

December 6, 2007

Honorable Mitch McConnell  
Minority Leader  
United States Senate  
Washington, DC 20510

Dear Senator McConnell,

I am requesting that I be consulted before the Senate enters into unanimous consent agreements on S. 1662, the "Small Business Venture Capital Act of 2007." I reserve the right to object to any unanimous consent agreements or rule waivers regarding this bill.

First, I believe strongly that the role of venture capitalist is not one that the federal government is well suited to play, nor is it an appropriate one. As stated in an April 13, 2005, editorial in the *Wall Street Journal*, "Venture capital is risky business in the hands of professionals. When done by the federal government it tends towards the disastrous." Citing as evidence of its claims, the *Journal* referenced the case of the \$60 million Zero State Capital VI fund that went into receivership in 2005 after being given funding through the Small Business Investment Company (SBIC) Program. While it is possible that the SBIC program has resulted in good investments, the many bad investments call into question whether or not American taxpayers should be forced to put their money at risk for an investment choice they would not otherwise choose to make. It is my opinion that requiring citizens to invest in risky schemes that may not be personally beneficial is inappropriate stewardship of taxpayer dollars. This bill would not only continue the federal government's questionable role in this area of the market, but it would seek to expand that role further. Within a free market there is ample opportunity for companies to seek venture capital investors, and in 2006 the SBA Office of Advocacy reports that venture capital and angel investors poured \$48.3 billion into small businesses.

Second, the bill seeks to reauthorize the New Markets Venture Capital program despite its unknown track record. The program was created in 2000, allowing venture capital firms two years to raise funds and then five additional years to repay the Small Business Administration for any funding it was provided. This means that there is no repayment history that could be examined to give an indication of whether or not the program is working and financially solvent. No program should simply be reauthorized without an affirmative finding that it is producing some good outcome for the American people. To do otherwise would be to play fast and loose with taxpayers' money instead of ensuring that only successful programs continue.

Third, S. 1662 would reauthorize the SBIC Debentures Program despite an assessment by the Office of Management and Budget (OMB) that the program does not address any existing problem in the market. In its 2007 evaluation using the Program Assessment Rating Tool (PART), OMB asked the question: "Does the program address a specific and existing problem, interest, or need?" The answer it provided was "NO." Upon further reading, it explained that "the SBIC Debenture program lacks a 'credit elsewhere test' to ensure that the program does not substitute for capital that is available through private markets at reasonable terms. SBA should

take steps to better demonstrate the lack of adequate capital and/or the existence of a significant opportunity gap that is effectively addressed by the SBIC Debenture program.” Interestingly, this evaluation was conducted as we approach the 50<sup>th</sup> anniversary of the creation of the SBIC program, which raises the question: *if the program cannot prove that it is needed after 50 years, when will it be able to do so?*

Fourth, the bill defines “low-income geographic area” so broadly that the authorities granted in it could be used to provide venture capital intended for low-income businesses to nearly any business in any location. As defined by the bill, a low-income geographic area is defined as a census tract having various poverty-related factors *or* any area *determined by the Administrator* of the SBA to be a low-income area. This type of overly broad language could be used by current or future SBA administrators to abuse the program outside of its intended use.

Fifth, the bill would create a new Office of New Markets Venture Capital for the sole purpose of implementing the New Markets Venture Capital Program. It is unclear why the SBA needs to be enlarged further to implement this program when it is currently being administered by the agency’s Investment Division. I believe that in a time when the budget of the SBA has been rightfully decreasing that Congress should look for ways to streamline the agency’s operations and not to expand the agency by creating new offices.

Thank you for protecting my rights on this legislation.

Sincerely,

A handwritten signature in blue ink, appearing to read "Tom A. Coburn", with a stylized flourish at the end.

Tom A. Coburn, M.D.  
U.S. Senator