

Public/Private Competition: The Governor's Conference on Small Business, held May 15-17, 1996 in San Antonio, Texas, adopted the following resolution, co-authored by C. Dean Kring, President & CEO, Emerging Business Centers, Inc. (TBIA) - Houston (713) 932-7495, Jan Triplett, Ph.D., Partner, Entrepreneurs' Association (TBIA) - Austin (512) 919-4000 and Pete Van de Putte, Owner, Dixie Flag Manufacturing Company - San Antonio (210) 227-5039: "*Unfair competition - enact legislation to prohibit government agencies and tax exempt and anti-trust exempt organizations from engaging in commercial activities in direct competition with small businesses.*" < End of Resolution >

This resolution was brought about by the issue statement that was included in the conference delegate issue handbook. Here is the final draft of the issue statement:

ISSUE: Public/Private Competition is an *unresolved* final issue from both the 1986 and 1995 White House Conferences on Small Business. Specific to this issue is the competition with private sector service providers as demonstrated by Small Business Development Centers operating in urban areas."

NARRATIVE: Public (tax dollar) funding is intended to get needed programs started fast, where expediency is the primary factor for the program. Then public funding is withdrawn to allow private sector to take over, when and where capable, because public projects draw from the tax base, whereas private projects contribute to the tax base. SBDCs compete with private sector by operating beyond community need and program purpose. Emphasis during the last ten years on the importance of small business has led to an increase of private sector activity regarding the needs of small business. Organizations such as Better Business Bureau(s), Minority Business Council(s), Chambers of Commerce, the Entrepreneurs' Association (Austin) and the Services Cooperative Association (Houston) clearly demonstrate that private sector can and does provide necessary services to owners of startup businesses in urban locations at low or no cost, without use of tax subsidies. But, private sector service providers are continually thwarted through extensive marketing, distribution and lobbying systems established by the SBDC, a tax funded government monopoly."

DATA: (Italics are quotes from the SBA.) "*The SBDC program, funded at about \$74 million for FY '95, is the only resource partner of the SBA that the legislation calls for (an) Senior Executive Service Associate Administrator, whereas SCORE and SBI program managers are simple civil servants of lesser pay and stature. SBDCs are in a world of their own, in large part due to Rep. Neil Smith and Tom Powers, General Counsel to the House Small Business subcommittee.*" (Both gone.) "*The SBDC appropriation goes directly into the SBDC Office budget via an SBA line item.*" (With no legislative provision for accountability.) "*These funds are to be leveraged with the states with matching or in-kind services and funds.*" (With no legislative provision for verification.) "*That's why many in Congress have looked at this as a \$150M-\$200M program that costs the federal government so little.*" (End SBA quotes.)"

"*Funded in 1982 for a single five year program, SBDC program funding was designated to provide technical assistance, but, only in the absence of private sector service providers, to urban area minority and/or disadvantaged startup business owners and suburban and/or rural startup business owners.* (Italics are quotes from The Facts about the Small Business Development Center Program - SBA publication FS 0043) "*... programs for women business owners, minorities, veterans, international trade and rural development. . . who cannot afford the services of a private consultant.*" (End SBA publication quotes) However, it is the minor portion of total SBDC funding that is expended for services to these types of business owners. SBDCs take clients knowing the clients can afford private sector service providers. Further, SBDCs typically promote business seminars, provide business consulting and other services in urban areas because of the greater accessibility of established businesses as SBDC clients, which substantially contribute to SBDC performance statistics of economic impact so that SBDCs can justify continued funding with the argument that taxes paid by growing small businesses more than pay the SBDC tab."

However, "Hard evidence is taken solely from "independent studies," solely compiled by Dr. James Chrisman, a former SBDC staffer, now at the University of Calgary, which has the Canadian equivalent of an SBDC. Dr. Chrisman has published these annual reports, starting with 1991, on SBDC economic impact. The studies lump all SBDC clients in the same statistical base, irrespective of the type SBDC service provided or the level of SBDC participation. According to Dr. Chrisman, in the 1994 report, 61% of SBDC clients were not startups, but established businesses, with about 82% having sales of up to \$1M, 14.5% having sales of \$1M-\$5M and 3.5% having sales greater than \$5M.

When established business clients and clients able to pay for services are removed from Dr. Chrisman's statistical base, SBDC return is less than 5% of the SBDC tab. Job generation statistics are also dramatically lowered when clients able to pay are removed, making SBDC costs per job created among the highest of any employment generating program in the United States. Further, this SBDC sponsored study does not indicate loss of tax revenue contributions from the private sector when SBDCs divert those clients able to pay from the private sector. If those clients were serviced only by private sector, the return to the tax base would significantly exceed SBDC tax data because the private sector pays taxes on those revenues, whereas SBDCs do not."

"However, colleges and universities administering SBDC programs have an obvious vested interest in maintaining SBDC funding because SBDC program staff are readily available, but at taxpayer expense, to promote the university's public relations activities in the community. For instance, university SBDC staff, paid through tax dollar funding, volunteer to aid private sector community economic development activities, such as small business conferences, seminars and workshops, by serving on committees and/or providing mailings and/or "proprietary" mailing lists, which are, ironically, essentially public domain, having been gathered by SBDCs using tax dollars.

SBDC staff also volunteer to assist with registration, distribute survey forms and gather statistical data on attendees which is then included as SBDC client data in activity reports as supporting evidence of sponsoring university SBDC economic impact in the community. SBDC programs are substantial profit centers for affiliated universities, with a significant portion of the funding going to pay SBDC senior administrator, director and lobbyist salaries, which far exceed those available in private sector."

POSITION: Funding for SBDCs was intended to benefit many and harm none. Through intensive lobbying and lack of oversight it has become a tax funded program that is squelching the private sector emerging business industry in Texas."