

December 18, 2008

Honorable Harry Reid  
Majority Leader  
S- 221 The Capitol  
Washington, D.C. 20510

Honorable Mitch McConnell  
Republican Leader  
S-230 The Capitol  
Washington, D.C 20510

Dear Leaders:

The challenge to steer our economy toward recovery is starkly evident in ever-increasing unemployment numbers, the precipitous drop in retail spending, and the rapid increase in home foreclosures. Swift job creation and efficient distribution of resources are needed to avert a deeper and more intractable economic recession. To achieve these goals as soon as possible, I believe that the contours of an economic stimulus package should include proposals that help create the 2.5 million new jobs called for by the President-elect.

As Ranking Member of the Senate Committee on Small Business and Entrepreneurship, I firmly believe that small businesses play a central role in our economy. I look forward to working with Senator Mary Landrieu, incoming Chair of the Committee, to ensure that the federal government fosters a nurturing entrepreneurial environment that fully equips our small businesses, our true job generators, with the tools not just to mitigate and stem this economic crisis, but to be a catalyst for helping to address and ultimately solve it. Indeed, small businesses are the engine that drives our nation's economy, representing 99.7 percent of all firms, employing half of all private sector workers, and creating approximately three-quarters of net new jobs each year.

I respectfully request that you include at least the following priorities in the upcoming economic stimulus package. All of them will create jobs quickly, ease the burden of unemployment, or stimulate much-needed economic activity.

**Unemployment Insurance Extension:** According to Dr. Mark Zandi of Moody's Economy, who has testified before both the Senate Finance and Banking Committees on a number of occasions, for every dollar spent on extending UI benefits, \$1.64 is infused into the economy. This is one of the highest immediate returns on the dollar of all the economic stimulus ideas under review.

As you are well aware, the Department of Labor reported early this month that the United States economy shed an alarming 533,000 jobs last month, the

largest drop since 1974. This raised the national unemployment rate to 6.7 percent, the highest level since 1993. Though I anticipate that the economic stimulus package under development will extend Unemployment Insurance benefits, it is imperative that the package extend unemployment benefits for at least 13 weeks.

**Unemployment Insurance Benefits Income Tax Suspension:** The economic stimulus package also should temporarily suspend the taxation of unemployment insurance benefits for 2008 and 2009. I introduced legislation [S 3718] last week that would take this action, which would stimulate the economy by making unemployed workers' benefits stretch farther. The Congressional Budget Office (CBO) has estimated that the effect of the current tax falls squarely on middle-income families with incomes between \$50,000 and \$100,000, who paid \$1.2 billion in income taxes on UI payments in 2005.

**Food Stamps:** The use of Food Stamps is nearing an all-time high, with 31.5 million people, one in ten Americans, participating in the program as of September. This is a 17 percent increase over last year. Though I anticipate that Chairman Baucus will boost food stamp spending in his economic stimulus mark, I strongly recommend an increase of at least \$5.2 billion – as well as additional assistance for local emergency food organizations and food banks – in the economic stimulus package.

**Federal Medical Assistance Percentages (FMAP):** Medicaid is the second largest component of state budgets, and during economic downturns, the demand for these critical services rises. According to the Kaiser Family Foundation, a one percentage point increase in the national unemployment rate would increase Medicaid and SCHIP enrollment by 1 million (600,000 children and 400,000 non-elderly adults) and cause the number of uninsured to grow by 1.1 million. Though I anticipate that the economic stimulus package being developed by Chairman Baucus will include increases for FMAP, I urge you to support this provision to preserve access to care for those already enrolled and to reach those newly in need.

**Small Business Credit Crunch:** The Small Business Administration (SBA) must address the small business credit crunch. Banks are tightening lending standards without a similar increase in the volume of SBA-guaranteed loans to small businesses, creating a domino effect on the job-creation ability of small businesses. According to the Federal Reserve, in the last quarter, 75 percent of banks reported that they have tightened their lending standards for small firms, and over the past year, lending in the SBA's flagship 7(a) program has dropped by 55 percent.

This is why I recently introduced the *10 Steps for a Main Street Economic Recovery Act* (S 3705), legislation that would help small firms get the necessary capital to finance business growth by reducing lending fees by over \$500 million. It would also provide the Treasury Department with the authority to thaw frozen secondary markets for loans made through both the SBA 7(a) and 504 programs, so that private banks will start lending to small businesses again. My bill also would address the lack of liquidity in the 504 loan program by providing a new short-term government guarantee on the first loans in a 504 loan package to encourage investors to buy these securities.

Since I introduced this legislation, the 504 lending market has undergone another significant disruption and investor spreads, which have traditionally been at 50 to 100 basis points, have crested at 350 basis points, an increase of close to 100 basis points from just last month. In view of this, I respectfully urge the inclusion of \$300 million in funding to reduce 504 interest rates.

**Lender Oversight:** While it is vital that credit continue to be made available to small businesses, it would be irresponsible not to pair these improvements with meaningful lender oversight. Toward that end, I have introduced S. 2288, lender oversight legislation, designed to substantially improve the SBA's oversight of its lending programs. Lender oversight must be a key component of any reform and I urge you to include in the stimulus bill the provisions within S. 2288.

**Energy Efficiency Investments:** Creating "green" jobs and reducing our susceptibility to the price of oil should be key components of the economic stimulus bill. The pathway to energy security will require bold investments in energy infrastructure with long-term tax incentives for renewable energy. In the short-term, investments in the efficiency of existing homes will create jobs, reduce carbon emissions, and reduce energy bills. I believe that the stimulus package should include \$1.5 billion in funding for the Weatherization Assistance Program, which will assist America's most vulnerable improve their housing stock. Furthermore, I believe that the stimulus package should include a major rebate program for middle class homeowners to hire an energy auditor and invest in energy improvements to their homes. This will reduce our aggregate demand for energy and spur a new industry focused on improving America's energy security.

**Tax Treatment of Small Businesses:** With small businesses - whether in manufacturing, fishing, retail, or agriculture - creating nearly three quarters of net new jobs each year, it is imperative that we ensure that small businesses are equipped to grow and expand. This is why I have championed Section 179 small business expensing that allows small businesses to expense, rather than depreciate, investments in equipment to grow their business and create jobs. For 2008, the

limit was raised to \$250,000 as part of an economic stimulus package. In 2009 and 2010, the amount will return just over \$100,000, and then \$25,000 in 2011 absent Congressional action. I agree with the President-elect that Congress should extend the current expensing amount of \$250,000 through 2009, and I further urge that the \$250,000 level be made permanent to provide small businesses with the ability to plan for expansion and job growth.

Additionally, small businesses would benefit from an infusion of capital by extending the net operating loss [NOL] carryback period from two to five years. This change would permit small businesses to offset losses sustained in 2008 and 2009 with profits from previous years, providing entrepreneurs with immediate infusion of capital that would be used to retain and/or hire employees and sustain operations.

**Required Minimum Distributions from IRAs and 401(k)s:** Though this matter was addressed for 2009 in recent pension legislation, the economic stimulus package should extend the suspension through 2010. Retirees' accounts may not recover by the end of 2009, and it is appropriate tax policy to suspend mandatory withdrawals from certain retirement accounts, which have suffered tremendous losses in recent months, through 2010. Indeed, according to the American Association of Retired Persons (AARP), losses in retirement accounts between September 30, 2007, and October 16 of this year could total \$2.3 trillion. My recent bill, the *Retirement Account Distribution Improvement Act [S 3719]*, would delay mandatory withdrawal of savings through 2010 and provide retirement accounts, such as IRAs and 401(k)s, an opportunity to recoup financial losses.

**Reduce Home Foreclosures:** The mortgage foreclosure crisis is only going to worsen and must be addressed. According to TransUnion LLC, the proportion of consumers with mortgages that are 60 days or more past due will hit 7.17 percent in the fourth quarter of 2009. That compares with an expected delinquency rate of 4.67 percent at the end of 2008. I believe that we should carefully examine proposals to use the Troubled Assets Relief Program (TARP), including Sheila Bair's recommendation and all other options, to help prevent foreclosures.

**New Markets Tax Credit:** As noted above, our country is facing an economic downturn that has resulted in a credit crisis in communities all across the nation. A lack of available credit to promote development and job creation, however, is nothing new for some of our most challenged low-income and rural communities. As a result, I strongly suggest an additional \$1.5 billion of New Markets Tax Credit (NMTC) allocation, retroactive for 2008, that will provide a prompt infusion of capital in low-income and rural communities. According to the Treasury Department, through the NMTC, some \$12 billion of private-sector

capital has been invested in distressed urban and rural communities. Even in these uncertain times, NMTC continues to leverage private sector resources with some \$250 million in new investments being raised through the credit in the last 60 days. Increasing allocations for 2008, will allow Treasury to make available credits to qualified applications on hand, thereby providing immediate, additional stimulus.

**Health Information Technology Investment:** As health care providers struggle to adopt modern information technology to improve care, reduce costs, and save lives, the leadership of the federal government is crucial to promote adoption of Health IT. As federal beneficiaries see improved health care and reduced costs through application of such technology, funding to promote health IT is necessary to achieve substantive health care reform. Funding of both grants and tax expensing provisions to promote adoption by health care providers – similar to that in legislation offered by Senator Stabenow and myself – would help substantially advance quality, cost-effective health care delivery.

**Trade Adjustment Assistance:** The economic downturn has only amplified the devastating impact that trade competition has had on American manufacturers. It is therefore essential that Congress act to reauthorize and expand Trade Adjustment Assistance as Finance Committee Chairman Baucus and I proposed in the “Globalization and Trade Adjustment Assistance Reauthorization Act.” As set forth in that bill, TAA must be extended to workers displaced from service industries as well as those Americans whose jobs were “off-shored” to WTO-member countries like China or India. The bill also creates a new “TAA for Communities” program that I have long championed to provide economic planning and grant assistance to rural and small-town communities that have lost jobs to trade competition.

**Infrastructure Investment:** Though I anticipate that the economic stimulus package under development will include a substantial investment in infrastructure projects, I hope that this will include not only rail systems, mass transit, highways, and bridges, but also water purification and wastewater treatment projects as well as improvements to public parks. The National Governor’s Association has suggested that an allocation of \$136 billion would address most of the ready-to-go infrastructure projects currently on the books.

**Infrastructure Funding for Military Bases Closing Through the Base Realignment and Closure Process:** During even the best economic times, the closure of a military base can devastate a local economy. Today, the outlook is even more grim, with communities facing overwhelming challenges in redeveloping former military installations. Each base set for closure has been asked by Commerce’s Economic Development Administration (EDA) to submit a

breakdown of key infrastructure priorities that would be essential in stimulating base redevelopment. Please consider including these priorities in the economic stimulus package by focusing substantial resources on assisting communities that will be devastated by base closures.

**Manufacturing Extension Partnership's Cost Share Requirements:**

The Manufacturing Extension Partnership (MEP) is a vital Commerce Department program that assists small and medium-sized manufacturers with technical assistance projects, training, and long-term strategic support. I have long fought for increased MEP funding and am pleased that President-elect Obama favors doubling its funding.

Currently, the MEP centers must meet a two-thirds cost-share requirement, meaning that for every dollar the center receives from the Federal government, it must raise two dollars on its own. During these difficult economic times, I am concerned that individual MEP centers throughout the country will not be able to meet this burdensome requirement. In fact, of the 80 programs that the Department of Commerce funds, the MEP is the only program with a statutory cost-share requirement above 50 percent.

I urge you to consider reducing the current MEP requirement to 50 percent, allowing MEP centers to be responsible for obtaining one dollar for every dollar they receive from the Federal government. Additionally, as a temporary stimulus measure, I support elimination of the cost-share requirement for the next two years for any Federal funds that the MEP receives above the level authorized in the America COMPETES Act.

**Mobile Outreach Skills Training Program:** While our nation faces high unemployment, manufacturers simultaneously have difficulty obtaining certain qualified manufacturing workers. The Mobile Outreach Skills Training, or M.O.S.T. Program, provides disadvantaged workers the skills needed to succeed in the manufacturing industry, and then matches them with employers in need of a trained workforce. The pilot program has trained and placed over 300 workers in guaranteed entry-level manufacturing jobs in machine shops throughout New England. The M.O.S.T. Program is comprised of three phases. In the first, new unskilled workers are trained in a mobile classroom in just two weeks, and then immediately placed in a guaranteed entry-level paid position. The second phase provides existing employees of a firm with training in the use of new equipment. The third phase is a six-month supervised retention and career progression mentoring process. The very successful M.O.S.T. program would make an invaluable contribution to our economic recovery if made available nationwide. I strongly recommend that the economic stimulus bill include \$100 million in

discretionary funding to the Secretary of Labor for nationwide application of the M.O.S.T. program.

Thank you for considering my suggestions for economic stimulus and job creation. I look forward to working with you in the 111<sup>th</sup> Congress to enact these proposals.

Sincerely,

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OLYMPIA J. SNOWE  
United States Senator