term job growth, energy efficient buildings help create communities that are both economically advantageous and environmentally conscious.[5]

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[1] National Institute of Building Sciences, *Assessment to the US Congress and US Department of Energy on High Performance Building*, 2008.

[2] ibid.

[3] Roger Bezdek, *Renewable Energy and Energy Efficiency: Economic Drivers for the 21st Century*, Management Information Services/American Solar Energy Society, 2007.

[4] Electri International (Riley, David; Horman, Michael; Park, Jeffery) *Emerging Green Markets: Strategies for Electrical Contractors on LEED and Green Building Projects*. Pennsylvania State University. August 2007.

[5] National Institute of Building Sciences, *Assessment to the US Congress and US Department of Energy on High Performance Building*, 2008

In recent years, the movement toward a greener economy has fundamentally expanded the size and scope of electrical contracting businesses. This expansion has been facilitated largely due to federal and state tax incentives. Alongside the investment NECA contractors have made in the training and education of their employees, renewable energy incentives have helped generate strong projections in industry job creation. Our electricians are skilled in:

- Retrofitting buildings with green technology systems;
- Assisting in building a more energy efficient smart grid;
- Installing commercial and residential smart meters;
- Improving and developing energy efficient light rail and mass transit systems;
- Installing and maintaining clean energy systems on residential facilities and commercial buildings.[6]

Through the proper installation and maintenance of wind turbines, light rail and mass transit systems, and temperature control systems, O'Connell Electric is playing an increasingly important role in creating jobs and building the new American infrastructure. Over the course of the last 5 years, O'Connell has become increasingly involved in the construction and maintenance of large wind energy generation fields throughout the state of New York. The revenues from clean energy technologies, including these large wind farms, have gone from $1 million to more than $20 million, which represents more than 25% of our total revenue. Because of the influx of renewable energy projects, O'Connell has created 50 new jobs.

O'Connell Electric's experience is not unique; it is a shared experience among NECA contractors. The growth in the solar and wind industries has triggered increased demand for personnel equipped with the skills to install and maintain these new clean-energy

[6] Robert Pollin, Jeannette Wicks-Lim, *Job Opportunities for the Green Economy: A State-By-State Picture of Occupations that Gain from Green Investments,* Political Economy Research Institute, University of Massachusetts, Amherst. June 2008.

technologies, investment in research and development, and increased manufacturing and distribution.

Accreditation organizations, universities, and training organizations such as NECA's National Joint Apprenticeship Training Committee (with the International Brotherhood of Electrical Workers) have already begun to train workers to install and maintain solar facilities, wind farms, and geothermal and landfill gas generators. With the help of these training programs, O'Connell Electric and thousands of other NECA contractors have made renewable energies an integral part of their business strategy.[7]

The benefits of green job growth are not limited to the electrical contracting industry. The work that NECA contractors do nationwide supports numerous other industries, including solar panel manufacturers, software developers, inventory managers, pre-construction engineers, and countless others.[8]

In fact, a joint study by the Institute for America's Future and the Perryman Group concluded that if the federal government were to invest $30 billion a year for the next 10 years in renewable energies, it would not only create millions of jobs, but would also stimulate $1.4 trillion in new gross domestic product with enough treasury receipts to offset the initial government investment in the renewables industry.[9]

The economic stimulus legislation is not only an opportunity to stop the economic contraction our nation is facing, but it also presents an opportunity to create confidence in the long-term sustainability of the renewable energies market.[10] I am encouraged by the

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[7] Apollo Alliance & Center for American Progress. *Green Collar Jobs in America's Cities: Building Pathways Out of Poverty and Careers in the Clean Energy Economy,* 2008.

[8] ibid.

[9] Perryman Group 2004

[10] Robert Pollin, Jeannette Wicks-Lim *Job Opportunities for the Green Economy: A State-By-State Picture of Occupations that Gain from Green Investments,* Political Economy Research Institute, University of Massachusetts, Amherst. June 2008.

economic stimulus proposal that President-elect Obama has begun to lay out. Therefore, we ask that the legislation include long-term extensions of federal tax incentives that would provide necessary predictability to renewable energy markets.[11]

In addition to providing long-term incentives, Congress must address the effects that the credit crunch has had on funding sources for clean energy projects. Therefore, we support expansion of the Clean Renewable Energy Bonds (CREB) and Qualified Energy Conservation Bonds (QECB) programs, which provide financial incentives for investment by consumer-owned utilities in new renewable electricity generation facilities and expand eligible green community programs that increase energy efficiency. The electrical contracting industry would also benefit from several of the provisions being mentioned including group re-lamping and installation of updated energy-efficient heating and cooling systems in federally funded facilities.

Increasing and expanding federal tax incentives in the upcoming stimulus would help provide the necessary offsets to the high capital investment renewable energy technologies require to be constructed and placed into operation.[12] To help accelerate the market and drive down costs long-term, we must also address the manufacturing and investment side of clean energy technologies by expanding the Production Tax Credit (PTC) and the Investment Tax Credit (ITC), which incentivizes the construction and generation of energy through renewable sources. These extensions would help stop excessive construction costs that result from trying to too quickly complete renewable energy facility projects before the incentives expire.

If we are to see economic stimulus and recovery, we must once again invest in today's most rapidly emerging market: renewable energy technologies. The economic stimulus

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[11] Peter Ogden, John Podesta, & John Deutch, *A New Strategy to Spur Energy Innovation,* Center for American Progress. January 2008

[12] Robert Pollin, Jeannette Wicks-Lim, *Job Opportunities for the Green Economy: A State-By-State Picture of Occupations that Gain from Green Investments,* Political Economy Research Institute, University of Massachusetts, Amherst. June 2008.

bill is a profound opportunity to guarantee our long-term energy security, while providing a chance to transform the economic engine toward industries that will create sustained prosperity.[13] Universities, retail stores, industrial facilities, healthcare facilities, and residential consumers are all potential customers for renewable energy applications. However, for these entities to consider making the investment, the systems must have a practical payback period, in addition to being more energy efficient and environmentally friendly.

Madam Chair, I have witnessed first-hand the effects of what happens to jobs, to business growth, and to the economy when these incentives are suspended or reduced. If the cost of market entry is not addressed and the investments are not made to incentivize the renewable energy markets, I assure you that the electrical contracting industry, as well as numerous other industries ranging from manufacturing to design and construction will contract, causing job losses and reducing business revenues. It is absolutely critical to fund and expand federal programs for renewable energy markets; they are the vehicle to stimulating the economy and providing our nation with the opportunity to build a new energy economy.

3% Withholding Tax

NECA supports repeal of the 3 percent withholding tax, a tax that imposes withholding on all government payments, affecting all government contracts. As it is an issue that impacts so many of the nation's small business contractors, NECA appreciates your leadership and support on legislation that would repeal this withholding tax. Although the tax will not go into effect until January 1, 2011, many of our members that serve as prime contractors or maintain contracts directly with a federal, state, or local government have already begun preparing for the requirement. NECA is concerned that current vendors may ultimately decide not to participate in the federal procurement process. In effect, this

[13] Roger Bezdek, *Renewable Energy and Energy Efficiency: Economic Drivers for the 21st Century*, Management Information Services/American Solar Energy Society. 2007.

would reduce the number of small businesses bidding on government projects, resulting in higher fees for construction contracts.

The provision hurts taxpaying businesses by withholding a company's capital means, dollars that are used for operating budgets including costs, supplies, day-to-day activity, and job retention. In order for the construction industry to remain competitive in government projects, it is necessary that the repeal of the 3 percent withholding tax be included in the stimulus package.

Depreciation Bonus & Section 179

NECA understands the importance of an extension of capital investment incentives, including the depreciation bonus and increased Section 179 expensing levels. In February 2008, the Economic Stimulus Act created a 50 percent depreciation bonus and increased the amount that small businesses could expense to $250,000. The provisions incentivized business capital investment; however, they were sunset in 2008.

The act had some positive impact on the economy, and extending the depreciation bonus and the higher expensing level under Section 179 would assist our small business members. NECA supports these incentives and asks that they be extended for a period of at least one year.

Net Operating Loss

Capital used for day-to-day small business functions is extremely tight, and the future of tax benefits must be reformed for businesses to remain in operation. Extending the net operating loss (NOL) carryback period will provide necessary capital to struggling companies, allowing them to retain jobs, make investments, and, in some cases, stay open for business.

The current 2 year period is insufficient in a time of economic turmoil. By extending the carryback period to 5 years, small businesses are given the opportunity to carryback losses to more profitable years, making working capital more readily available. In recent economic contractions, Congress has responded by providing a successful 5 year carryback period, which provided critical relief for struggling businesses. NECA supports legislation that extends the carryback period for NOLs from the current 2 year period, ending in 2008 and 2009, to a 5 year period.

Madame Chair, on behalf of O'Connell Electric and the National Electrical Contractors Association, I appreciate the opportunity to appear before this Committee.

NATIONAL ELECTRICAL CONTRACTORS ASSOCIATION

Appendix for the Record

of the

NATIONAL ELECTRICAL CONTRACTORS ASSOCIATION

Committee on Small Business

U.S. House of Representatives

For the Questions Asked at the Meeting

The State of the Small Business Economy and Identifying Policies to Promote an Economic Recovery

January 14, 2009

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Question by Congresswomen Dahlkemper: What should the timeframe be on extending renewable energy tax incentives? Are we losing in our ability to compete globally?

Response on behalf of the National Electrical Contractors Association (NECA):

Ushering in the green economy must be done carefully, considering the dynamics of emerging industry growth, which ultimately requires investment and planning. But planning cannot be done with 1-2 year extensions on energy efficiency tax incentives. This prevailing trend is perhaps the biggest challenge in creating sustainable new energy growth because the short sighted incentives cause market volatility.

While there is no tried and true timeframe on how long tax incentives should be extended, the vast majority of studies show that 5 years is the minimum timeframe needed to create market stability. That being said, many European nations have incentives with terms of up to 20 years, as a means to drive people into adopting the clean energy technologies. The United States does not need to create tax incentives that last for decades, but long-term incentives that would sunset certain provisions over a 10 year period would be a step towards ensuring that the United States can achieve energy independence, stimulate job creation, and build a new energy economy.

Question by Congressman Westmoreland: Isn't the US going to have to build a lot of wind farms to create jobs for 2-3 million people?

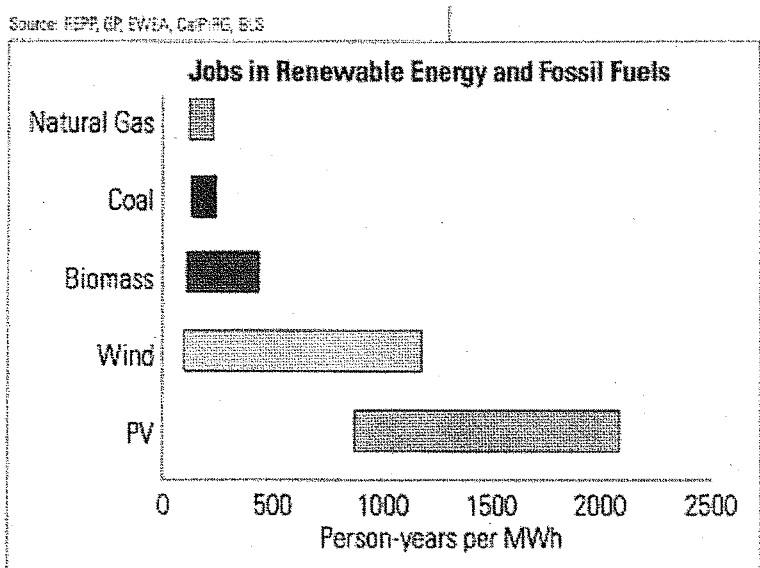
Response on behalf of the National Electrical Contractors Association (NECA): This is not just about wind farms creating jobs, it is about the all of the jobs created to make the steel, to manufacture the turbine, and to develop the land the wind turbines will be built on, as well as the setting up and long-term maintenance for those farms.

But there is a larger goal that exists outside of wind farms or solar photovoltaic systems: making our economy more green, transitioning to renewable energy technologies and creating domestic jobs that are not at risk to being outsourced.

For example, in the United States investment in solar energy is expected to grow to $51.1 billion by 2015 and investment in clean-energy technologies anticipated to increase to $167 billion within the next decade. This has the potential to revolutionize the industrial and manufacturing landscape of the US economy by rebuilding entire sectors that have been lost oversees workers. Many of the factories that now sit empty can be retooled to manufacture renewable energy technologies and the various mechanical components they require.

Various studies of the renewable energy and energy efficiency sector support this point. The creation of 2-3 million jobs from clean energy technology is not simply building wind farms but also retrofitting buildings. It is not just installing solar panels but also refining silicon for use in the panels. Building the new energy economy will not just be about installing and maintaining renewable energy facilities, it will be about creating and producing the materials that are used in their construction. This interconnectedness provides new jobs to floundering sectors of the economy (e.g. manufacturing), while creating a supply and service chain that utilizes American workers in various industries.

Question by Congressman Westmoreland: What is the cost per kilowatt hour for wind generation? What is it compared to coal? To hydroelectric?



Response on behalf of the National Electrical Contractors Association (NECA):
Conventional Energy Sources (Non-Renewables): Conventionally generated electricity ranges between 5 and 18 cents per kilowatt hour.

Solar: Photovoltaic and solar panel systems are one of the most widely used types of renewable energy systems for residential units and places of business. With the wholesale cost of systems decreasing, the energy generated often offsets usage. On the typical residential or commercial system (that is not utility-sized) solar energy generation costs between 20 - 37 cents per kilowatt-hour (kWh).[1]

Wind: The cost of electricity from utility-scale wind systems has dropped by more than 80%, from as much as 30 cents per kilowatt-hour, since the 1980s. New technology and engineering has developed wind farms that can generate electricity for less than 5 cents/ kWh (with the PTC), which is nearly competitive with the cost of gas and coal fueled power plants.[2]

Hydro-Electric: Presently, US hydropower is produced for about 7 cents per kilowatt-hour (kWh).[3]

Question by Congresswomen Clarke: What types of apprenticeship and/or pre-apprenticeship programs do you have?

Response on behalf of the National Electrical Contractors Association (NECA): NECA has one primary apprenticeship program: the National Joint Apprenticeship and Training Committee (NJATC). It is a national program jointly funded at $100 million between NECA and the IBEW. The NJATC program was developed 58 years ago and has evolved into what is one of the largest apprenticeship and training program of its kind.

To date, local programs that are affiliated with the NJATC have trained over 300,000 apprentices without taxpayer dollars. The NJATC program has demonstrated a cost effective way to train qualified craft workers, while creating tax revenues in excess of more than $600 million in taxes.

This is truly a model program; it trains some of the most in-demand people within the workforce today. NECA's NJATC program provides people from around the country the opportunity to make a living wage in a skilled craft. In doing so, it seeks to ensure that we can rebuild our nation's infrastructure, make our buildings energy independent, and keep our economy growing by investing in clean technologies.

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[1] Solarbuzz, *Solar Electricity Global Benchmark Price Index*, http://www.solarbuzz.com/solarindices.htm January 2009

[2] American Wind Energy Association, *Wind Web Tutorial: The Economics of Wind Energy*, http://www.awea.org/faq/wwt_costs.html; http://www.awea.org/pubs/factsheets/EconomicsOfWind-Feb2005.pdf Accessed: 1/10/2009

[3] Alternative Energy Institute (AEI). *Hydroelectric Power*, http://www.altenergy.org/renewables/hydroelectric.html Accessed: 1/14/09.

Statement
of the U.S. Chamber of Commerce

ON: STATEMENT FOR THE RECORD ON "THE STATE OF THE SMALL BUSINESS ECONOMY AND IDENTIFYING POLICIES TO PROMOTE AN ECONOMIC RECOVERY"

TO: THE HOUSE COMMITTEE ON SMALL BUSINESS

DATE: JANUARY 14, 2009

The Chamber's mission is to advance human progress through an economic, political and social system based on individual freedom, incentive, initiative, opportunity and responsibility.

The U.S. Chamber of Commerce is the world's largest business federation, representing more than three million businesses and organizations of every size, sector, and region.

More than 96 percent of the Chamber's members are small businesses with 100 or fewer employees, 70 percent of which have 10 or fewer employees. Yet, virtually all of the nation's largest companies are also active members. We are particularly cognizant of the problems of smaller businesses, as well as issues facing the business community at large.

Besides representing a cross-section of the American business community in terms of number of employees, the Chamber represents a wide management spectrum by type of business and location. Each major classification of American business -- manufacturing, retailing, services, construction, wholesaling, and finance -- is represented. Also, the Chamber has substantial membership in all 50 states.

The Chamber's international reach is substantial as well. It believes that global interdependence provides an opportunity, not a threat. In addition to the U.S. Chamber of Commerce's 105 American Chambers of Commerce abroad, an increasing number of members are engaged in the export and import of both goods and services and have ongoing investment activities. The Chamber favors strengthened international competitiveness and opposes artificial U.S. and foreign barriers to international business.

Positions on national issues are developed by a cross-section of Chamber members serving on committees, subcommittees, and task forces. More than 1,000 business people participate in this process.

Statement on
"The State of the Small Business Economy and Identifying Policies to Promote an Economic Recovery"
Meeting before the
THE HOUSE COMMITTEE ON SMALL BUSINESS
on behalf of the
U.S. CHAMBER OF COMMERCE
January 14, 2009

Chairwoman Velázquez, Ranking Member Graves and distinguished members of the Committee, the Chamber thanks you for accepting our statement for the record. We also commend your efforts in having this important meeting to further understand the state of small business during the economic downturn and explore policies that will help promote an economic recovery.

STIMULUS I

We are clearly in very trying economic times. With the unwinding of the housing market, a severe liquidity crisis, and the general deleveraging of the financial markets, the economic downturn is severe and widespread. Furthermore, the weakened economy threatens to slow even further, making credit even less accessible to Main Street businesses.

In February 2008, Congress approved and the President signed the Economic Stimulus Act of 2008, a $168 billion package to help the flagging U.S. economy. This stimulus bill focused primarily on increasing consumption and investment. The bill provided a tax rebate to individual taxpayers with the goal of increasing consumption; another key component of the legislation was encouraging businesses to make investments through tax incentives. This was achieved by increasing the Section 179 expensing limit to $250,000 and providing 50 percent bonus depreciation for capital investments made in 2008.

The following stories are from several Chamber members that took advantage of the first stimulus bill and made purchases as a result of the tax incentives provided by the stimulus package in 2008 rather then waiting until a future date. These stories of utilizing the tax incentives provided by the first economic stimulus bill are just a few examples that represent thousands of similar actions taken by small businesses throughout the United States to invest in their companies, expand operations, and create jobs.

1. Educational Options, Inc.
Thomas Sawner, CEO
Arlington, Virginia
Company website: http://www.edoptions.com/

"**Small business owner Tom Sawner says the Section 179 expensing benefit of the Economic Stimulus Act of 2008 has prompted him to pull the trigger on purchasing equipment needed to expand his business—purchases he had delayed until now**. 'Yesterday, we purchased two new servers and two new routers, and we plan to upgrade or replace 20-30 office computers,' said Sawner. 'Additionally, we made several major upgrades to our main server array.' His company, Educational Options, Inc., provides web-based curriculum to more than 1,200 schools and 25,000 students nationwide. "As EdOptions prepares to expand and move to new offices this quarter, this incentive is a big boost to our purchasing power for needed equipment."

2. Modern Technology Solutions, Inc.
Philip L. Soucy, Co-President and CEO
Alexandria, Virginia
Company website: http://www.mtsi-va.com/

"Modern Technology Solutions, Inc. (MTSI), an Alexandria VA based engineering services company, has grown significantly over the past few years, and large growth usually coincides with a need for significant IT upgrades. **Due to the extra deductions allowed for investment costs in the Economic Stimulus Act of 2008, the MTSI Information Technology (IT) Department has been able to effectively increase this year's budget significantly, allowing for major equipment upgrades. This has provided us the tools to enhance the security and efficiency of the MTSI computer network that would likely have been impossible without the Stimulus Act. In addition, we have been able to make major equipment upgrades at several of our branch office locations, such as our offices in Ohio and Alabama.** Prior to the Stimulus Act, these offices had little to no network security, and their networks were managed by non-IT personnel due to geographic and budgeting constraints. Due to the Stimulus Act, MTSI now has the ability to tie all branch offices together into one centrally-managed hub. In turn, the time spent by non-IT per personnel has been greatly reduced, and network security and employee productivity have increased. **In short, the Stimulus Act has proven to be one piece of legislation that MTSI is very thankful for.**"

3. Royal Concrete Concepts, Inc.
Wallace "Wally" Sanger, President
West Palm Beach, Florida
Company website: http://www.royalconcreteconcepts.com/a_about_us.php

"Royal Concrete Concepts had a deposit on an additional crane for our manufacturing facility in Okeechobee, Florida, and we were not sure when we would take delivery. **The Economic Stimulus package passed and the bonus depreciation on this purchase of a $590,000 IS 70 Shuttlelift Gantry Crane (70 ton crane) helped spur our decision to move forward** and take delivery on this third new crane for our new manufacturing facility."

4. Signal Metal Industries, Inc.

Ryan Robinson, CEO
Irving, Texas
Company website: http://www.signalmetal.com/HIST/history.html

> "**We are huge fans of the President's new stimulus package**. I'm most excited about the increase for Section 179 deductions for purchases up to $800K starting immediately in 2008. Since the early 2000's, when we were first allowed increased depreciation and bonus depreciation, our company has made specific decisions to buy new instead of continuing to repair our older capital equipment. Being a large manufacturer, we found that the tax savings finally made a difficult purchase decision a "no-brainer". Over the last two years, we have purchased various heavy equipment including welding machines, two 18-wheelers, a farm tractor, two large CNC horizontal boring machines, a CNC drilling machine, a paint booth, 10 or more overhead cranes, and much more. **Not only do we get the tax savings, but just as importantly, we also get the benefits of better, more production, more reliable equipment which absolutely helps us compete with the likes of Mexico, China, and India.**
>
> During the years when it was pegged at only $400K or so we wanted to do more but didn't because it would have eroded our tax savings. Now we can do more and will. **In 2008, since the stimulus package was announced, we have already spent over $500K and will definitely take our capital purchases right up to the $800K mark so we can maximize our bottom line savings.** Section 179 works – it makes companies want to spend money. I just hope that enough people know about it – no just so they can get the tax deduction after the fact but rather so they can use the information to make purchase decisions.
>
> **By the end of 2008, our relatively small company will have easily spent two million dollars directly into the US economy that I certainly believe would not have happened had there never been the added 179 deduction.**"

5. Tyler Construction Group, Inc.
Charles Tyler, President
Columbia, South Carolina
Company website: http://www.tyler-construction.com/index.shtml

> "My brother, our partner, and I are in the process of trying to buy out the retiring founder of Tyler Construction so capital is real tight. Our single dump truck is one of our most critical assets that we keep on the road constantly. **We jumped at the chance to replace our older truck mainly because of the stimulus package**. As a small business owner this has been a real help in growing our company in these challenging times."

6. Wall-to-Wall Studios, Inc.
James Nesbitt, President
Pittsburgh, Pennsylvania
Company website: http://www.walltowall.com/flash.html

"In early 2008 W|W faced a dilemma: Renew their existing office lease or find a new location. They were close to outgrowing their current office but it would suffice in a pinch. Due to poor economic conditions back in 2001 they took over their current space which was located in the same building because they had outgrown their previous office. Unfortunately it never fully suited the needs of their growing company both in terms of space and layout.

The prospect of a new office would provide the first opportunity in 14 years to actually design an office around the way the company works which would improve the workflow and provide necessary room for growth down the road. However, the thought of investing significant resources in building out a new space at a point where the expanding economy was once again showing signs of slowing down seemed less than prudent. Regardless, they decided to explore all the options.

After visiting many potential sites they came across a very promising location in a growing section of their city. The lease terms were in line with their lease extension rate but the out of pocket costs, as with any office relocation, were still going to be significant.

"As we were working with the landlord on the design and cost sharing aspects of the project, the Economic Stimulus Act was being actively debated in Washington. Our build out posed a unique challenge in terms of striking a balance between providing a work environment that matched both our creativity and workflow needs with the budgetary constraints," said Brian Kaiser, CFO and Partner of the firm.

"The Bonus Depreciation provision of the Stimulus Act certainly helped both Wall-to-Wall Studios and our landlord, Northern Light Tower, overcome the economic side of the equation,' added James Nesbitt, President and a Founding Partner.

"I was excited when Wall-to-Wall Studios approached me with their concept but I was quite certain it would have been difficult for both of us to achieve the end result within the budgets agreed to without the assistance of the Stimulus package," offered Jim Genstein of Northern Light Tower.

For Wall-to-Wall Studios this Stimulus package couldn't have happened at a better time."

7. 48HourPrint.com
Raymond E. Pinard, President/CEO
Boston, Massachusetts
Company website: http://www.48hourprint.com/

"48HourPrint.com is the leading commercial web to print commercial printer in the country. Our customers fulfill their commercial printing needs through internet technology in a seamless environment from the comfort of their home or office. All orders are taken over the internet, processed at our headquarters in Boston and printed at our own printing plants in Cleveland and Phoenix. We employ about 85 people among the three facilities. Our sales for this year are approximately $25 million.

Our company mission is summarized as Excellence, First Class, First Place. We emphasize a 100% Customer Satisfaction environment. With this in mind we cannot pass up the opportunities presented in President Bush's Economic Stimulus Package.

At this time, due to the cash flow benefits of the bonus depreciation, we will be replacing two 28 inch presses in Cleveland with a new Komori USA 40 inch press. This will also include a new Kodak 40 inch plate maker and assorted miscellaneous equipment and fit-up. The cost of this project is about $2.250 million. We have already placed a deposit on the press and expect it to be fully operational in three months. This purchase will significantly improve productivity, efficiency and capacity in Cleveland, thus making us more responsive to the needs of our customers and allowing us to expand our business.

In addition, the incentive provided by the bonus depreciation will accelerate our plans to enter into variable data printing, a new service for our company. We will be purchasing two digital presses, at a total cost of about $1,000,000. At this time we are looking to purchase these machines from Hewlett-Packard. Moving into digital variable data printing will allow us to move into new areas of printing and entirely new markets."

8. Permac Industries
Darlene Miller, President/CEO
14401 Ewing Avenue South
Burnsville, Minnesota 55306
Company website: http://www.permacindustries.com/

"2007 was a year of many changes for Permac Industries. We added an additional 16,500 sq. ft. of climate controlled manufacturing space for a total of 34,000 square feet including a shipping area that warehouses in-house inventory, an assembly area, offices for engineering, a climate controlled Quality Lab and administration offices.

Permac Industries is a "job shop" in that we do not have our own product, but custom manufacture parts to our customer's blueprints and/or specifications. Permac services a wide range of customers including companies in the industries of hydraulics, avionics, food and beverage, Department of Defense, automotive, medical and computers.

Cell development and robotic technology that we have only analyzed in the past (due to the initial startup equipment costs) will now be ordered and added to our equipment lineup to optimize efficiency and productivity. We will also start the negotiations for purchasing an additional mill due to this stimulus package which will allow for expanded capacity. In addition, we are reviewing an analysis for the purchase of a CNC Multi-Spindle Machining Center in 2008. This technology is

new to Permac. The additional capability will allow Permac Industries to expand our market base and help with customer demand.

As our customer's demand faster, less expensive manufacturing, and with tighter profit margins due to increased competition, the need to evaluate and purchase new equipment technology is essential for our survival. For instance, we can create efficiencies by combining different manufacturing processes (turning and milling) on a single piece of equipment, rather than routing to different work stations and equipment.

With our present plan for growth, the stimulus bill just passed by Congress was a welcome boost to our plan. And, what purchases might have been pushed off to 2009, are now being actively considered for 2008 in view of the accelerated write off of new equipment."

EFFORTS TO REVIVE THE ECONOMY MOVING FORWARD

Despite these bipartisan efforts to revive the economy, more needs to be done. Congress again faces very difficult decisions on what items to include in a second stimulus package in order to revive our economy. Most of the job creation in America is done by small and mid-size businesses -- 80 percent of net new jobs are created by businesses with less than 500 employees. These businesses truly are the backbone of our nation's economy and, therefore, must be a top priority for lawmakers. It is imperative that Congress incorporate measures into any legislation that will further incentivize business owners to expand and invest in their companies and their employees while also recognizing challenges to their long-term competitiveness.

Federal Individual Income Tax Rates

Many small businesses are organized as a Subchapter S Corporations, Limited Liability Partnerships, or Limited Liability Corporations for federal income tax purposes. This means that the profits are not taxed at the corporate level, but instead are passed through to shareholders who must then report the income (or loss) on their own individual income tax returns. While small business owners pay personal income taxes on the profits, the reality is that only a portion of the income generated by their businesses actually makes its way back to their personal bank accounts. Much of that income small business owners are being taxed on is actually reinvested in their companies in the form of expansion and new equipment.

Raising or lowering the individual federal income tax rates directly impacts the cost of capital for small and mid-size business formed as "pass through" entities. If Congress were to raise the individual income tax rates, capital would cost more and small business owners would have less money to invest in their companies. In contrast, by keeping taxes low, small and mid-size businesses can invest and grow and have greater ability to create jobs and help expand the economy.

As you look to addressing tax rates in the 111^{th} Congress, the Chamber recommends that Congress lower all marginal tax rates, or, alternatively, at very least, keep those rates at present levels. By lowering or keeping rates at present levels Congress would enable small business owners to invest more in their businesses. Allowing these rates to increase would increase the cost of capital, diminish investment opportunities, and ultimately make small businesses less competitive, thus hampering job creation and leaving our nation less prosperous.

Short-Term Recommendations

In the short-term, the Chamber recommends that Congress consider including in any stimulus legislation provisions such as the following, which we believe would have an immediate positive impact on the economy:

- Issuing rebate checks would infuse cash into the economy, putting money in workers' pockets and stimulating consumption.
- Extending the carry back period from two years to five years would enhance the liquidity of businesses with current losses.
- Extending bonus depreciation and increased Section 179 expensing provisions, and adopting a temporary investment tax credit would promote investment during the current economic downturn and stretch scarce capital by lowering the cost of undertaking new investment.
- Providing temporary tax relief over one or two years for companies that purchase their own or related party debt at a discount would allow companies to withstand the economic downturn. Temporary suspension of this tax would create and preserve jobs, facilitate the deleveraging of the U.S. economy, and strengthen financial institutions' balance sheets. Congress has already passed similar legislation to help reduce mortgage debt and now should provide the same relief for companies that want to preserve jobs through reducing the company's debt burden.
- Reducing the corporate capital gains rate which would unlock appreciated assets held by companies, generating substantial tax revenues and at the same time providing much needed capital that could be redeployed more efficiently into the economy.
- Extending the reduced tax rate on dividends and capital gains will give taxpayers greater incentives to save and invest, which will add to our capital stock and increase productivity.
- By temporarily reducing borrower and lending fees for Small Business Administration 7(a) and 504 lending programs, Congress would incentivize banks to lend and make it more affordable for small businesses to borrow these funds for their enterprises. Additionally, increasing the government guaranteed percentage for the 7(a) loans would provide more liquidity for these loans on the secondary market.

Other Provisions

Pension Plan Recommendations

The Chamber appreciates the work of Congress in passing the Worker, Retiree, and Employer Recovery Act of 2008; however, additional pension provisions are crucial for employers and are directly related to the current financial crisis – the expansion of the funding corridor and automatic approval of funding method election changes. Current funding rules allow unexpected gains and losses to be smoothed out to a very limited extent, so that the smoothed value stays within 10% of fair market value and affect many small businesses. Given that the equity markets have fallen by half or more, the 10% limit on smoothing is extremely restrictive. Therefore, it is critical that asset smoothing apply without percentage limitations in 2009 and 2010.

In addition, broader flexibility in the election of funding methods is very much needed, and would go a long way toward helping companies weather this pension storm. Generally, IRS approval is required to change funding methods. Given the enormous changes over the past several months, companies need to reassess their funding methods to find those best suited to maintaining their plans going forward. For 2009 and 2010, the Chamber recommends allowing funding methods to be changed without IRS approval.

Repeal of the 3% Withholding Tax

Section 511 of P.L. 109-222 requires a 3% tax withholding on all government payments, which affects all government contracts as well as other payments, such as Medicare, grants, and farm payments. While this requirement is not set to go into effect until January 1, 2011, companies, as well as federal, state, and local governments are expending funds starting to prepare for implementation now. These are needless preparation expenses, particularly during rough economic times, for a requirement that most believe should never have been enacted and should be repealed. The Department of Defense estimated that the costs to comply with the 3% withholding requirement will be in excess of $17 billion over the first five years, which is far more than any estimated revenue gains. While $17 billion is substantial, it is only a portion of the additional costs with which governments and the private sector will be burdened. Accordingly, the Chamber supports including a repeal of the 3% tax withholding law in any upcoming stimulus package.

CONCLUSION

The Chamber appreciates the opportunity to submit these comments for the record on stimulus proposals that will be helpful to small businesses. Additionally, the Chamber has sent to both the House and Senate a comprehensive list of industry and sector based stimulus requests that we also feel should be part of a stimulus bill.

We encourage Congress to take action to enact legislation that encourages immediate investment and furthers the prospects for long-term economic growth. As we look ahead to a new Administration and Congress, we hope that your actions to address the challenges facing the U.S. economy are guided by the premise that to revive growth we need policies that encourage investment, job creation, and more opportunity. We look forward to working with you to champion and put in place policies that unleash the innovative ability and entrepreneurial spirit of America's job creators – our small and mid-size businesses.

Testimonial from Ted Allison, St. Joseph, Missouri
To the U.S. House of Representatives
Small Business Committee
On January 14, 2009

It is truly an honor for me to be here and give testimony on behalf of the business community of St. Joseph, MO, a small MSA of 125,000 in Northwest Missouri. As in most local economies, small businesses in St. Joseph represent the vast majority of private sector employment.

Ladies and gentlemen, 93.5% of net employment growth in the United States from 1989 – 2005 was created by small businesses. The small business sector employs more scientists and engineers than the large business and higher education sectors. Small businesses are also far more productive, as they generate 5 times more patents per R&D dollar than big businesses and 20 times more than universities.

While 80% of registered voters in America agree that our government should encourage more entrepreneurship, public policy continues to give a disproportionate preference to the big business sector. The small business sector delivers a higher yield per dollar of public investment than big business and offers the greatest potential for rapid economic recovery and growth in quality jobs.

Immediate action from Congress is imperative. Therefore, I hereby submit the following recommendations for your consideration that I feel would stimulate rapid economic recovery for the small business sector:

1. **Increase the current 2.5% set aside allocation of federal research and development funding to 5% for Small Business Innovation and Research grants (SBIRs).**

2. **Encourage the development of local angel capital networks by establishing a 20% tax credit for individual investors participating in the deployment of angel capital funds.**

3. **Establish a 20% tax credit to encourage private contributions to qualified non-profit or publicly-owned business incubators.**

4. **Improve access to market research data, training programs, and SBIRs by substantially increasing federal funding to put more SBDC counselors in the field.**

5. **Provide additional funding toward entrepreneurial education programs for local school districts, colleges, and universities.**

6. **Encourage growth of college accredited internships by providing tax credits to sponsoring small businesses.**

7. **Reduce excessive auditing standards for small businesses by exempting them from Section 404 of the Sarbanes-Oxley Act.**

8. **Take aggressive action to reduce the cost of healthcare insurance and provide a 20% tax credit to insured individuals and employers contributing to employee healthcare coverage.**

9. **Improve the availability and reduce the cost of fully developed building sites in publicly-owned or 501-C3 non-profit business parks by increasing funding for EDA grants toward infrastructure.**

10. **Improve access to commercial loans by increasing the government guarantee percentage on SBA 7A, reduce qualification standards, eliminate loan fees, and incrementally forgive the SBA portion of 504 loans for each quality job created with healthcare benefits.**

11. **Enhance credit access for entrepreneurs through the expansion of local "Revolving Loan Programs" funded through EDA grants by lowering the local match requirement.**

12. **Increase the tax credit for dependant children to $2,000 and extend the credit to age 21 if the child is a full-time college or technical training student, provided that the parents contribute at least half of their college expenses.**

13. **Reduce tax rates for small businesses with gross receipts of less than $2.5 million.**

14. **Exempt the first $30,000 of small businesses net earnings from self employment tax.**

15. **Reduce or eliminate the corporate capital gains tax.**

16. **Extend bonus depreciation, increase Section 179 expensing provisions, and adopt a temporary investment tax credit.**

Again, I thank you for this opportunity and welcome any questions or comments you may have.

NATIONAL ELECTRICAL CONTRACTORS ASSOCIATION

Statement for the Record

of the

NATIONAL ELECTRICAL CONTRACTORS ASSOCIATION

Committee on Small Business

U.S. House of Representatives

For the meeting

The State of the Small Business Economy and Identifying Policies to Promote an Economic Recovery

January 14, 2009

National Electrical Contractors Association
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Introduction

Madam Chair, Ranking Member Graves, Members of Small Business Committee, thank you for the opportunity to appear before you today. It is an honor and privilege to appear before the committee that has tremendous impact on my business and the thousands of electrical contractors who operate as small businesses.

I am Timothy Ehmann, representing O'Connell Electric of Victor, New York, which has been in business since 1911 and is a member of and the National Electrical Contractors Association (NECA). I am a senior project manager specializing in emerging electrical construction markets, including renewable energy technologies like wind power, converting landfill gas into electric power, and solar photovoltaic. I also work in natural gas transmission and utility security.

NECA is the nationally recognized voice of the $130 billion electrical contracting industry that brings power, light, and communication technology to buildings, communities, and homes across the U.S. NECA's 119 local chapters advance the industry through advocacy, education, research and standards development.

I am thrilled at the opportunity to speak regarding the upcoming economic stimulus legislation that will soon be deliberated before Congress. My testimony will focus on two elements that need to be included in the upcoming legislation. The first are incentives for renewable energy technologies, such as solar and wind. My company is very involved in these technologies and I will demonstrate today how these incentives are beneficial for the environment, job creation, and how these incentives are helping to reduce America's dependence on foreign oil. The second part of my testimony will focus on specific incentives that will help provide opportunities for America's small businesses.

"Green" Jobs

President-elect Obama's $1 trillion stimulus plan emphasizes significant investment in transportation and infrastructure, including roads, bridges, and dams. NECA supports these infrastructure projects that will help spur economic growth and create jobs. NECA also believes that emphasis must be placed on investment in buildings such as our schools, hospitals, and public facilities through investment in green energy construction and high performance building. We therefore seek provisions that would require the construction and retrofitting of energy-efficient buildings.

According to reports published by the National Institute of Building Sciences [NIBS] and NECA's ELECTRI International, an economic expansion based on emerging green markets would create an estimated 3 million jobs, including hundreds of thousands for electrical contractors, while helping create communities with high-performance buildings that are both economically advantageous and environmentally conscious. From the proper installation and maintenance of wind turbines to light rail and mass transit systems, O'Connell Electric is playing an increasingly important role in building the new American infrastructure.

The size and scope of electrical contracting businesses has fundamentally expanded over the past several years, thanks largely to federal and state tax incentives. O'Connell Electric and hundreds, if not thousands, of other NECA contractors have made renewable energies an integral part of their business strategy. In turn, this has facilitated job creation, contributed to the construction of more energy efficient buildings, and moved our nation towards energy independence.

It is a role that is that all NECA contractors will continue to play as we invest in our national infrastructure. Electrical contractors support numerous other industries through our work – solar panel manufacturers, software developers, inventory managers – and we must hire additional personnel to perform both the pre-construction work and actual building projects.

The green job creation for construction of alternative energy sources such as wind farms is immense. Over the course of the last 5 years, O'Connell has become increasingly involved in the construction and maintenance of large wind energy generation fields throughout New York State. Our revenues from clean energy technologies have gone from about $1 million to more than $20 million, which represents more than 25% of our total revenues. Such an increase in revenue has contributed to job creation. The influx of renewable energy projects has allowed O'Connell to hire 50 new employees.

O'Connell Electric's experience is not unique; it is a shared experience among NECA contractors. Due to the increased demand for personnel equipped with the skills to install and maintain these new technologies, the growth in the solar and wind industries for example, has triggered increased investment in research and development, manufacturing and distribution. Accreditation organizations, universities, and training organizations like NECA's National Joint Apprenticeship Training Committee with the International Brotherhood of Electrical Workers have already begun to train workers to install and maintain solar facilities, wind farms, and geothermal and landfill gas generators.

I am encouraged by the economic stimulus proposal that President-elect Obama has begun to lay out, which could create as many as 2-3 million green jobs. The electrical contracting industry would stand to benefit from several of the provisions being mentioned, including group re-lamping and installation of updated energy-efficient heating and cooling systems by the federal government. In fact, a recent joint study by the Institute for America's Future and the Perryman Group concluded that if the federal government were to invest $30 billion dollars a year for the next ten years in renewable energies, 3.3 million jobs jobs would be created in the clean energy sector and would stimulate $1.4 trillion in new gross domestic product.

Federal tax incentives provide the necessary offset to the capital investment that clean and renewable energy technologies require to be constructed and utilized. Universities, retail stores, industrial facilities and residential consumers are all potential customers for renewable energy applications, but for these entities to consider such an investment it must make financial sense, including a reduction in energy consumption and operating costs.

The economic stimulus legislation is not only an opportunity to stop the economic contraction our nation is facing, but also the opportunity to create confidence in the long-term sustainability of the renewables market. We therefore ask for the extension of federal incentives for renewable energy sources. These extensions would provide the necessary predictability in a marketplace that often suffers from projects delayed or put on hold because of the temporary nature of renewable energy tax incentives.

Another key policy that would provide predictability within the market would be an increase and expansion of the "Production Tax Credit," which incentivizes the generation of energy through clean, renewable sources, like wind and solar.

The credit crunch has put funding sources at risk for many clean energy projects; consequently, we support expansion of the Clean Renewable Energy Bond Program (CREB), which provides financial incentives for investment by consumer-owned utilities in new renewable electricity generation facilities.

If we are to see economic stimulus and recovery, we must once again invest in today's most rapidly emerging market: renewable energy technologies. The economic stimulus bill is a profound opportunity to guarantee our long-term energy security, while providing a chance to change the economic engine towards a sector that will create economic prosperity.

Madam Chair, I have witnessed first-hand the effects of what happens to jobs, to business growth and to the economy when these incentives are suspended or reduced. If the cost of market entry is not addressed and the investments are not made to incentivize the renewable energy markets, I assure you that the electrical contracting industry, as well as numerous other industries, will become stagnant or contract, creating job loss and reducing business revenues. It is absolutely critical to fund and expand federal programs for renewable energies market: they are the vehicle to creating economic stimulus and provide our nation with the chance to build a new energy economy.

3% Withholding Tax

NECA supports repeal of the 3 percent withholding tax, a tax that imposes withholding on all government payments, affecting all government contracts. As an issue that impacts so many of the nation's small business contractors, NECA appreciates your leadership on legislation you have supported that would repeal this withholding tax. Although the tax will not go into effect until January 1, 2011, many of our members that serve as prime contractors or maintain contracts directly with a federal, state, or local government, have already begun preparing for the requirement. NECA is concerned that current vendors may ultimately decide not to participate in the federal procurement process. In effect, this would reduce the number of small businesses bidding on government projects, resulting in higher fees for construction contracts.

The provision hurts taxpaying businesses by forcing a hold on companies' capital means, dollars that are used for operating budgets including costs, supplies, day-to-day activity, and job retention. In order for the construction industry to remain competitive in these upcoming government projects, it is necessary for the repeal of the 3 percent withholding tax to be included in this package.

Depreciation Bonus & Section 179

NECA understands the importance of an extension of capital investment incentives, including the depreciation bonus and increased Section 179 expensing levels. In February 2008, the Economic Stimulus Act created a 50 percent depreciation bonus and increased the amount that small businesses could expense to $250,000. The provisions incentivized business capital investment; however, they were sunset in 2008.

The act had some positive impact on the economy, and extending the deprecation bonus and the higher expensing level under Section 179 would assist our small business members. NECA supports these incentives and asks that they be extended for a period of at least one year.

Net Operating Loss

Capital used for day-to-day functioning in small businesses is extremely tight, and the future of tax benefits must be reformed for businesses to remain in operation. Extending the NOL carryback period will provide necessary capital to struggling companies in order to retain jobs, make investments, and, in some cases, stay open for business.

The current 2 year period is insufficient in a time of economic turmoil. By extending the carryback period to 5 years, small businesses are given the opportunity to carryback losses to more profitable years making working capital more readily available. In recent economic contractions, Congress has responded by providing a successful 5 year carryback period, which provided critical relief for struggling businesses. NECA supports legislation that extends the carryback period for net operating losses (NOLs) from the current 2 year period, ending in 2008 and 2009, to a 5 year period.

Madame Chair, on behalf of O'Connell Electric and the National Electrical Contractors Association, I appreciate the opportunity to appear before this Committee.

Testimony of

Steve L. Massie
CEO, Jack L. Massie Contractor, Inc.

On behalf of

The Associated General Contractors of America

Presented to the

Committee on Small Business
U.S. House of Representatives

For a hearing on

The State of the Small Business Economy and Identifying Policies to Promote an Economic Recovery

January 14, 2009

The Associated General Contractors of America (AGC) is the largest and oldest national construction trade association in the United States. AGC represents more than 33,000 firms, including 7,000 of America's leading general contractors, and over 12,000 specialty-contracting firms. Over 13,000 service providers and suppliers are associated with AGC through a nationwide network of chapters. AGC contractors are engaged in the construction of the nation's commercial buildings, shopping centers, factories, warehouses, highways, bridges, tunnels, airports, waterworks facilities, waste treatment facilities, dams, water conservation projects, defense facilities, multi-family housing projects, site preparation/utilities installation for housing development, and more.

THE ASSOCIATED GENERAL CONTRACTORS OF AMERICA
2300 Wilson Boulevard, Suite 400 Arlington, VA 22201 Phone: (703) 548-3118 FAX: (703) 548-3119

Thank you Chairwoman Velázquez and Ranking Member Graves for this opportunity to testify on the economic recovery plan for our nation. I am testifying on behalf of the Associated General Contractors of America (AGC), a national trade association representing more than 33,000 companies, including 7,000 of America's leading general contractors, 12,000 specialty contractors, and 13,000 service providers and suppliers. AGC is the voice of the construction industry. We strongly believe that investing in America's infrastructure will create jobs and revitalize small businesses.

My name is Steve L. Massie and I am the Chief Executive Officer of Jack L. Massie Contractor, Inc. of Williamsburg, Virginia. We are a full service construction firm that specializes in site development, roadway construction, and utility installation. I am also the immediate past President of the Associated General Contractors of America (AGC).

AGC's members are comprised of a diverse group of contractors engaged in the major commercial construction markets. In a strong economy, the construction industry employs more than 7 million people and represents more than $1 trillion annually in economic activity, including $500 billion in materials and supplies and $36 billion in new equipment. Today, however, construction companies and our employees are suffering as private companies cut back construction spending and state and local governments reduce construction spending as the economy shrinks. Contractors in my area are laying people off. At my company, we are attempting to keep on good workers at all costs. We have already reduced work hours by about one-third. Further reductions could come soon, and the final step unfortunately will be layoffs. We do everything we can to try to avoid layoffs because they significantly impair your relationship with your employees.

AGC supports construction as an economic stimulus both through enhanced construction spending and through construction tax incentives. Infrastructure investment directly puts people to work in engineering, design and construction. Manufacturing jobs provide materials and equipment. Construction improvements increase efficiency and lay the groundwork for sustained economic growth. Non-residential construction stands ready to add jobs in America after shedding 306,000 since January 2007. Construction provides a buying opportunity. After five years of unprecedented growth in demand and price, both supplies and prices for construction materials have stabilized. With material capacity, ready labor, and a backlog of deferred projects, the construction industry stands ready to build now for the future.

Infrastructure Investment Creates Jobs

The impact of fewer contracts being bid is reflected in increasing nationwide unemployment numbers. Non-residential construction employment peaked in January 2007 and has decreased by seven percent, or 306,000 workers, over the past 24 months.

Research conducted for AGC by Stephen Fuller of George Mason University estimates that every $1 billion invested in infrastructure projects would create over 28,500 new direct and indirect jobs. Each billion invested would add about $3.4 billion to the Gross Domestic Product (GDP) as it ripples through the economy and about $1.1 billion to personal earnings. We have attached both AGC's national economic impact estimate for infrastructure investment along with copies of specific state economic impact estimates for each of the 50 states.

An infusion of federal infrastructure funding would have a direct stimulus effect by providing opportunities for contractors like my company to compete for work. Based on my personal experience and on what I know about the market needs in Virginia, once projects are awarded, firms will be able to begin work within 30 to 60 days and begin hiring, buying materials and improving our infrastructure. I can tell you that under that scenario, I would be able to avoid layoffs at my company, begin purchasing materials, and personnel could begin to get back to full employment within 30 days of contracts being awarded.

Depending on the size of the stimulus, its duration, and the types and sizes of contracts that we are awarded, the Jack L. Massie Company may even need to expand the scheduled replacement of older inefficient equipment with newer, more environmentally friendly equipment. Census Bureau data show that U.S. manufacturers shipped more than $500 billion worth of construction materials and nearly $30 billion worth of construction equipment in 2008. Therefore, the increased investment in equipment would benefit manufacturing and the economy as a whole as those dollars are spread throughout many other sectors of the economy.

State of the Economy

The country needs swift action. When budgets are tight, private and public investment at all levels is cut. When investment is cut, companies struggle to stay in business and keep good people working. The recent financial crisis has hampered the ability of state and local governments and public agencies to borrow short term, delaying or eliminating various infrastructure improvement projects. This is a nationwide and likely a global problem. According to Municipal Market Advisors, a consulting firm that specializes in municipal bonds, at least $100 billion of new infrastructure projects have been delayed because of the constricted credit markets. As a result, fewer contracts are going out to bid, which means less work for contractors and fewer jobs for their employees.

AGC's Chief Economist reports that the construction industry can expect further contraction in the next year. A survey of AGC members late last year showed that every type of construction market has seen a downturn:

- 72 percent of respondents have laid employees off in the past 6 to 12 months;
- 65 percent of respondents anticipate laying off workers in the next 6 to 12 months, and;
- 85 percent of respondents would defer layoffs or hire additional workers if states received federal stimulus.

Our survey also shows that contractors could put the stimulus program to work quickly with many projects completed in less than one year:

- 85 percent of respondents would begin work within a month after a contract award, 30 percent within days;
- 73 percent of respondents would purchase new equipment if markets improved;
- Over the past two years, 97 percent of respondents had completed projects that lasted less than 12 months, and;
- Projects that respondents had completed within 12 months included all types of infrastructure including building, highway, and water resources projects ranging in size from the $100's of thousands to over $100 million.

I know these statistics hold true for our company. We have faced difficult choices such as reducing the renewal of our equipment fleet, cutting back employee work hours, and considering significant layoffs if the economy does not turn around. But it also shows that there is workforce capacity and that we can get projects done within a 12 month window and that once the money begins to flow good workers will quickly be put to work.

Infrastructure Investment Opportunities

Additional federal infrastructure funding would have a direct stimulus effect by putting more contractors and their employees back to work. It also improves economic efficiency, and makes our country more competitive long term. There is an estimated $1.6 trillion needed to improve our nation's infrastructure over the next five years. Projects that benefit all Americans, and can be completed within a year, include: easing congestion, improving safety of motorists on highways and bridges, building and remodeling schools, easing aviation congestion by building runaways and improving terminals, improving the environment through clean water and waste disposal, improving our national security by upgrading our military bases infrastructure, as well as protecting our shorelines from erosion.

In Virginia, where I am from, at least 40 transportation projects valued at approximately $680 million could be under contract within 180 days if additional federal funds were made available. All totaled, Governor Tim Kaine has said that Virginia has "more than a billion dollars in ready-to-go bridge, highway, rail, transit, port and airport projects that have been through appropriate local, regional and state planning processes and that can be under contract within 180 days."

Three Percent Withholding Tax

Tax provisions should be a considerable part of this debate. As a country, we often use the tax code to encourage behavior. In this case, we believe Congress should extend expensing, depreciation, energy efficiency, and worker training tax policies to create additional incentives to invest here in America. We as an industry work on tight margins especially in tough times. So, one provision that is of particular concern to AGC is the repeal of the three percent withholding on federal, state, and local contracts.

Without action by the 111th Congress, firms that receive contracts with funds derived from the economic recovery package would ultimately face a federal tax withholding requirement that withholds 100 percent or more of the profit that construction contractors would make on government jobs. The challenges of living with this new requirement could not have come at a worse time. States and localities are cutting every place they can and should not be faced with creating and administering a federal withholding program when they cannot balance their budgets.

A majority of AGC contractors work on some kind of government contract every year, and this three percent withholding will have a severe impact on the construction industry. The provision is unnecessary because the performance bonds required for federal work ensure tax compliance. The three percent withholding exceeds the average net revenue on construction projects. We ask for your help to repeal this unfair, burdensome, and overly-complicated law. AGC urges Congress to include a repeal of the three percent tax withholding law in the upcoming economic recovery package.

Net Operating Loss Carrybacks

One important tax change that would help established construction companies survive the current economic downturn is to extend the carryback period for net operating losses (NOLs). Currently, businesses that incur NOLs can "carry them" back to offset the previous year's net income and receive a refund of taxes paid in the prior year. Provisions now in Congress (and previously included in law) would allow NOLs to be carried back to two or more prior taxable years. This change would provide cash flow to formerly profitable companies that now are experiencing diminished revenue. In many cases, these contractors would have to lay off workers or even liquidate in the absence of the refunds provided by NOL carrybacks.

Concluding Remarks

The country needs your help and the country needs our help. The current shortfall in infrastructure investment provides a unique opportunity. With material capacity, ready labor, and a backlog of deferred projects, the construction industry stands ready to build now for the future. Construction has always been an engine of economic stimulus and can play that role once again. Increases in infrastructure investment can be put to work quickly and will have a direct, immediate, and dramatic impact on the economy. AGC estimates that $1 billion invested in transportation infrastructure creates 28,500 jobs throughout the economy. The long-term economic benefits that will come from these investments are an extra incentive that should not be overlooked. Given the challenges our economy faces, the benefits of increased investment would save jobs that may otherwise be at risk, create job opportunities nationwide, stimulate the economy, and improve the overall state of the nation's infrastructure.

Again, thank you for the opportunity to testify today on behalf of AGC. We stand ready to be part of an American recovery and reinvestment plan that will create jobs and long-term economic growth. Nothing is more important to our 33,000 members than enacting legislation that will increase investment in America's infrastructure. I look forward to your questions.

NRCA

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Statement of Robert W. Therrien, Jr.

President, National Roofing Contractors Association

House Committee on Small Business

"The State of the Small Business Economy and Identifying Policies to Promote an Economic Recovery"

January 14, 2009

Madame Chairwoman and distinguished members of the committee, thank you for the opportunity to testify on behalf of the National Roofing Contractors Association (NRCA) today to explore how small businesses can contribute to the recovery of economic growth in our nation. I am Rob Therrien, president of The Melanson Co., Inc., a roofing contractor in Keene, N.H., and I now serve as president of NRCA.

Established in 1886, NRCA is one of the nation's oldest trade associations and the voice of professional roofing contractors worldwide. It is an association of roofing, roof deck, and waterproofing contractors; industry-related associate members, including manufacturers, distributors, architects, consultants, engineers, and city, state, and government agencies; and international members. NRCA has approximately 4,000 members from all 50 states and 54 countries. NRCA contractors typically are small, privately held companies, and the average member employs 45 people in peak season, with sales of $4.5 million per year.

<u>Investing in "Green" Buildings to Stimulate the Economy and Create Jobs</u>

The roofing industry is uniquely positioned to play a significant role in quickly stimulating economic growth and job creation across the nation. NRCA urges Congress to include the "Green Roofing Energy Efficiency Tax Act" (GREETA), H.R. 426, or similar language in the economic stimulus legislation now being considered. This common-sense investment in the emerging "green" economy will result in more "boots on the roof" within days to help jump-start our economy. By accelerating demand for technologically-advanced "green" roofing systems, GREETA will:

- Create 40,000 new "green-collar" manufacturing and contracting jobs;
- Add $1 billion of taxable annual revenue to the economy;
- Add 250 to 300 million square feet of roofing material installations annually;
- Reduce U.S. energy consumption by 13.3 million kilowatt hours annually;
- Cut carbon dioxide emissions by 20 million lbs. per year; and,
- Provide millions in savings to small businesses through a simpler and more equitable system of taxation and lower energy costs.

GREETA was introduced on Jan. 9 by Rep. Bill Pascrell (D-NJ) with eight cosponsors: Reps. Wally Herger (R-CA), Artur Davis (D-AL), Joseph Pitts (R-PA), Russ Carnahan (D-MO), Dennis Moore (D-KS), Robert Brady (D-PA), Maurice Hinchey (R-NY) and Chairwoman Velazquez (D-NY). This legislation will facilitate greater levels of investment in green technologies and spur economic growth within the construction and manufacturing industries. The legislation amends section 168 of the Internal Revenue Code to provide a 20-year tax depreciation schedule for commercial roof systems that meet a specific energy-efficiency standard.

Passage of GREETA is necessary because between 1981 and 1993 the depreciation schedule for nonresidential property was increased from 15 years to 39 years. However, the current 39 year depreciation schedule is not a realistic measure of the average life span of a commercial roof. A study by Ducker Worldwide, a leading industrial research firm, determined the average life expectancy of a commercial roof to be 17.5 years.

The large disparity between the current 39-year depreciation schedule and the average life span of a commercial roof serves as a major disincentive for building owners to replace failing roofs. This disincentive is slowing the adoption of more advanced energy-efficient and environmentally-beneficial roofs, because an owner who replaces a roof before 39 years have elapsed must continue to depreciate that roof for tax purposes even though it no longer exists. A Treasury Department Report to Congress on Depreciation Recovery Periods and Methods (July, 2000) corroborated this quandary, finding "...a 'cascading' effect, where several roofs are being depreciated at the same time, even though only one is physically present." Given this situation, many building owners choose to do only piecemeal repairs, most often with older technology, rather than replace a failing roof in its entirety with new, more energy-efficient materials.

GREETA will rectify this situation by reducing the tax depreciation schedule for commercial roof systems from 39 to 20 years for roofs that meet the energy efficiency requirements of the benchmark Standard 90.1 of the American Society of Heating, Refrigerating, and Air Conditioning Engineers (ASHRAE). Enactment of this legislation will accelerate the adoption of energy-efficient commercial roof systems by eliminating the disincentive in the tax code for building owners to install such systems. As noted, this will have a positive impact on the economy and job creation by spurring greater demand for energy efficient roofing systems that meet the ASHRAE 90.1 standard. GREETA will also provide environmental benefits by reducing carbon emissions through enhanced energy conservation.

Enactment of GREETA will also benefit millions of small business owners by eliminating or mitigating the "cascading effect" of having to depreciate more than one roof in instances where a roof must be replaced before the 39-year depreciation schedule has been completed. This tax simplification feature of GREETA for commercial building owners that install energy-efficient roofs is an even greater benefit for small businesses that own their building.

Given the many economic as well as environmental benefits of GREETA, the legislation enjoys strong support among business groups and organized labor. The bill is supported by the United Union of Roofers, Waterproofers and Allied Workers, the AFL-CIO's Building and Construction Trades Department and the Joint Roofing Industry Labor and Management Committee. In addition to NRCA, other business groups that support GREETA include the Asphalt Roofing Manufacturers Association, Building Owners and Managers Association, International Council of Shopping Centers, International Franchise Association, National Association of Convenience Stores, and the Polyisocyanurate Insulation Manufacturers Association. GREETA also enjoys the strong support of several U.S. building material manufacturers with global operations.

Bonus Depreciation for Energy-Efficient Roofs

A related short-term incentive to increase employment in the commercial roofing sector even further could be to provide 50% bonus depreciation in 2009 (and 2010 if necessary) for energy-efficient roof replacements installed on commercial buildings. This would permit an owner to deduct 50% of the adjusted basis of the qualified roof property placed in service in 2009. The remaining 50% of the adjusted basis of the property would be depreciated over the existing depreciation schedule. A qualified roof replacement could be defined as meeting the benchmark ASHRAE 90.1 standard, as specified in GREETA.

As you know, a provision granting 50% bonus depreciation for property acquired and placed in service in 2008 was included as part of the Economic Stimulus Act of 2008, but that measure is limited to property with recovery periods of 20 years or less. A bonus depreciation provision for commercial roof replacements could be added to any extension of the 2008 bonus depreciation provision or enacted on its own. This would provide an even greater incentive for building owners to initiate energy efficient roof replacements immediately during the economic downturn rather than waiting until economic conditions improve.

Enactment of GREETA and/or bonus depreciation for energy efficient commercial roofs will immediately create more "green-collar" jobs in the manufacturing and construction industries while simultaneously benefiting the environment by reducing carbon emissions. As such, we urge your support for inclusion of one or both of these provisions in the economic stimulus bill.

Funding for "Green" Infrastructure Improvements

NRCA also supports funding for "green" infrastructure improvements in our nation's building sector in the economic stimulus legislation that Congress will soon consider. We believe that current trends toward the adoption of green buildings are key drivers of economic growth in our industry, and we are working to maximize the economic, environmental and energy conservation benefits of expanding green buildings. NRCA contractor, manufacturer and distributor members are in the forefront of developing and installing a wide variety of green technologies, such as vegetative roofs that reduce urban "heat island" effects and storm-water runoff, "cool" roofs that reduce energy consumption by reflecting sunlight, and photovoltaic roof systems that generate electricity from solar power. Further development of these and other green roofing technologies will provide more opportunities to stimulate economic growth and job creation, while simultaneously reducing energy consumption and protecting the environment.

Roof surfaces across the nation offer an economical and ready-to-use platform for the production of clean, renewable energy using solar and wind sources. The U.S. possesses about 225 billion square feet of stable roof surface among existing commercial and residential buildings, much of which could be used to capture solar and wind energy. According to the Center for Environmental Innovation in Roofing, if one-third of this area could be used for solar energy production via photovoltaic roof systems, our rooftops could generate over 50,000 megawatts of clean power annually or about 8% of our current electricity generating capacity.

In order to further the development and installation of innovative green roofing technologies, NRCA produces two technical publications aimed at educating roofing contractors and building owners about the availability and benefits of such roof systems. The *NRCA Green Roof Systems Manual* provides technical know-how to contractors on the installation and maintenance of vegetative roofs, and the *NRCA Guidelines for the Design of Energy-Efficient Roof Systems* is written for design professionals who want to incorporate energy-efficient roofs into their building designs. By providing these detailed technical publications to roofing contractors and other industry participants, NRCA hopes to facilitate and accelerate investment in energy-efficient buildings that provide for a sustainable environment.

Conclusion

Including GREETA and/or bonus depreciation for energy-efficient commercial roofs and funding for "green" infrastructure improvements in the economic stimulus legislation will prove to be prudent investments that will immediately stimulate the economy while enhancing energy conservation and protecting the environment.

NRCA wants to again thank Chairwoman Velazquez and other cosponsors of GREETA for your support of this important legislation. NRCA greatly appreciates this opportunity to testify today and looks forward to working with members of the committee and others to craft economic stimulus legislation that meets the needs of small businesses and the roofing industry across the nation.

U.S. Women's Chamber of Commerce

Testimony
of
Margot Dorfman, CEO
U.S. Women's Chamber of Commerce

Before the House Small Business Committee

The State of the Small Business Economy and Identifying Policies to Promote an Economic Recovery
January 14, 2009

Chairwoman Velázquez, Ranking Member Graves, Members of the Committee. Thank you for this opportunity to speak on behalf of America's small business owners at this important time.

The future of America's small businesses is in your hands. Through your earnest work towards the promotion of economic recovery, you will profoundly influence the future of millions of small business owners, their employees, families, and their communities. Literally – the future of the American Dream is in your hands today.

We all know too well the challenging economic times we are in and the need to act swiftly, strongly and with focused precision to bring about an economic recovery. Time is of the essence for Congress and the incoming Administration to act. Consumer spending is down. Many of the states, cities and counties have budget shortfalls which will cause local government spending to decline. Unemployment is up. Business lending is in a freefall. Commodities and health care costs are rising. And, business margins are declining.

To promote an economic recovery we encourage you to consider policies and investments that will energize consumer, business and government spending; jump start lending and return liquidity to the lending markets; and bring down the cost of doing business. The Small Business Administration and targeted small business policies can have a great impact in these areas.

1200 G Street NW, Suite 800, Washington, D.C. 20005
888-41-USWCC toll free | 206-495-0819 fax

U.S. Women's Chamber of Commerce

Targeted Spending

I encourage you to support targeted small business spending. As we leverage infrastructure investments, investments in new energy technology, and health technology – it is vitally important that we assure an appropriate percentage of these investments in our future be made with small business. It has been discussed that a sizeable amount of the investment in our economic recovery will come through funding state and local government infrastructure needs. This committee should assure that these funds (at both federal and local levels) require the federal mandated twenty-three percent participation by small business and that all socio-economic goals be met without exception.

Business Lending

Small business lending is in a freefall that will require very strong action to stop. Loan volume has dropped dramatically, thanks in large part to the collapse of the secondary market for small business loans. And, this freefall has brought about other negatives. For instance, over the last months and years we have seen a decline in the number of lenders in the 7(a) and 504 loan programs. And, those lenders that are in the SBA programs have downsized – potentially laying off hundreds if not thousands of experienced lending personnel.

To stop the freefall we must grasp and accept the severity of the problem, commit a high level of conviction and manpower, and deploy a sizeable amount of capital directly into the small business lending marketplace.

We strongly recommend that the SBA be positioned as a catalyst to spur small business lending. The SBA should be given the authority to directly process small business loans and, when necessary, provide high government guarantees. Let the SBA fully process and close loans providing the loan as an asset for purchase by the bank. This greatly reduces the banks resource needs to process loans and assures that businesses seeking loans are at least getting the opportunity to avail themselves of the full capacity of the SBA lending programs.

We recommend that funds allocated towards unfreezing secondary markets include appropriate requirements for inclusion of small business lending. This goes hand in hand with the SBA closing loans and positioning these loans as assets for bank purchase. There must be secondary market participation so that lenders can sell portions of these assets to make new funds available for loans. This process is what brings liquidity to the market. The SBA should also establish programs and guarantees to bolster confidence in the secondary markets so as to encourage investor participation and increased liquidity.

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To further drive liquidity and prevent against the potential of rising defaults, the SBA should be able to engage in refinancing and underwriting enabling lenders and borrowers to leverage this option to save the loan relationship and prevent default or bankruptcy. The SBA should also relax the rules on refinancing and be able to raise their guarantee so as to bring greater elasticity and save loan relationships. For example, many small business owners may have turned to credit cards to cover their cash flow shortfalls. And, in many instances, the equity in their home that was leveraged to establish the loan may have declined.

We also recommend that the SBA relax some of the rules that add costs and delays to securing a loan like life insurance requirements and job creation requirements.

Bring Down the Cost of Doing Business

The final area of attention should be bringing down the cost of doing business. We recommend a combination of tools be used to decrease the cost of doing business generally, and decrease the costs associated with keeping employees. We support the reduction and short term suspension of payroll taxes, the abolishment of the self-employed tax on health insurance, giving small businesses the ability and incentives to form their own health insurance groups, and extending the net operating cost carry back rules for longer terms.

While I know the new Congress and the new Administration have broader strategic goals, we recommend that you first focus on what can bring more cash into a business immediately. By increasing cash immediately you protect jobs, protect businesses, and spur consumer and business spending.

Act Quickly and Boldly

In closing, I ask you to act now. As we watch the falling business lending statistics and the climbing unemployment numbers, I can assure you that the next fatality will be marked by a declining number of small businesses and increased number of business and personal bankruptcies. The majority of the recommendations I have outlined today are short term positions aimed at getting small business lending moving, quickly improving business cash flows, and assuring that the one-time big investment in infrastructure includes small business.

As you complete the work on legislation to spur an economic recovery, please save the broader strategic moves for later. For now – just focus on specific steps to help small businesses get moving back in a positive direction.

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INDEPENDENT COMMUNITY
BANKERS *of* AMERICA

Testimony of

Paul G. Merski
Chief Economist

for the

Independent Community Bankers of America

Before the

Congress of the United States
House of Representatives
Committee on Small Business

Hearing on

"The State of the Small Business Economy and Identifying Policies to Promote an Economic Recovery"

January 14, 2009
Washington, D.C.

Good morning. My name is Paul Merski and I am the Chief Economist for the Independent Community Bankers of America[1]. Chairwoman Velazquez, Ranking Member Graves, and members of the committee, I am pleased to present the ICBA's views on the state of small business and on policy recommendations to promote an economic recovery.

ICBA represents 5,000 community banks throughout the country. Community banks are independently owned and operated and are characterized by personal attention to customer service and serving the lending needs of small business. Community banks specialize in small business relationship banking and are proud to support their local communities and the nation's economic growth by supplying capital to individuals and small businesses.

Summary of Testimony

- Economic woes continue to plague the small business sector. The sharp decline in the U.S. housing markets and the distressed credit markets triggered a ripple effect throughout the entire nation that continues to strain households and small businesses nationwide. Fiscal policies focused on restoring consumer confidence, broad credit availability, a robust housing market, and job growth are all vital to spurring an economic recovery.

- The turmoil in the financial and economic markets continues to jeopardize the availability of credit and the viability of small business. Many of the nation's largest lenders and money-center banks that tripped up on subprime lending and toxic investments continue to pull in their lending across-the-board, write down losses, and rebuild capital.

- Thousands of independent community banks represent the other side of the financial story. Community banks rely on relationship lending in their communities, not on relationships with investment banks or hedge funds. Community bankers live and work in the communities they serve and do not put their customers and neighbors in loan products they can not possibly repay. While community banks did not cause the current turmoil they are well-positioned and willing to help get our economy back on track.

- To complement the aggressive monetary easing by the Federal Reserve Board, ICBA believes additional targeted fiscal policy action is warranted to promote economic growth. ICBA recommends and supports additional fiscal incentives, including individual and small business tax relief, an enhanced homebuyer tax credit, expanded SBA lending, and Subchapter S tax reforms.

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[1] *The Independent Community Bankers of America represents nearly 5,000 community banks of all sizes and charter types throughout the United States and is dedicated exclusively to representing the interests of the community banking industry and the communities and customers we serve. ICBA aggregates the power of its members to provide a voice for community banking interests in Washington, resources to enhance community bank education and marketability, and profitability options to help community banks compete in an ever-changing marketplace.*

With nearly 5,000 members, representing more than 18,000 locations nationwide and employing over 268,000 Americans, ICBA members hold more than $908 billion in assets, $726 billion in deposits, and more than $619 billion in loans to consumers, small businesses and the agricultural community. For more information, visit ICBA's website at www.icba.org.

- Additionally, immediate accounting relief and improved community bank access to the Troubled Asset Relief Program (TARP) and Term Asset-Backed Securities Loan Facility (TALF) programs would best allow community banks to continue supporting individual and small business lending and economic growth. ICBA has included in this testimony an outline of fifteen policy recommendations to help small business and to promote a broad economic recovery.

Overview

Credit fuels our economy and the broad credit markets are still sorting out many problems. The current turmoil in our economic and financial markets nationwide raises genuine concerns about the ongoing availability of credit for our nation's small businesses. As Congress continues to address the problems in the housing and finance sectors, policymakers must also keep a sharp focus on the needs of the small business sector during this economic slowdown. ICBA greatly appreciates the Small Business Committee holding this important hearing to address the concerns of small business and to identify potential economic recovery initiatives.

Small Business Health Crucial to Economic Recovery

Small businesses are crucial to the strength of our economy and employment. Small businesses represent a whopping 99% of all employer firms and employ half of the private sector workers. With the unemployment rate reaching 7.2%, a fifteen-year high, the viability of small businesses is more important than ever.

The more than 26 million small businesses in the U.S. have created 70 percent of the net new jobs over the past decade. Community banks are small businesses themselves and are essential to the success of small firms nationwide. Community banks specialize in small business relationship lending. Community banks stick with their local communities and small business customers in good times and in bad. For their size, community banks are disproportionately large small business lenders. While community banks represent about 12% of all bank assets, they make 20% of all small business loans. Notably, half of all small business loans under $100,000 are made by community banks.

Vital SBA Lending Role

Small Business Administration lending programs should serve as a counterbalance during times of challenging credit markets for small businesses. Unfortunately, at a time when the economy is faltering, the sharp decline in the number and dollar amount of Small Business Administration loans is troubling. The SBA should act to bolster small businesses credit in economic slowdowns. Instead, the number of SBA loans is plummeting. In the first quarter of fiscal year 2009, which ended December 31, the number of SBA 7(a) loans dropped 57% from first quarter of FY2008 and represents a 62% drop from first quarter of FY2007.

SBA loans serve a unique niche since bank lenders need to match short-term deposits with short-term small business loans. While the typical commercial small business loan has a maturity of one to three years, SBA 7(a) loan maturities average 12 or more years. Importantly, SBA lending allows longer loan terms up to 25 years. This lowers the entrepreneur's loan payments and frees up needed cash flow to start or grow the small business. As small businesses do their best to weather the current difficult economic climate, the longer loan term offered by an SBA loan would be a huge help.

SBA Lending Hobbled

While the recession will reduce overall loan demand, other factors are working against the availability of SBA loans and must be addressed. Against the long-term protests of the community banking sector, sharp increases in SBA loan fees, reduced budget funding, the elimination of the successful "Low-Doc" program, and increasing regulatory burdens all have all hobbled the SBA's viability when it is needed most.

Simply stated, costly and negative changes to the SBA loan programs in recent years have forced hundreds of community banks to drop out of the SBA programs while a handful of the nation's largest banks further dominated SBA lending. Notably, the number of lenders that have made at least one SBA 7(a) loan has dropped almost in half from 5,288 in 2001 to less than 2,700 today. Just ten large banks made nearly 60 percent of all SBA loans.

ICBA does not believe Congress intended the SBA loan programs to be functional for only a handful of the nation's biggest financial entities. This gross imbalance in SBA lending was a recipe for disaster. Many of the largest financial players have tripped-up on toxic investments and sub-prime lending and have been forced to pull in their lending across the board -- including small business and SBA lending. Conversely, despite the dominant media coverage about a "credit crunch," common-sense community bank lenders are very much alive and well with capital to lend to small businesses. However, high fees and other program structure obstacles associated with SBA programs must be reversed to preserve the affordability and workability of SBA lending for all banks and small business borrowers alike. Bank regulators are mandating tighter lending standards across the board during this economic slowdown. Credit scores are dropping and credit risk is increasing as real estate collateral values continue to decline. More than ever, SBA loan program guarantees should play an increased role in supplementing traditional commercial lending products.

Boosting SBA Programs

Given the sharp decline in employment and continued credit market stress, small business access to capital is critical to keep the economy's gears turning. To that end, SBA programs must serve a more robust role in the recovery. They have supplied nearly one-third of the long-term capital to small business. However, a declining number of SBA lenders and loans is the disturbing trend we see. The ICBA respectfully offers several recommendations to help boost SBA programs most widely used by lenders and small businesses in this challenging economic climate. These recommendations include:

- Immediately offer a "Super SBA 7(a) loan program" for one year as an economic stimulus to help small business access needed capital. ICBA's economic recovery proposals advanced to Congress recommend a streamlined, expedited 7(a) loan program with a 95% guarantee, and lender and borrower fees reduced to half of their current level for small business loans up to $500,000.

- Restore a reasonable SBA budget appropriation of $250 million to $500 million to help offset the steep fees on both 7(a) lenders and borrowers as an incentive to jumpstart SBA lending by new bank participants and to increase the number of SBA loans.

- Boost the SBA budget which has been cut nearly in half in the past six years.

- Reinstate the availability of combination ("piggyback") financing to help serve small businesses with larger borrowing needs.

ICBA believes these reforms would allow the federally guaranteed SBA loan programs to work to counter tight credit markets and help provide funding to small businesses in an economic climate where they need the programs the most. Community banks would be better able to extend more SBA loans to meet the needs of small businesses during this economic slowdown. Thriving small businesses would help turn this economy around boost payroll and business income tax revenue for federal, state and local government. Small businesses are critical to supporting a tax base.

ICBA Supports TALF to Jumpstart Secondary Credit Markets
The consumer asset-backed securities market is an important source of liquidity to financial institutions that provide federally guaranteed small business loans and consumer lending, such as auto loans, student loans, credit cards and Small Business Administration loans. However, the secondary market for consumer loans remains largely frozen. ICBA has led the effort to help jumpstart the secondary market, especially for SBA loans, by urging the establishment of a temporary credit facility for approved SBA poolers. ICBA greatly appreciates Chairwoman Velazquez's efforts to engage the Treasury and Federal Reserve in successfully launching the Term Asset-Backed Securities Loan Facility (TALF). ICBA believes by providing liquidity to issuers of consumer asset-backed paper, the Federal Reserve facility will enable more institutions to step up their lending, enabling borrowers to have access to lower-cost consumer finance and small business loans.

Making the TALF Successful
The Federal Reserve is still working on the details of this new liquidity facility and intends to have it fully functional by February. The Term Asset-Backed Securities Loan Facility is structured as a Federal Reserve Bank of New York (FRBNY) lending facility that will lend using high grade collateral held by securitizers. Under TALF, FRBNY will make loans to issuers of asset-backed securities (ABS) that have the highest investment-grade rating (i.e. Aaa-rated) from at least two nationally recognized statistical rating organizations (NRSROs). In the case of the small business loan guarantee pools ("pool security") the Federal Reserve highlighted to ICBA that they will not need to be rated since they are guaranteed by the Small Business Administration (e.g. have the full faith and credit of U.S. backing). ICBA requests that the broadest range of established SBA loan pools be eligible to qualify under the TALF program. The FRBNY will lend an amount equal to the market value of the ABS less a small haircut and will be secured at all times by the ABS. The TALF loans will have one-year term. The FRBNY will assess a non-recourse loan fee at the inception of each loan transaction. FRBNY will take the Aaa (or otherwise NRSRO/SBA-sanctioned) ABS as collateral for loans that the ABS-issuers will then be able to use to make more ABS / SBA pools (and, in turn, more loans will be able to be securitized and freed-up for consumers and small

businesses). The ICBA believes this will help supply temporary liquidity to the secondary market players so they can continue securitizing more consumer loans and small business loans. The TALF will end making new loans on Dec. 31 2009, unless extended. To manage the TALF loans, FRBNY will create a special-purpose vehicle (SPV). Treasury department will provide $20 billion from the $700 billion TARP funds to safeguard losses the Federal Reserve might incur.

ICBA supports the TALF program to help keep money flowing to consumers and small businesses and continues to work closely with the Small Business Committee, Federal Reserve and Treasury to help ensure the program is crafted and implemented to provide the intended value and results. Many community banks remain unable to make additional loans because they cannot sell off existing ones to investors through the secondary markets. The ICBA-backed TALF program should help jumpstart the secondary market.

TARP Access Needed for All Banks

ICBA greatly appreciates the Small Business Committee's attention to ensure the Emergency Economic Stabilization Act, and specifically the TARP's Capital Purchase Program (CPP), is widely available to all interested banks. ICBA urges Congress to help ensure TARP funds are available to all interested banks as the law dictates. ICBA members are growing increasingly concerned that only $60 billion is left uncommitted from the $250 billion Capital Purchase Program and still more than 3,000 community financial institutions cannot qualify for the CPP under the Treasury's term sheets because they are Subchapter S banks or mutual institutions. .

More than half of the CPP's $250 billion was quickly given to just nine of the nation's largest banks. Additionally, large companies such as credit card firm American Express and auto lender GMAC have rapidly converted to bank holding companies and already received TARP funds. This follows the rapid conversion of the gigantic investment firms such as Goldman Sachs and Morgan Stanley into bank holding companies after being battered in the markets. **Meanwhile, thousands of traditional community banks interested in CPP funds to help boost lending have been largely shut out.**

Community banks did not cause the current financial crisis with exotic lending products, subprime loans, and absurdly complex investment bank financial engineering that went terribly awry. Nevertheless, many community banks too are now suffering the consequences of frozen credit markets and finding it difficult to raise capital in the current marketplace. Community banks, interested in the CPP deserve prompt access to the TARP to secure capital.

ICBA urges that Congress and Treasury to continue their efforts to help more banks access the TARP CPP in a fair and timely fashion. More than 8,000 community banks nationwide are well positioned to extend lending to their communities using capital from the CPP. Some 48 percent of small businesses get their financing from banks with $1 billion and under in assets. By only granting a few hundred of the nation's largest banks CPP funds, more than half of small businesses may not see any change in their available credit. ICBA believes to get more dollars flowing to Main Street and to boost economic activity as Congress intended, a greater number of interested community banks must be part of the CPP.

Therefore, ICBA reiterates its urgent request that all banks be offered access to the remaining funds in the remaining CPP funds in a timely fashion. We appreciated the opportunity to directly spell out to Treasury the unique structure of our nation's private banks and our suggested means to include make eligible the 2,505 Subchapter S banks, and more than 600 mutuals in a term sheet that will work for their structure and allows CPP access. We are hopeful that Treasury will soon release new terms for the CPP program so that smaller banks can participate.

Housing Decline Must Be Reversed

ICBA strongly supports additional targeted housing tax incentives to break out of the downward spiral in the housing market. One of the largest underlying problems preventing an economic recovery remains the declining housing sector. Housing and household related spending accounts for nearly 20 percent of the nation's Gross Domestic Product. Plunging home values are putting record numbers of borrowers' underwater and fueling record foreclosures. Millions of small businesses are suffering the fallout from the dramatic decline in the housing market.

The housing markets' continued woes are a major factor drowning consumer confidence. The Conference Board's gauge of consumer sentiment has dropped to a record low. Household net worth has declined for the past three quarters largely due to the sharp drop in home values, according to Federal Reserve data. Rising mortgage defaults have forced lenders to tighten up on credit and even potential buyers have been sitting on the sidelines despite historically low interest rates.

The broad credit markets have been severely damaged by the sharp decline in housing prices and real estate collateral. Some 45% of small business loans outstanding are collateralized by real estate. Small business owners in particular often rely on their homes for collateral and widely use home equity loans and lines of credit. Without further fiscal policy assistance to address the struggling housing sector, further declines in the credit availability for small businesses will jeopardize their ongoing viability.

Financial institutions in general have already experienced more than $600 billion in real estate related asset writedowns and credit losses since 2007. When lenders lack capital, they are unable to lend to small business and consumers, exacerbating the economic downturn. Additionally, declining home values and rising foreclosures increase stress in the credit markets by jeopardizing the value of mortgage-backed securities and crimping liquidity.

The vicious downward cycle in the housing sector must be broken. ICBA respectfully recommends a number of economic recovery items outlined below to help the credit markets and small businesses.

Homebuyer Tax Incentives Will Help

ICBA's economic recovery recommendations include extending the $7,500 first-time homebuyer federal tax credit through December 31, 2010 and removing the repayment provision in order to jumpstart home sales, reduce unsold inventories, and stabilize home prices and foreclosures. An enhanced first-time homebuyer tax credit would provide a reasonable incentive for potential qualified buyers to get off the sidelines and to take advantage of low interest rates and the temporary tax break to purchase a home. Stabilizing home prices will lower mortgage refinancing qualification hurdles as well and help to keep more people in their homes. The credit is not a "bailout" and would directly benefit individuals by giving them a tax cut incentive to purchase a first-time home.

Stabilizing real estate prices will better allow small businesses to use their real estate values as collateral for credit.

Local Infrastructure Boost

ICBA believes targeted tax incentives can help stimulate local infrastructure needs to help boost economic activity. To more efficiently finance local projects, ICBA recommends an immediate increase in the annual issuance limit for qualified-tax-exempt muni-bond obligations from $10 million to $50 million. This would create greater credit availability and expedite low-cost funding for local projects such as school construction, water treatment plants, and other municipal projects. The cost of municipal projects has increased dramatically over the years while this annual bond limitation threshold has not been increased in 23 years and has not kept pace with inflation. An increase would help assist financially struggling state and local governments finance their infrastructure needs with lower cost financing, creating more small business opportunities and local jobs.

Foreclosure Mitigation

Foreclosure is the least attractive alternative for resolving mortgage defaults for the borrower, the lending institution and other homeowners in the borrower's community. Community bankers did not trip up on aggressive subprime mortgage lending. If needed, community banks first work directly with their customers to restructure mortgages and keep their local customers in their homes. Community banks also support additional voluntary options including loan modifications under the Hope for Homeowners Program and other avenues.

The ICBA also supports the expanded role the Federal Housing Administration has undertaken in insuring up to $300 billion in refinanced mortgages for struggling borrowers after loan holders reduce principal. ICBA believes growing foreclosures can impact not only the borrowers and lenders, but entire communities and towns by depressing property values and eroding the local tax base. Providing a *voluntary* means for qualified borrowers to remain in their homes will help ameliorate the broader negative consequences of the wave of foreclosures.

Housing must be stabilized and ICBA believes these various targeted housing incentive proposals would all help stem the ongoing decline in the housing sector that is rippling through the entire economy and hurting individuals and small businesses. **Small business optimism is plummeting and credit availability is a genuine concern. The National Federation of Independent Business index of small-business optimism has dropped to its lowest level since it began this survey in 1986**. Housing incentives must be an important component of any recovery plan to unlocking greater confidence and economic growth.

Beneficial Small Business Tax Reforms

A substantial portion of the economic recovery proposals currently being promoted by president-elect Obama and Congress are various forms of tax relief. For many small businesses, taxes are the second highest cost after labor costs. Therefore, ICBA strongly supports a number of small business tax relief measures to assist small business in these difficult economic times.

Flexibility for S Corporations
S corporations continue to be the most prevalent type of corporation in our nation. More than four million small businesses are structured as Subchapter S corporations. For small businesses, raising capital is critical to the start-up, survival, and growth of the business. However, arbitrary and restrictive limits on Subchapter S businesses are jeopardizing their ability to raise capital. Specifically, current tax law restricts the number and types of individuals or entities that may own S corporation stock. S corporations may not have more than 100 shareholders, new IRA shareholders, and can only have one class of stock outstanding. ICBA believes these restrictions should be immediately reformed to spur more private sector solutions for small businesses to attract capital as Treasury is injecting taxpayer funds as capital into banks. In order to increase the options for small businesses to raise capital from the private sector, ICBA recommends:

- Increasing the maximum number of allowable S corporation shareholders to 150 from 100.
- Allowing IRAs as eligible S corporation shareholders.
- Permitting the issuance of preferred stock for all S corporations

Small businesses including community banks are dealing with frozen capital markets and the near-impossibility of raising new capital. Immediate adoption of the reforms listed above would go a long way in creating addition private sector capital-raising options. **Notably, community banks must maintain certain minimum capital ratios to be considered well-capitalized institutions for regulatory purposes yet are restricted in their capital raising options.** In today's economic environment, earnings alone may not provide sufficient capital to fund lending and growth. ICBA believes allowing S corporations more flexible options in attracting capital to fund business operations and serve their communities will boost lending and economic activity.

Conclusion

America's small businesses are facing the most difficult economic circumstances in decades and acquiring credit is getting more problematic due to the turmoil in the credit markets. The freefall in SBA lending is cause for alarm and immediate action. ICBA pledges to work with the Small Business Committee to ensure our nation's small businesses have the access to capital and credit they need to invest, grow, and provide jobs and economic growth. As policymakers work on legislation to stimulate an economic recovery, small business would benefit from additional tax incentives, enhanced SBA lending, and increased community investments. Community banks are well-positioned and prepared to help.

I appreciate the opportunity to testify today for the Independent Community Bankers of America. Thank you.

ICBA's Economic Recovery Recommendations Outlined Below:

Highlights of ICBA
Proposals for Economic Recovery

Helping Taxpayers and Workers

- Immediate AMT Relief. Provide immediate individual AMT relief for tax years 2009 and 2010. Will provide tax certainty and prevent additional taxpayers from being swept into punitive AMT calculations and payments and increase their after-tax incomes. AMT relief can be rebated in advance by check directly to taxpayers.

- Extend Work Opportunity Tax Credit. Enhance and extend the employers' WOTC through 2010 to create jobs by encouraging greater hiring of new workers.

Helping Homeowners, Homebuyers, and Renters

- Enhance First-Time Homebuyer Tax Credit. Extend the existing $7,500 federal tax credit for first-time home purchase through 2010 and remove repayment provision. A homebuyer tax credit is a proven incentive that will help will boost the housing and housing-finance sectors.

- Unleash FHA Potential. Increase capacity for Federal Housing Administration to serve homebuyers and homeowners. As credit for home purchases and refinancing has evaporated, FHA insurance has taken on an expanded role. FHA is vital to the provision of affordable housing and the recovery of the housing market. Increasing capacity at FHA and Ginnie Mae will allow the agency to carry out its mission and assist homebuyers and communities.

- Increase Resources for Rural Housing Guarantees. Increase the Rural Housing Service Section 502 Guarantee Program. Section 502 loans are primarily used to help low-income homebuyers purchase homes in rural areas. Funds can be used to build, repair, renovate or relocate a home, or to purchase and prepare sites, including providing water and sewage facilities. This will assist rural housing markets, create jobs and generate new tax revenues.

- Stimulate Construction of Affordable Rental Housing. Reduce interest rate for loans backed by multifamily properties assisted with low income housing tax credits. Because of increases in costs and reductions in the value of tax credits, most of these properties in development are not feasible at current interest rates. A significant number of these properties would, however, be feasible at a lower rate. This program would provide significant economic stimulus in the form of construction jobs and also provide housing affordable to families earning less than 60% of area median income.

Helping Small Businesses

- Expedite SBA Small Business Loans. Create a streamlined SBA 7(a) loan program with up to 95% government guarantee for small business loans up to $500,000 and reduced lender and borrower fees. Will provide greater small business capital in expedited manner to start, or grow a small business and create jobs.

- Small Business Subchapter S Tax Relief. Increase the S corporation shareholder limit to 150 from 100, allow the issuance of preferred stock, and IRA investments in Subchapter S businesses. This will help boost capital investments in small businesses and community banks, increasing economic activity and lending for the nation's 3.7 million S corporations.

- Expand Small Business Section 179 Immediate Expensing. Extend the $250,000 small businesses immediate expensing and raise to $1 million the purchase cap through 2009. This will boost small businesses capital investment in equipment and software and improve cash flow.

Helping Communities

- Immediate Increase in Muni-Bond Threshold. Update from $10 to $50 million the annual issuance limitation for qualified-tax-exempt-obligations. This will allow community banks to play a larger role in supporting school construction, infrastructure and other municipal projects. Will assist financially struggling state and local governments.

- Community Bank Support of Local Government Projects. Provide permanent authority to Federal Home Loan Banks to guarantee community bank-issued letters of credit issued to enhance the credit rating of local government bonds. This allows community banks to serve traditionally underserved small issuers of tax-exempt bonds. Local governments use these bonds to finance fire stations, water treatment facilities, bridges, healthcare facilities, schools and other important activities. The current authority expires on December 31, 2010. Making this important support for small government infrastructure projects permanent will help communities plan for growth.

- Rural Economic Advancement Program (REAP) – Allow banks to exempt from taxation interest income from loans made in rural areas to finance loans to farmers, small businesses, and for economic development. The following customers or purposes would qualify: 1) real estate loans to bona fide farmers including young, beginning and small farmers; 2) real estate loans to small businesses including for start-up and expansion purposes; 3) infrastructure and economic development financing. Amount of loan volume exempted from taxation would equal up to 25 percent of an institutions asset size and institutions of $1 billion or less would qualify. Institutions of with assets of $1 billion to $5 billion would receive a 50 percent tax exemption on 10% of their loan portfolio for the same purposes.

Helping Community Banks Serve Consumers and Businesses

- Community Bank TARP Access. Ensure interested community banks have access to the Troubled Asset Relief Program (TARP), to boost capital and increase lending as the legislation intended. Community banks are positioned to boost lending but Subchapter S banks as well as mutual institutions still do not have access the Treasury's TARP Capital

Purchase Program.

- Direct Accounting Relief. Congress should direct regulators to temporarily suspend the misapplication of mark-to-market and "Other Than Temporary Impairment" (OTTI) concepts to financial institutions during these extraordinary abnormal market circumstances. These requirements must be suspended until the financial markets return to more normal operations to prevent further destruction of capital and lendable funds in the economy. Congress gave the SEC the power to suspend mark-to-market accounting to avoid this race to the bottom. SEC and FASB have, instead, reiterated prior guidance and allowed the mark-to-liquidations to continue. Congress should direct the SEC to act.

- Expand Loss Carryback to Five Years. Expand the current Net Operation Loss Carryback (NOL) period to five years from two years. This will help free up small business resources now to help weather the economic downturn and to support investment and employment in their communities at a time when capital is needed most. Expanding the NOL to a five-year carryback simply allows businesses to accelerate the use of allowable NOL deductions that can be claimed in future years under current law.

Statement of Alan J. Roth

Senior Executive Vice President

United States Telecom Association

Before the House Small Business Committee

January 14, 2009

Madam Chairwoman and Members of the Committee:

I am Alan J. Roth, Senior Executive Vice President of the United States Telecom Association (USTelecom), the nation's leading broadband industry trade group, representing service providers, manufacturers, and suppliers of advanced communications, applications, and entertainment. Our member companies offer broadband on a fixed and mobile basis, and provide a wide range of voice, video, and data services. We appreciate the opportunity to share with you our perspectives on the emerging American Recovery and Reinvestment Plan, and on what policy approaches in that package there can encourage broadband deployment and adoption in the United States – and thus, stimulate the growth of small businesses and the jobs they create.

While you are no doubt familiar with our two largest members, Verizon and AT&T, we are also proud to count many more mid-size companies and hundreds of small ones in our membership ranks. Indeed, the vast majority of companies we represent are rural providers. They are generally small businesses, serving small communities. Collectively, they are at the forefront of building America's broadband infrastructure, and they are united by a shared determination to deliver innovative voice, video, and data services to their customers, including, in turn, the small business customers they serve – a commitment we know this Committee shares.

A trio of stories from a remote community on Washington State's Olympic Peninsula will help illustrate how useful broadband can be to starting or growing a small business anywhere in America. Forks, Washington, a town of just over 3,000 people, is a 4½-hour drive from Seattle, and was practically a world away in earlier times when the local economy relied on the logging and lumber industry. But as timber-related jobs were lost, the people of Forks came together as a community and concluded that broadband was the conduit that could overcome the town's historic impediment to attracting outside business – its geographic isolation. So they developed a public-private partnership with our member company CenturyTel to build a digital backbone along the coast of the Olympic Peninsula. DSL service was deployed to Forks beginning in January 2001. Suddenly, Larry Burtness, who had left urban life behind and moved to Forks in the late 1990s, discovered that there was a big demand for his skills as a freelance technology professional and entrepreneur. Pura Carlson, a language interpreter, was able to help create a pool of interpreters from around the country who could use broadband to work from home and serve clients around the world. Denise Dunne Devaney, a business writer who runs her own company 30 miles away in Sekiu, Washington, had grown frustrated trying to edit drafts via e-mails from her clients over a dial-up connection. By tapping into Forks' broadband infrastructure, she was able to dramatically improve her productivity, her responsiveness to clients, and thus her small business.

These small business examples from just a single community help explain why broadband has emerged as an essential driver in 21st century American life. Like the telephone networks, electrical grids, and pipelines that advanced our nation in the 20th century, broadband is now propelling forward virtually every category of the U.S. economy – from community development to landmark innovations in health care, education, environmental sustainability, and other national priorities. We believe that broadband, and the many opportunities it brings into our homes and communities, should be universally accessible to all Americans. Achieving that national objective will require policies that encourage vigorous investment in both the sophistication and capacity of the nation's broadband networks, as well as innovative public-private partnerships and a concerted, customized effort to reach remote pockets of our geographically vast nation.

Consumers benefit from the convergence of telecommunications around broadband.

Gone are the days of single service platforms and separate services offered by wireline telephone companies, cable, and satellite. Today consumers can get video service from their telephone company, voice service from their cable company, and broadband internet access by DSL, cable modem, wireless (both licensed and unlicensed), satellite – and in some places, by broadband over powerline.

Telecom companies make broadband service available to approximately 80-85% of U.S households. In addition, our member companies are rapidly and successfully entering the video market. A large number of USTelecom companies are offering video services in competition with incumbent cable providers – many over broadband infrastructure. Just as an example, USTelecom member company SureWest provides voice, data, and video services over an all-fiber network offering up to 50 mbps.

The most recent estimates indicate that more than one in six American homes have completely "cut the cord" and have only wireless voice service. The percentage is even higher among young and lower-income consumers. In fact, 92% of U.S. households live in areas served by 3G wireless broadband. Cable companies provide telephone service to more than 20 million consumers – approximately 15% of the market, with Comcast now the nation's fourth largest residential phone company.

As a result of this intense competition for customers between wireline, wireless, and cable providers, DSL prices have fallen by at least half since 2001, while available speeds have accelerated rapidly. Today, consumers can get at least 10 to 20 times the speed for the same price as in 2001, and broadband subscriptions have increased across all demographics. In the last three years, according to the Pew Internet and American Life Project, the percentage of African-American adults with a home broadband connection has nearly tripled, from 14% in early 2005 to 43% as of early 2008. In the last year alone, high speed Internet usage has increased 19% among Hispanics; 23% among rural adults; and 24% among working families earning between $20,000 and $40,000 a year.

Competition and sound policies are what drive broadband investment.

Coupled with a favorable legal and regulatory environment, the sustainable facilities-based competition described above has driven the steady growth of broadband investment since the beginning of this decade. Indeed, private capital investment in communications equipment has increased 33% in real dollars from 2002 to the present. Collectively, broadband providers invested $62.5 billion to build out, maintain, and improve their networks in 2007, compared to

$45 billion in 2003. Although full-year numbers for 2008 are obviously not in yet, the industry's investment in the first half of last year was on track to match the 2007 pace. To give you some sense of the scale of this investment, it represents 2½ times the annual real dollar government spending for the construction of the Interstate Highway system from 1956 to 1981 (averaging approximately $25 billion per year in today's dollars), and six times the average annual cost to develop the Apollo space program from 1961 to 1973 (approximately $10 billion per year in today's dollars). All told, the Telecom, Media, and Technology ("TMT") sector accounted for nearly 7% of U.S. GDP in 2006, and it was the largest driver of real U.S. economic growth between 2001 and 2006. TMT also contributed up to half of U.S. productivity growth during that period.

President-elect Obama and the new Congress have no shortage of important issues calling out for attention, from our economy to education, health care to climate change. USTelecom is delighted that policymakers in both branches and on both sides of the aisle have recognized the importance of broadband and the innovative solutions it offers to many of our nation's most pressing concerns. Let me hasten to note that our industry is not asking Congress for financial help to fund our ongoing operations or to execute on our business plans, which call for the continued investment of very substantial sums in broadband buildout. But in response to the interest that the President-elect and leading Members of Congress have shown in using the economic recovery package to stimulate increased broadband deployment and adoption, particularly in unserved areas of the country where low population density makes the business case for deployment a more challenging proposition, we have developed a series of ideas and basic principles aimed at identifying approaches that we believe will actually work to accomplish the desired ends.

In that regard, as you seek out ways to stimulate job creation in the short-term and address the infrastructure needs essential to our nation's long-term prosperity, U.S. policies should continue to encourage private sector investment in broadband infrastructure and simultaneously to promote broadband adoption. Thus, it is essential that Congress screen out proposals that, however well-intended, would create an unhealthy climate for continued investment or the kind of uncertainty that adversely impacts growth and innovation.

The 111th Congress should fund the broadband accomplishments of the 110th Congress.

The 110th Congress acted on two important aspects of the Speaker's Innovation Agenda. With full funding, the 111th Congress can bring the promise of those actions to fruition. Specifically:

Broadband Data Improvement Act: On September 30th, Congress gave final approval to S. 1492, the Broadband Data Improvement Act (Public Law 110-385), commonly known as "the broadband mapping bill." Among other things, the legislation authorizes the Department of Commerce to fund public-private partnerships at the state level to map the extent of broadband deployment and to establish programs to improve computer ownership and Internet access for unserved areas through collaborative work with broadband service providers and information technology companies. The Senate bill and its House companion (H.R. 3919) were strongly supported by a diverse coalition of 30 organizations and companies, including labor, education, and business groups. On December 22nd, that coalition came together again in a letter to the

Appropriations Committees calling for full funding of up to $335 million for the initiatives in that newly enacted legislation.

RUS Broadband and Telecom Loan Programs: Where the high costs attendant to low population density make commercial lending impracticable, the U.S. Department of Agriculture's Rural Utility Service (RUS) administers a low-cost loan program to support the deployment of broadband in unserved areas. If the program is adequately funded, the RUS broadband loan reforms in the 2008 Farm Bill will hasten the deployment and adoption of broadband in rural America. Recognizing the particular interests of this Committee, we want to call your attention to the strong linkage between the RUS loan programs and the help they provide to small telecom businesses like most members of USTelecom. Among the recipients of RUS loans in 2008 were at least 15 companies that would meet the SBA definition for wired telecom carriers of having less than 1,500 employees. In fact, most of these companies have fewer than 100 employees, and four of them serve fewer than 1,500 phone lines. With more funding, more small telecom firms could take advantage of these programs and hence bring the benefits of broadband to other small businesses and residents in their communities.

Both the House and Senate Appropriations Committees proposed FY09 funding of the RUS broadband loan subsidy amount at the Administration-requested level of $11.6 million, underwriting a program loan level of $298 million. In addition, there is carryover loan authority in the amount of $297 million. However, some rural areas of the nation are particularly challenging for the provision of broadband services. Loans for such areas may not be feasible even at the program's current loan rate of between 3% - 3.5%, depending on the length of the loan. Additional funding of $40 million would allow the RUS to provide loans at an even lower interest rate – conceivably even zero-interest rate loans.

Similarly, demonstrating the strong interest in broadband build-out among providers, the FY08 RUS telecommunications loan program was oversubscribed by approximately $250 million. An additional $500,000 would, we believe, provide underwriting authority for an additional $250 million, fully addressing the loans that could not be funded last year. These loans are ready to be processed and could be finalized by the conclusion of the first quarter of 2009, with spending on new infrastructure beginning soon after. In order to spur deployment of broadband, these additional loans could be limited to jointly used facilities that include broadband.

Other investment and tax initiatives can also spur broadband's benefits.

Certain other investment and tax initiatives can spur access to broadband – and with it, the good-paying American jobs and benefits that broadband deployment provides to both small businesses and consumers. Among them are the following:

Broadband Construction Grants and Bonds: Some of our member companies – particularly those operating in areas where the population density is very low, so that the cost of build-out and operations are conversely very high – have suggested the creation of a one-time grant program to assist in the cost of initial deployment, particularly to unserved areas. President-elect Obama has called for putting "a specific focus on reaching previously un-served communities" with affordable broadband. We support that objective, but it is a particularly challenging and costly one in sparsely populated areas. One company, for example, has estimated that to reach the last 12% of its customers with broadband at current subscription rates, it would take more than 9 years to recoup its initial investment – by which time, of course, the technology would have become obsolete. For areas like this that private capital alone cannot reach, a 3-to-1 federal-private match would, according to that company, enable it to deploy broadband to all of its customers, driving new spending on equipment and labor. That would also help small businesses located in those more remote areas to grow by expanding their reach beyond only their local customers, thereby promoting economic development in their communities.

Similarly, assuming funding can be made available, Congress could create a broadband bond program to encourage the buildout of new broadband facilities. Provided that it is technology neutral and competitively neutral, we would be pleased to work with the Congress to develop the details of such a program. (We note parenthetically, however, that the time it may take to create these financial instruments and issue the necessary regulations would likely make this an item for a longer term infrastructure policy, rather than providing the immediate boost to job creations and the economy that most observers say is so urgently needed.)

Consumer Broadband Tax Credit: Tax incentives can help with both the demand and supply sides of the broadband access equation. For example, a refundable consumer tax credit of up to $30 per month per household to offset the cost of broadband subscriptions for low-income, unemployed, and rural Americans will expand opportunities for those individuals who currently are least likely to be connected to the Internet, while also spurring economic growth and development in their communities. A 2008 report by Connected Nation suggests that just a modest 7% increase in U.S.

broadband adoption could create 2.4 million new American jobs and generate $134 billion in new annual economic activity. A consumer-focused tax credit will help all Americans participate fully in those opportunities by creating conditions that will spur further broadband investment, particularly in areas that are now unserved and underserved, while giving small businesses a new source of potential customers.

Broadband Investment Tax Credits and Bonus Depreciation: An investment tax credit targeted to incentivize more, and more rapid, broadband deployment will also help to increase the availability of affordable broadband to small businesses and residential consumers across the country. An investment tax credit of at least 50% for deployment in rural and underserved areas, and perhaps more, would be needed to spur this important additional investment. In the rest of the country, a credit of at least 15% could benefit consumers by encouraging the deployment of more advanced services at a faster pace than would otherwise be the case. In order to spark near-term decisions about long-term investments, such a credit should be effective for three years. We encourage the Congress to consider these options.

The February 2008 stimulus package included bonus depreciation, which allows companies to write off 50 percent of the value of new investment expenditures in 2008 for items subject under current law to depreciation over 20 years or less. That provision expired on December 31, 2008. Extending it into 2009 would encourage companies to accelerate other capital expenditure plans, including broadband deployment projects.

Summary and Conclusion

As the new President and Congress work together to develop critical economic recovery legislation, we hope you will incorporate three basic principles into your consideration, whether you adopt the ideas we've set forth above or look at proposals being suggested by others:

- First, maintain an economic and regulatory climate that continues to encourage private sector investment in broadband infrastructure.
- Second, look carefully at the consumer side of the broadband equation by addressing barriers to broadband adoption. Recent research by Connected Nation found that 44% of Americans who don't subscribe to broadband say, "I don't need it." But if you ask them whether they want access to medical information, tools to help their children learn, assistance in finding a new job, or the opportunity to work from home, their answer is quite different. If they want any of these things, then they DO need broadband. Other barriers include access to computers and training in their use – this is where ideas like the refundable consumer credit for making broadband subscriptions affordable to low-income, unemployed, and rural Americans come into play.
- Third, make sure broadband deployment policies are focused on remaining unserved, underserved, and high-cost areas. Funding the recently passed mapping bill and continuing your support for programs such as the Rural Utilities Service broadband loan program would be an excellent start. The grant and tax incentives described above are similarly targeted measures.

We appreciate your invitation to appear today. USTelecom and its member companies have enjoyed working with this Committee and the Congress to extend the Internet tax moratorium, reform the RUS broadband loan program, and create an important broadband mapping and adoption program. We believe a focus on broadband will advance the goals of Congress and President-elect Obama for both short-term economic recovery and long-term investment and prosperity. We look forward to working with you to achieve those ends, for the benefit of small businesses across the nation and for the nation as a whole.

Broadband and small business share an important characteristic – they are each an essential building block of every modern American community. If we want those businesses and communities to thrive, we must ensure that broadband's many benefits are made accessible to all Americans. Thank you for your interest and your consideration of our views.

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Testimony of Grant Seiffert
President of the Telecommunications Industry Association (TIA)

Before the U.S. House Small Business Committee

January 14, 2009

Thank you, Madam Chairwoman, Ranking Member Graves and Members of the Committee. I am grateful for the opportunity to appear before you today among this distinguished panel of witnesses.

The Telecommunications Industry Association (TIA) represents over 500 companies in the global information and communications technology (ICT) industry through standards development, advocacy, tradeshows, business opportunities, market intelligence and world-wide environmental regulatory analysis. For over 80 years, TIA has enhanced the business environment for broadband, mobile wireless, information technology, networks, cable, satellite and unified communications. Members' products and services empower consumers in every industry and market, including healthcare, education, security, public safety, transportation, government, the military, the environment and entertainment.

In these difficult economic times, TIA has looked closely at the ICT industry to see how its member companies can facilitate a rapid recovery and promote the continued expansion of the nation's information and communications infrastructure. TIA hopes to support Congress in the creation of policies that deliver on the promise of broadband technology for the American people. TIA has developed a series of objectives and priorities to assist Congress and the new Administration in promoting policies that will ensure the ICT sector continues to move forward.

More specifically, TIA looks forward to working with the 111th Congress on the following priorities:

1) Enhancing efforts to stimulate investment, innovation, and promotion of next-generation broadband deployment.

2) Advocating for forward-looking spectrum management, the allocation of additional spectrum for advanced wireless services on a technology-neutral basis, and the smooth digital television transition scheduled for February 17, 2009.

3) Providing persons with disabilities access to information through reasonable policies.

4) Facilitating open and fair market access for U.S. companies by promoting full, fair and open trade and competition in international markets.

5) Increasing the amount of federal funding dedicated to long-term, pro-competitive, communications network-specific basic research.

6) Promoting the development of an interoperable public safety network capable of protecting all communities in the event of further domestic disasters.

7) Encouraging maintenance and development of administrative and legislative initiatives that focus on broadband roll-out in rural areas.

INFORMATION AND COMMUNICATIONS TECHNOLOGY IS VITAL TO OUR NATION'S ECONOMY AND SOCIETY

Whether ICT has an impact on both large and small businesses is indisputable; the sum of all other industry segments and consumer activities which ICT affects, however, is often underrated and perhaps immeasurable.

According to the U.S. Department of Commerce's Bureau of Economic Analysis, the ICT industry accounted for 4% of GDP in 2007, and accounted for over 20% of real GDP *growth* in that year. Thus, the significant slow-down we have experienced in this industry may have a meaningful effect on the health of the overall U.S. economy and the economic recovery, without directed measures to combat this slowdown.

The Economic Crisis has had a Debilitating Impact on the ICT Sector's Growth and Survival.

TIA's membership is made up of approximately 80% percent of small- and medium-sized businesses. Start-ups and garage inventors are the lifeblood of our industry; innovation that results from high-risk endeavors many times leads to the household names we have become familiar with over the years. However, the current economic crisis is contributing to the crippling of this essential part of the innovation cycle, making it difficult if not impossible for these groundbreaking technologies to be realized. According to the National Venture Capital Association, in all of 2008 there have been just six companies that have gone public. Compare that with the 269 Initial Public Offerings (IPO's) in 1999, 272 in 1996, and 365 in 1986. These numbers illustrate the unwillingness of otherwise independent inventors to take personal financial risks in an uncertain marketplace.

In late 2007, TIA had projected as part of our annual Market Review & Forecast that the ICT industry would grow in 2008 – projections which did not take into account the devastating impact of our recent economic crisis. In fact, a significant pan-industry downturn has threatened the promising economic opportunities TIA had forecast several months ago. In the last months of 2008, orders for TIA members' products virtually collapsed. Member companies have begun reporting significant profit losses and are making workforce reductions on a large scale. Technology sector job cuts in 2008 will rise to approximately 180,000 – the highest amount since 2003. Through October 31, 2008 job cuts by firms in the tech sector totaled over 140,000, a 31 percent increase over the tech-sector job cuts in all of 2007. Approximately 90,000 of these jobs cuts occurred after July 2008. Moreover, thousands more layoffs have come over the last two months of 2008, likely propelling the total tech sector job loss for the year over current estimates.

Under these market conditions, investors will not continue to support increased broadband infrastructure build-out. Yet, the United States cannot afford to sit idle while other countries continue to stride ahead in deploying widespread broadband networks. Our nation's near and long-term economic welfare, jobs, and leadership all depend on the continual success of broadband deployment.

BROADBAND DEPLOYMENT AND INDUSTRY GROWTH RELIES IN PART ON GOVERNMENT'S NEXT STEPS

There are several actions that government can take to change course. First, do no harm. TIA appreciates the Committee's past appeals to the Securities Exchange Commission (SEC) for a small company exemption in complying with debilitating financial requirements of the Sarbanes-Oxley Act (SOX). We appreciate your initiative on this very important issue, and seek your leadership in staving off additional and any future economic regulations whose benefits do not outweigh the financial burdens that impair our members' ability to function and operate efficiently.

Including Broadband Incentives in a Stimulus Package Will Lead to Job Growth and Have a Direct and Continuing Impact on our Nation's Economy.

Second, we call on this Committee to support broadband incentives in the stimulus package currently being considered and in any future legislation, where appropriate.

During the closing months and weeks of the 110th Congress, we have called on Congress to include broadband incentives in any new economic stimulus package which may be considered – a recommendation echoed by many groups. TIA's proposal outlines the types of deployment and adoption – supply and demand-side – incentives that should be included in a package to most effectively achieve the goal of providing broadband to all Americans. I will highlight certain aspects of that proposal in my testimony here today.

Like any other infrastructure project, the deployment and use of broadband will significantly increase and maintain its stimulating effect well beyond the initial investment in the infrastructure, laptops and computing devices themselves. Broadband incentives are a necessary component of a 21st century economic stimulus package, and now is the time to invest in the long-term economic future of our country. As noted by Connected Nation in a report last spring, "The Economic Impact of Stimulating Broadband Nationally", "just a 7 percentage point increase in broadband adoption could result in $134 billion per year in total direct economic impact" to the United States.

Increased deployment and adoption also furthers a number of key Congressional priorities including: cutting costs in healthcare; a reduction in energy usage and environmental impact; increased national competitiveness; increased educational opportunities; and both the direct economic impact from the jobs created for deploying the new networks and the indirect jobs that will be created by firms enjoying the benefits of new access to technology. In our December letter to the Congressional leadership outlining the specific types of deployment and adoption incentives we believe should be included in any stimulus package, we highlighted an estimate put forth by the Communications Workers of America (CWA) that indicated that every $5 billion investment in broadband would create 97,500 direct jobs and 2.5 million jobs throughout the economy in the near-term.

TIA, representing communications manufacturers and suppliers of all broadband platforms, believes that the full panoply of broadband technologies will be needed to ensure universal deployment in America. As a result, it is important that our national policies and investment incentives apply to each technology and that they enable deployment strategies that can be tailored to the specific needs of geographic areas and unserved or underserved populations. To that end, we proposed a schedule of tiered deployment incentives that will provide expensing and/or investment tax credits for both wireless and wireline networks, allowing greater incentives for the deployment of higher capacity networks.

We also recognize that for satellite broadband infrastructure, which plays a special role in national broadband deployment, tax benefits associated with particular service capabilities remains to be determined. A national, ubiquitous broadband infrastructure has four critical and complementary components: fixed broadband, wireless broadband, satellite broadband and broadband core and backbone transport. Thus a plan to stimulate investment in broadband and truly build this key national digital infrastructure across the United States needs to incorporate all four of these elements. Our proposal is intended to ensure that broadband incentives are available for investments across all of these categories.

Other groups have called for "direct grants" for rural broadband deployments. TIA agrees and would suggest a $25 billion grant program for deployment of broadband infrastructure in unserved areas. The grant program would be a technology neutral opportunity for interested providers to bid for partial subsidies to provide broadband service, at minimum speeds and appropriate capabilities to be determined by the Federal Communications Commission (FCC), to all households and businesses in a particular unserved area. A grant program such as this would finally bring broadband services to all parts of the nation without creating the need for an ongoing service subsidy.

Moreover, in order to create a comprehensive broadband stimulus package, Congress should also consider measures that will stimulate the demand for broadband. It is indisputable that access to broadband provides a host of benefits to communities – especially rural communities – and to families. To that end, the stimulus package should include measures which would help drive broadband demand, including: vouchers for low-income Americans (including both adults and students) so that they may purchase laptops, mobile handsets and other computing devices; a tax credit for small and medium sized businesses who purchase/upgrade their PCs, laptops, mobile handsets, broadband equipment, services, and software; and allowing consumers eligible for Lifeline and Link-Up to use discounts for broadband services and devices as well as telephony. Finally, the broadband section should include funding to implement the Broadband Data Improvement Act of 2008 (PL 110-385) which was enacted this past fall.

On Main Street today, our small businesses need help, and the ICT industry can provide it. Broadband will assist these entrepreneurs in making their businesses more efficient and profitable; it will help them thrive and expand to face new challenges. Broadband will assist the innovative in making e-commerce work for them; obtaining information about how to establish a small business; applying for permits and licenses online; and enabling business owners to conduct Internet market research advertisements and communication with customers and suppliers more easily. TIA's members and their technologies will make small businesses faster, smarter, and more profitable.

Public Safety Network Funding should be Included in a Stimulus Package to Ensure that an Interoperable Communications Network is Available to our Nation's First Responders.

Finally, we believe that Congress should consider a request from the Public Safety Spectrum Trust's (PSST) that $15 billion be included in any stimulus legislation to be allocated for the construction of the shared wireless broadband network in the 700 MHz D Block to facilitate the swift deployment of an interoperable public safety broadband network as called for by the 9/11 Commission in its report.

This proposal will allow a private entity to work with the PSST to create a shared network in the 700 MHz D Block and meet public safety's technical network demands – capability demands which exceed those for a purely commercial broadband network. These requirements include reaching 99.3% of all Americans and much stronger equipment hardening, redundancy, and security thresholds. These increased structural and technical demands – which are crucial to an effective interoperable public safety broadband network and beyond any commercial system – merit immediate federal funding.

Beyond the positive impact the deployment of this system will have on public safety, the inclusion of funding for the deployment of such a network would provide for the creation of tens of thousands of jobs, from the equipment, network and device manufacturing sectors to the jobs that will be created from the actual construction of the network while also ensuring that the stimulus funding is used to address one of the highest priorities of the federal government ensuring public safety. The deployment of an interoperable public safety broadband network will improve our nation's first responder's ability to respond to disasters, both natural and manmade.

CONCLUSION

It is without question that broadband is an accelerator of economic development, providing significant benefits for many industries. With broadband access, worker productivity increases, jobs are created, and wages grow. Broadband enables operators to offer more services to consumers for less, creating added efficiencies in both time and money. In addition, related industries grow with the continued deployment of broadband. As broadband penetration rates increase, there will be a resulting demand for more advanced computer and home networking equipment, wireless handheld devices, and other equipment that makes broadband use a reality.

At this time, there is an important role for the government in helping revitalize broadband deployment and the ICT industry. With billions of dollars of revenue losses and tens of thousands of lost jobs in the ICT industry of late, it is now critical that the government further support a national broadband strategy, promote policies that enhance broadband deployment, and provide the necessary financial incentives to help make widespread broadband deployment a reality.

In the near term, including broadband deployment and adoption incentives and public safety network funding will have a direct impact on the recovery of the ICT industry as well as have a direct impact on the ability of thousands of firms, large and small, across the nation who are today either unserved or underserved by broadband technology. We applaud Congress's desire to include infrastructure funding in the economic stimulus legislation and encourage Congress to place a priority on the deployment of the most critical 21st century infrastructure – broadband technology.

Again, I want to thank the Chairwoman, the Ranking Member and the other Members of the Committee for your attention to this matter and I will be happy to answer any questions. I also ask that a copy of my written testimony be placed in the record.

Thank you.