



UNIVERSITY OF HAWAI'I

TESTIMONY

UOH 220 SMALL BUSINESS DEVELOPMENT CENTER

Testimony Presented Before the
House Committee on Finance and
Senate Committee on Ways and Means
Joint Informational Briefing

by

Darryl Mleynek, State Director
Hawai'i Small Business Development Center (SBDC) Network

**House Committee on Finance and Senate Committee on Ways and Means
Biennium Budget Request for Fiscal Years 2005 - 2007**

**Testimony of the Small Business Development Center
UOH 220**

I. Introduction:

A. Summary of Program Objectives

An Overview of the Hawai'i SBDC Program:

Federal-State Partnership Program. The Hawai'i Small Business Development Center Network (SBDC) is a partnership program between the U.S. Small Business Administration (SBA) and the University of Hawai'i at Hilo. The program is beginning its 16th-year in Hawai'i and is part of a 24-year old national program that exists in all 50 states and in the territories of the U.S.

Matching Federal Dollars. The Hawai'i SBDC Network is partially funded by the U.S. Congress through the SBA. Under the program as established, the State of Hawai'i must match federal dollars on no less than a one-to-one basis. This state match, then, creates the Hawai'i SBDC Network, which subsequently is able to attract other federal grants with an even more advantageous matching ratio. Over \$29 million in federal funds has been brought into Hawai'i by the Hawai'i SBDC Network since 1994.

Mission. The mission of the Hawai'i SBDC Network is to develop the economy and help individuals statewide by developing entrepreneurial skills among small businesses and the broader community through counseling, training, and research.

A Statewide Program. The Hawai'i SBDC Network operates on a statewide basis, with five centers distributed over the islands of Hawai'i, Kaua'i, Maui, and O'ahu. The State Office is located in Hilo as part of UH Hilo.

SBDC Service Centers. Each of the four service centers delivers to small businesses a program of consulting and training through workshops. Additionally, the Hawai'i SBDC Network has a specialty center which operates on a statewide basis—the Hawai'i Business Research Library located in Kīhei.

Regulations Governing the SBDC Program. The SBDC Program, as established in federal law and regulations, (i) is required to be a statewide program, (ii) must be affiliated with a university as its host institution, (iii) must receive state matching funds of no less than a 1:1 ratio, (iv) may not charge for consulting, and (v) should avoid competing with private-sector consulting firms.

Summary of Program Objectives: The fundamental objective of the SBDC Program is to help build a sustainable state economy by developing eligible individuals to higher levels of entrepreneurial knowledge and skills and of business acumen by providing management consulting and training and other services of benefit to the target groups and the general public.

This objective of the SBDC Program is achieved by using the following tactics prescribed by the U.S. Small Business Administration: management consulting, management training, practical research on behalf of small businesses, and advocacy.

B. Description of Small Business Development Center (SBDC) Program Objective. The SBDC program objective, when placed within the context of the laws, regulations, and provisions for accreditation, is as follows:

Program Objective. To help build a sustainable state economy by developing eligible individuals to higher levels of entrepreneurial knowledge and skills and of business acumen by providing management consulting and training and other services of benefit to the target groups and the general public.

A Summary of the Objectives and Activities as Discussed in the Multi-Year Program and Financial Plan: The Hawai'i SBDC Network annually provides consulting to over 1,200 small businesses and puts on more than 150 workshops for approximately 2,000 small business owners and prospective owners.

C. How the SBDC Intends To Meet Its Objectives within the Upcoming Fiscal Biennium.

Program Objective. The program objective is based upon an assessment of the role that small businesses play in the economy of Hawai'i and upon the needs of small business owners and those who wish to start new business ventures. Its execution is dependent upon promoting the conditions under which small businesses thrive through:

Developing Awareness of Entrepreneurship. Continuing to increase the understanding of the concept of entrepreneurship within Hawai'i's small business community and the wider community through individual consulting and workshops for small business owners and prospective owners.

Increasing Access to Capital. Continuing to increase, on behalf of small businesses, access to capital at reasonable costs and awareness of what capital is available.

Increasing Access to Information and Technology. Continuing to promote access by small businesses to the information and technology they need in order to compete in

today's increasingly competitive and global marketplace through the Hawai'i SBDC Network's Hawai'i Business Research Library.

Promoting Sustainability. Continuing to promote the sustainability of small businesses in Hawai'i by increasing their awareness of the need for continuous quality improvement through the use of the Malcolm Baldrige criteria or similar criteria for achieving world-class quality in operations.

Program Development Objectives: Continuing to promote the achievement of the above *program objective* through the achievement of the *program development objectives* of (a) completing the development of a statewide delivery system for the Hawai'i SBDC Network and (b) matching available federal dollars on no less than a 2:1 ratio.

The strategy for achieving each of these program development objectives, given the support of the State Legislature, is for the Hawai'i SBDC Network to engage in the following tactics:

Statewide Delivery System. To re-establish a West Hawai'i Center in Kailua-Kona in 2005 and to expand services elsewhere in the state in order to achieve parity in service statewide, but especially on O'ahu which is underserved.

Matching Federal Dollars. To continue to achieve a ratio of no less than 2 federal dollars for every 1 dollar of state funds. In order to achieve a ratio greater than 1:1, funding by the State Legislature must be adequate to match federal dollars other than those proffered by the SBA. Given an adequate match, the Hawai'i SBDC Network will apply for federal matching grants and work to achieve direct appropriations from the U.S. Congress.

Continuous Quality Improvement. For purposes of internal improvement and increased efficiency and effectiveness, the Hawai'i SBDC Network will pursue a continuous quality improvement program using the Malcolm Baldrige criteria developed by the National Institute of Standards and Technology (NIST) of the U.S. Department of Commerce. The Baldrige Criteria was incorporated into the Hawai'i SBDC Network in 1995 and resulted in receiving a Hawai'i State Award of Excellence in 1998.

Client Needs Assessment. As well, the Hawai'i SBDC Network conducts annually a statewide, professional assessment of the needs of small business owners and managers. The results of this survey are used to set strategic direction, goals, and tactics.

Program Assessment Objectives: Measure the achievements of the Hawai'i SBDC Network (a) by setting goals (i) for activity measures and (ii) for program effectiveness measures, (b) by measuring the achievement of those goals, and (c) by conducting independent economic impact studies.

The strategy for achieving each of these program assessment objectives is for the Hawai'i SBDC Network to engage in the following tactics:

Goal Setting. Goals have been set in each of the areas indicated.

Goal Measurement. The Hawai'i SBDC Network uses a computerized and internet-based Client Data Information System (CDIS) for tracking on a statewide basis all of its activities and reporting them for management purposes. Additionally, all clients of the Hawai'i SBDC Network are annually surveyed confidentially for feedback regarding the quality of services received.

Economic Impact Studies. Every year, the Hawai'i SBDC Network contracts with two separate independent professional economists to determine different aspects of the economic impact of the Hawai'i SBDC Network's activities.

II. Program Performance Results:

A. Performance Results Achieved in FY 2003 and FY 2004:

<u>Program Effectiveness Measures:</u>	FY 2002-2003 ¹		FY 2003-2004 ²	
	<u>Planned</u>	<u>Achieved</u>	<u>Planned</u>	<u>Achieved</u>
<i>Total Counseling Cases</i>	1,132	1,220	1,304	1,223
<i>Total Counseling Hours</i>	6,457	6,580	6,481	6,682
<i>To003-tal Training Events</i>	140	156	132	156
<i>Total Training Hours</i>	3,640	6,792	4,050	8,478

¹ The Hawai'i SBDC Network's fiscal year is the calendar year from January 1st through December 31st. Results of its activities for state FY 2002-2003 are from its calendar year 2002.

² Results of the activities of the Hawai'i SBDC Network for state FY 2003-2004 achievements are based upon federal fiscal year achievements from October 1, 2002 through September 30, 2003, which are the results reported to the SBA.

<u>Program Effectiveness Measures:</u>	<u>FY 2002-2003</u>		<u>FY 2003-2004</u>	
	<u>Planned</u>	<u>Achieved</u>	<u>Planned</u>	<u>Achieved</u>
<i>Annual Economic Impact³ (\$Millions)</i>	\$35.0	\$55.0	\$40.0	\$17.4
<i>Ratio of State Dollars Invested into the Program to New State Taxes Generated From the Program in the First Year⁴</i>	\$1: \$5	\$1: \$6.73	\$1: \$5	\$1: \$2.14
<i>Ratio of State Investment to Total</i>	\$75.00	\$48.86	\$70.00	\$43.00
<i>Clients' Perceived Quality of Consulting and Training</i>	\$88.0%	90.9%	88.0%	91.0%

B. How These Results Relate to the SBDC's Objectives

The results of the activities of the Hawai'i SBDC Network shown above demonstrate that the Hawai'i SBDC Network is effective in meeting activity goals for counseling hours, training events, and training hours, but more importantly is efficient in the use of the state's resources to create a powerful annual economic impact of \$17.4 million and to provide substantial return on the state's investment in the form of new taxes—\$2.14 for every \$1.00 invested by the state. The efficiency of the Hawai'i SBDC Network's results is directly attributable to its effectiveness in delivering its program to its clients. Efficiency is further demonstrated by the fact that one hour of service delivery (*i.e.*, a counseling hour or training hour) costs the State \$43.00, far below the planned \$70.00.

Both the *annual-economic-impact* and the *ratio-of-state-dollars-invested-into-the-program-to-new-state-taxes-generated-from-the-program-in-the-first-year* are below projected goals due to the necessity to close one center and layoff staff in November 2003 due to lack of sufficient financial resources. See Section III on the next page.

These performance results are measurable indicators pointing to the achievement of program and program development objectives.

³Thompson, Scott, Ph.D. *The Annual Economic Impact of the Hawaii Small Business Development Center—2002*. College of Business & Economics, University of Hawai'i at Hilo, January 2004.

⁴Chrisman, James J., Ph.D. *Economic Impact of Small Business Development Center Network Counseling Activities in Hawaii: 2001-2002*. Department of Management Information Systems, University of Mississippi, September 2004.

C. How the Effectiveness of the SBDC Program Is Measured:

Types of Measurements. The performance results shown above are aggregated from the entire range of results collected by the Hawai‘i SBDC Network through its quarterly and annual reporting from its Client Data Information System, its annual client survey, and the two economic impact studies that it conducts annually.

The Hawai‘i SBDC Network measures both results of activities and outcomes from activities. These activity and outcome results, then, are ranked against goals, tracked as historical Hawai‘i SBDC Network trends, and compared against benchmarks from other state SBDC Programs (where available). This process is reviewed annually. As sufficient historical data becomes available, goals are being set or revised for future years.

D. Actions Taken To Improve Performance. The Hawai‘i SBDC Network has taken three primary steps to improve its performance: (1) It is continuing to incorporate the Malcolm Baldrige criteria for continuous quality improvement into its own organizational processes, (2) it is continuing to develop a fourth generation Client Data Information System (CDIS) for collecting data and managing the organization to goals and performance criteria, and (3) it is conducting *annually* two independent economic impact studies.

E. Modifications to Program’s Performance Measures. There have been no modifications made to performance measures.

III. Problems and Issues:

A. Problems and Issues Encountered. The Hawai‘i SBDC Network was mandated by the U.S. Small Business Administration to open a new center in Kailua-Kona in order to complete the establishment of a statewide network of centers and service. It opened this center in 2001. However, neither the U.S. Congress nor the State Legislature increased its funding to cover this additional expenditure in either fiscal year 2001-2002, 2002-2003, or 2003-2004. As a result, the following actions were necessary to rectify a worsening financial situation:

FY 2001-2002. In June 2002, the Hawai‘i SBDC Network reduced overall expenditures by 24%, decreased all salaries by 5%, and withheld salary increases for 2002 and again in 2003. Additionally, the University of Hawai‘i was asked and agreed to waive indirect fees on federal grants in 2002 and 2003.

FY 2003-2004. In November 2003, the West Hawai‘i Center in Kailua-Kona was closed, 2 professional staff were laid off, 1 professional staff vacancy was not filled, and 3 support staff were laid off—which was a layoff of 27% of the total staff.

B. Program Change Recommendations to Remedy Problems. No program changes are recommended that would remedy problems affecting the implementation of the program.

C. Identification of Program Issues or Problems That Have Affected or Will Affect Implementation of the Program. None.

IV. Expenditures for Fiscal Year 2004-2005:

FY05						
MOF	Act 41/04	Collective	Transfers	Restrictions	Net	Est. Total
(Position	Appropriation	Bargaining	In(Out)		Allocation	Expenditure
Count)	(1)					
Personal Services	84,646	-	7,298	-	91,944	91,944
Current Expenditures	553,578	-	(7,298)	-	546,280	546,280
Equipment	-	-	-	-	-	-
Motor Vehicles	-	-	-	-	-	-
TOTAL	638,224	-	-	-	-	638,224
Other available resources:						
Federal						500,000
Maui Co.						100,000
Total Resources:						1,238,224
Total G Funds:						638,224

A. Transfers within program: \$7,298 transferred from current expenditures into personal services in order to cover salary expenses. Impact on the program was minimal.

B. Transfers between program I.D.'s: None.

C. Restrictions: None.

V. Supplemental Budget Requests for Fiscal Year 2005-2006:

FY06			
	Act 41/04	Budget	Supplemental
MOF	Appropriation	Adjustments	Request
(Position Count)	(1)	FY06	FY06
Personal Services	91,752	-	-
Current Expenses	545,415	-	-
Equipment	-	-	-
Motor Vehicles	-	-	-
TOTAL	637,167	-	None

Supplemental Budget Requests for Fiscal Year 2006-2007:

FY07			
	Act 41/04	Budget	Supplemental
MOF	Appropriation	Adjustments	Request
(Position Count)	(1)	FY07	FY07
Personal Services	91,752	-	-
Current Expenses	545,415	-	-
Equipment	-	-	-
Motor Vehicles	-	-	-
TOTAL	637,167	-	None

A. Additional Funding Requests: None.

B. Additional Position Requests: None.

VI. Restrictions/Reductions:

A. Restrictions Carried Over from Fiscal Year 2004-2005: None.
Reductions for Fiscal Year 2005-2006: \$1,057
Reductions for Fiscal Year 2006-2007: \$1,057
 Reduction is due to efficiency savings imposed on all departments

in FY06 and FY07. There will be no impact to the objectives to be accomplished by the program.

B. There will be no positions cut due to reductions.

VII. Capital Improvement Requests for Fiscal Biennium 2005-2007: None.

VIII. Proposed Lapses of Capital Improvement Program Projects: None.

Attachment 8
All Positions Vacant Since 12/1/04

Date of Vacancy	Position Title	Position Number	Exempt (Y/N)	Budgeted Amount	Actual Salary Last Employee Paid	MOF	Program ID	Authority to Hire (Y/N)
None	N/A	N/A	N/A	\$ -	N/A	N/A	UOH 220	N/A