

CQ TODAY ONLINE NEWS - BUSINESS

May 4, 2011 - 7:40 p.m.

Majority Venture-Capital-Owned Small Businesses Could Tap Research Grants Under House Science Plan By Anne L. Kim, CQ Staff

Small businesses backed largely by venture capital would be eligible for federal research grants under legislation approved by the House Science, Space and Technology Committee on Wednesday.

The eligibility provision was part of broader legislation (HR 1425) approved by voice vote that would extend the authorization for the Small Business Innovation and Research (SBIR) and Small Business Technology Transfer (STTR) programs through fiscal 2014. Additionally, the bill would increase to \$150,000 grants for small businesses to determine feasibility of a concept and boost to \$1 million grants for research and development.

Under the bill, the National Institutes of Health (NIH), the National Science Foundation (NSF) and the Energy Department would be allowed to allocate up to 45 percent of their SBIR funds to businesses that are majority-owned by venture-capital groups, private-equity firms or hedge funds. The measure would allow other agencies to award up to 35 percent of their SBIR funds to these companies.

Over the past several years, small businesses with majority venture-capital ownership have been ineligible for SBIR awards due to a Small Business Administration ruling. Such companies had previously been allowed to participate in the program.

While the SBIR program expired in 2008 and the STTR initiative lapsed in 2009, they have been operating under extensions. The current extension (PL 112-1) will expire May 31. Previous reauthorization efforts failed partly due to a debate over the extent to which venture-backed companies could participate.

Before approving the measure, the panel rejected by a 7-21 vote an amendment by Paul Tonko, D-N.Y., that would have decreased the percentage of awards that could go to venture capital-backed businesses. Under the amendment, the NIH, NSF and the Energy Department would be allowed to allocate up to 25 percent of their SBIR funds to businesses that are majority-owned by venture-capital groups, private-equity firms or hedge funds. The amendment would allow other agencies to award up to 15 percent of their SBIR funds to these companies. The proposed reductions would have aligned the provision with language in a related Senate measure (S 493).

The current 45 percent level under the House bill would do "great harm to some of our smaller and more nimble companies," said Donna Edwards, D-Md.

The panel also rejected, 8-15, an amendment by David Wu, D-Ore., that would have extended authorizations through fiscal 2016, a date he saw as closer to a potential compromise with the Senate. The Senate bill would extend authorizations through fiscal 2019.

The panel did adopt by voice vote an amendment by Wu that would include NASA among the agencies allowed to allocate up to 45 percent of its SBIR funds to majority venture-backed companies.

A proposal by Democratic ranking member Eddie Bernice Johnson, D-Texas, that would have mandated that agencies use part of their SBIR funds for outreach to small businesses owned by minorities, women and veterans, among others, drew opposition from Republicans and was rejected, 15-17.

Dana Rohrabacher, R-Calif., said it was inappropriate to make racially-based decisions.

“Why don’t we just eliminate all this extra verbiage and just say that we want the government to reach out to everybody except white males,” Rohrabacher said. “Well why we wouldn’t do that -- because it would obviously be racist. Well it’s racist . . . to do this in the first place.”

Johnson said the amendment was not intended to reach out to all groups except white males because there are many white men who are disabled and veterans. She also contended that one of the congressional objectives of the SBIR program is to increase participation by women and minority-owned businesses.

Earlier Wednesday, the Senate rejected 52-44 a motion to invoke cloture on its version of the small business bill, a move that could doom its prospects for passage.

The House Small Business Committee is expected to markup the House bill next Wednesday.