

DRAFT

October XX, 2011

The Honorable Mary Landrieu
Chair
Committee on Small Business and
Entrepreneurship.
United States Senate
428A Russell Senate Building

The Honorable Olympia Snowe
Ranking Member
Committee on Small Business and
Entrepreneurship
United States Senate
442 Russell Senate Building

The Honorable Sam Graves
Chair
Committee on Small Business
House of Representatives

The Honorable Nydia Velazquez
Ranking Member
Committee on Small Business
House of Representatives

Dear Chair Landrieu, Chair Graves, Ranking Member Snowe, and Ranking Member Velazquez:

We write to express our strong support for passage of a long-term reauthorization of the Small Business Innovation Research (SBIR) and Small Business Technology Transfer programs in this work period. We would also like to call your attention to four provisions in the House-passed legislation, H.R. 1425, with which we have deep concerns. As you negotiate the final legislation, we respectfully urge you to omit sections 105, 106, 505, and 101 of H.R. 1425 from any compromise.

SBIR has been recognized as a highly effective program that encourages entrepreneurs to develop high-tech products that will keep our economy innovate and be competitive in the twenty-first century. We are deeply concerned that section 505 of H.R. 1425, which would limit the number of SBIR awards and award dollars that participants in the program can competitively win, will have an adverse impact on technology research needed by the agencies and small business commercialization. SBIR works because it is a merit-based program – it allows our federal agencies to select the best entity to respond to agencies' research and development (R&D) needs. However, the effect of section 505 would be to handcuff our federal agencies into meeting quotas based on a median state average for the nation, not to mention directly contradict section 502 in H.R. 1425 that requires all funds awarded to use "competitive selection and merit-based procedures." Section 505 will not cause states which have little to no SBIR awards to suddenly win more. It will redistribute SBIR funds to firms that scored lower on the scientific merits of their proposals. The greatest strength of the SBIR program is that it is merit-based, not quota-driven, ensuring that the taxpayers' dollars are invested wisely and that small businesses with the greatest potential to grow are given that chance. As such, we would have strong reservations about supporting a bill that included this language.

We are also concerned about the proposal to allow SBIR awardees to avoid Phase I and move directly to Phase II grants. Phase I is an important protection for taxpayer dollars because it requires that entities prove the feasibility of a solution before a larger federal investment is made. Any provision to eliminate or scale back Phase I would hurt the program's effectiveness. Contrary to arguments that skipping Phase I would save money and speed commercialization, skipping Phase I means that the government would be spending \$1 million of taxpayer dollars and a wait time of up to two years to find out whether a technology was promising, instead of \$150,000 and six months. The SBIR program purposely contains several tiers of federal investment to guarantee that, as in the private sector, the government is making an investment that has been proven to be a risk worth taking.

We are also concerned with H.R. 1425's expansion of the Senate-House compromise language that would have changed the definition of a small business in order to allow the participation of firms majority owned by multiple venture capital firms. S. 493 was a compromise that struck a balance that enabled firms that are venture capital majority owned to participate in the SBIR program, while also protecting the majority of the research projects for the competition of small businesses that are still owned and controlled by individuals that need seed capital to explore innovative ideas. The Senate-House compromise also balanced the venture capital change by increasing the allocation percent. We also oppose the House's further opening of SBIR to organizations backed by private equity and hedge funds. The language in S. 493 is the only version that is supported by all major small business advocacy organizations, as well as BIO and the National Venture Capital Association. Section 106 would upset the Senate-House balance achieved in S. 493, and we oppose its inclusion.

Finally, we remain deeply committed to an eight-year authorization for SBIR and do not support Section 101 in H.R. 1425. Our small innovators and federal agencies need the certainty that is associated with a long-term extension. Avoiding short-term fixes ensures that the program remains a successful, highly effective program that encourages small entrepreneurs to develop the products that will keep America competitive.

We look forward to working with you to ensure that any compromise legislation will be able to pass the House and Senate.

Sincerely,

Jeanne Shaheen
United States Senator

Scott P. Brown
United States Senator