



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 Hearing
January 12, 2006

by

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

Joint Informational Briefing
House Committee on Finance and Senate Committee on Ways and Means
Supplemental 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 25-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. Four of the service centers deliver to small businesses a program of consulting and training through workshops. Additionally, the Hawai'i SBDC Network has a specialty center that operates on a statewide basis—the Hawai'i Business Research Library located in Kihei.

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 training eligible individuals in entrepreneurial knowledge, skills and business acumen through management consulting and training.

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 1,00 small businesses and puts on approximately 100 workshops for nearly 2,000 small business owners and prospective owners.

- C. How the SBDC Intends To Meet Its Objectives in the Upcoming Supplemental Year.**

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 and 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 2006 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. To 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. To conduct 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 2004 and FY 2005:

<u>Program Effectiveness Measures:</u>	FY 2003-2004 ¹		FY 2004-2005 ²	
	<u>Planned</u>	<u>Achieved</u>	<u>Planned</u>	<u>Achieved</u>
<i>Total Counseling Cases</i>	1,304	1,014	1,598	1,417
<i>Total Counseling Hours</i>	7,044	6,449	7,006	6,198
<i>Total Training Events</i>	132	118	135	95
<i>Total Training Hours</i>	3,670	6,681	3,780	7,353

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 2003-2004 are from its calendar year 2003.

² 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 2004-2005 are from its calendar year 2004.

<u>Program Effectiveness Measures:</u>	FY 2003-2004		FY 2004-2005	
	<u>Planned</u>	<u>Achieved</u>	<u>Planned</u>	<u>Achieved</u>
<i>Annual Economic Impact</i> ³ (Millions)	\$35.0	\$17.4	\$20.0	\$35.1
<i>Ratio of State Dollars Invested into the Program to New State Taxes Generated From the Program in the First Year</i> ⁴	\$1: \$5	\$1: \$6.73	\$1: \$5	\$1: \$4.45
<i>Ratio of State Investment to Total</i>	\$75.00	\$48.86	\$70.00	\$50.00
<i>Clients' Perceived Quality of Consulting and Training</i>	\$88.0%	90.9%	88.0%	90.0%

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—\$4.45 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.

³Hahn, Youngki, Ph.D. *The Annual Economic Impact of the Hawaii Small Business Development Center—2003*. Department of Economics, University of Hawaii at Hilo, January 2005.

⁴Chrisman, James J., Ph.D. *Economic Impact of Small Business Development Center Network Counseling Activities in Hawaii: 2002-2003*. Department of Management Information Systems, University of Mississippi, September 2005.

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 management 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 has obtained a fourth generation management information system 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 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, 2003, and 2004. This waiver ceased in 2005.

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.

FY 2004-2005. In July 2005, the associate state director of the Hawai'i SBDC Network was laid off due to lack of funds. Additionally, consultant resigned from a position that will be left vacant, also due to ongoing lack of funds.

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 2005-2006:

FY06 MOF (Position Count)	Act 178/05 Appropriation (1)	Collective Bargaining	Transfers In(Out)	Restrictions	Net Allocation	Est. Total Expenditure
Personal Services	91,752	-	-	-	91,752	91,752
Current Expenditures	545,415	-	-	-	545,415	545,415
Equipment	-	-	-	-	-	-
Motor Vehicles	-	-	-	-	-	-
TOTAL	637,137	-	-	-	-	637,137
Other available resources:						
Federal						500,000
Maui Co.						110,000
Total Resources:						1,247,137
Total G Funds:						637,137

- A. Transfers within program: None.
- B. Transfers between program I.D.'s: None.
- C. Restrictions: None.

V. Supplemental Budget Requests for Fiscal Year 2006-2007:

FY07	Act 178/05	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. Workload or Program Request: None.

B. Position Count Reductions: None.

VI. Program Restrictions:

A. Restrictions Carried Over from Fiscal Year 2005-2006: None.
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 Supplemental Year 2006-2007: None.

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