



the
**Stimulus
Syndrome**

By Troy Anderson

**A Small Business
Initiative**



W

hen competition dancers Michelle Hafle and Sergey Korshunov applied for loans to open a premier ballroom dance venue in North Dallas, two banks initially turned them down.

But the couple who trained Dallas Mavericks owner Mark Cuban and choreographed former Dallas Cowboy Emmitt Smith for their appearances on “Dancing with the Stars” hit pay dirt when they applied for a Small Business Administration loan made available through the nation’s largest economic stimulus plan in history.

Beneficiaries of a new SBA program designed to stimulate the economy, this couple who compete internationally at the world’s most prestigious ballroom events obtained a \$148,000 loan through Wells Fargo to open Studio 22: A Ballroom & Social Dance Club. They also saved nearly \$2,800 in loan fees as part of new SBA rules.

Ranked United States Rising Star Latin finalists, they expect to open Studio 22 later this summer, featuring a dozen of Dallas’ top professional instructors giving lessons in Ballroom, Latin, Swing, Salsa, Argentine Tango, Country & Western, and competitive DanceSport styles. The group dance classes will cost \$10 to \$15 per person.

“In today’s economy when people are looking to have some kind of social outlet, but not spend so much money, dancing is a very popular activity,” says Hafle, who started dancing at age four. “Dancing has always been a source of economical recreation during times of depression or recession. If you look back



Dancing stars Michelle Hafle and Sergey Korshunov obtained an SBA loan made available through the economic stimulus plan, to open Studio 22: A Ballroom & Social Dance Club.



Under the federal American Recovery and Reinvestment Act, the SBA gets \$730 million to provide loans to small businesses.

loan fees, increasing guarantees on SBA loans up to 90 percent, and expanding the SBA's Surety Bond Guarantee program. The SBA also started guaranteeing America's Recovery Capital loans for struggling businesses to help them keep their doors open. These deferred-payment loans up to \$35,000 are available to established small businesses in need of short-term help to make payments on mortgages, capital leases, credit cards, and notes payable to vendors, suppliers, and utilities. These interest-free, no-fee loans are 100 percent guaranteed by the SBA. For more information about SBA loans, visit www.sba.gov.

At the SBA's office in the Dallas-Ft. Worth area, the amount of monthly SBA loans made to small businesses has more than doubled, from \$21 million to \$45 million, since Congress approved the ARRA in February.

"That tells me the Recovery Act is working," says Herbert Austin, district director of the office. "It stimulates the marketplace, stimulates the economy, and allows banks to make loans they might not otherwise make."

The SBA program is just one part of the larger federal economic stimulus bill designed to jump-start the economy with \$787 billion in spending over the next two years. The Act includes money for tax cuts, increased unemployment benefits, infrastructure, construction and repair projects, renewable energy programs, a summer jobs program, and grants and loans for businesses, farmers, non-profit, and government agencies. The funding includes \$288 billion for tax cuts, \$144 billion for state and local governments, \$111 billion for infrastructure and science, \$81 billion for protecting the vulnerable, \$53 billion for education and training, \$59 billion for health care, \$43 billion for energy, and \$8 billion for other uses.

in history it's interesting to see the correlation of the popularity of dance to times when the economy was the weakest. During the Great Depression there was swing, during the 70s oil crisis disco and the Hustle became very popular, and Salsa dancing became really big during the dot-com crash of the late 1990s. Coincidence?"

In anticipation of their grand opening, many people have already signed up for dance lessons. The ballroom dance venue wouldn't be possible without the SBA loan and the stimulus money, Hafle says.

"Whether we take the stimulus money and use it for building improvements and employ a contractor, or use the money to hire a receptionist for a longer period of time, that money will be filtered back into the economy," Hafle says.

Under the federal American Recovery and Reinvestment Act, the SBA gets \$730 million to provide loans to small businesses. The funding is for reducing or eliminating

On the 100th day after President Barack Obama signed the bill to give the economy an “adrenaline jolt,” Vice President Joe Biden issued a report noting that more than \$112 billion had been obligated and 150,000 jobs created. Biden estimates the Recovery Act will help save or create 3.5 million jobs by the end of 2010. The Act is already starting to make a difference, Obama administration officials say, as the nation’s economy is exhibiting signs of stability and credit is easing.

“As far as I can see, the Act is stimulating the economy,” says Dorothy Overal, the acting regional administrator for the SBA in Texas, Arkansas, Oklahoma, Louisiana and New Mexico. “Banks are making more loans. Whenever there is an increase in lending and businesses keep their doors open, it keeps more people employed, and if more people are employed, there is more money to be spent.”

Despite these optimistic assessments, Republicans, small business, and limited-government advocates are concerned about waste and fraud involving Recovery Act funds, the nation’s soaring national debt, and the slow pace of the money’s release. Since the Act was signed, the nation has lost 1.6 million jobs. And so far, only \$44 billion has been spent. A recent Rasmussen poll found 45 percent of taxpayers want to see a halt in stimulus fund spending.

Texas Governor Rick Perry blasted the Act for what he called Washington’s



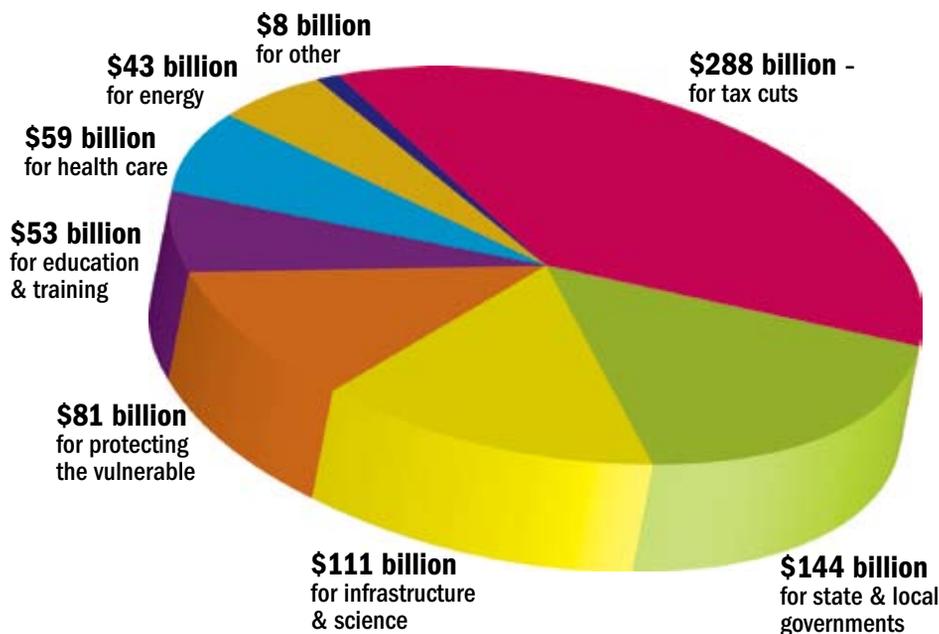
These “tea party” rallies in Dallas were held to protest the Recovery Act and bailouts for the auto and banking industries.

runaway spending and he rejected about a half-billion dollars in economic stimulus funding for unemployment benefits, arguing it would cost the state more once the federal funds were shut off. The brouhaha came as Perry, a potential candidate for president in 2012, mused about the possibility of Texas seceding from the Union and tea party rallies sprung up across the nation. The rallies were held to protest the Recovery Act and bailouts for the auto and banking industries.

“Our feeling is it won’t work, and history has shown us things like this in the past have been doomed to fail,” says Josh Parker, organizer of the Houston Tea Party Society. “Just look at how Japan during its Lost Decade put so



Dorothy Overal, the acting regional administrator for the SBA in Texas, Arkansas, Oklahoma, Louisiana and New Mexico, believes the Act is stimulating the economy.



The SBA program is just one part of the larger federal economic stimulus bill designed to jump-start the economy with \$787 billion in spending over the next two years.

much of their government money into stimulus projects, and it didn't really do anything to get the economy back up."

U.S. Senator Tom Coburn (R-Okla.) recently released an oversight report detailing the worst examples of waste among 100 stimulus projects, noting the head of the Recovery Act Accountability and Transparency Board estimated at least \$55 billion in stimulus funds may ultimately be lost to waste, fraud, and abuse. The examples in the report include steam rooms in the

fitness center at Laughlin Air Force Base and \$17 million for a park over a freeway in Dallas. The original agreement called for the builder to pay for the entire \$93 million venture with private funds, but that has changed now that stimulus funds have become available.

"The American people have a right to know how their economic dollars are being spent," Coburn says. "In too many cases, stimulus projects are wasting money we don't have on things we don't need."

In Fairfax, Va., Bill Wilson, president of Americans for Limited Government, has called on members of Congress to co-sponsor The Federal Reserve Transparency Act of 2009. The legislation would require an audit to account for nearly \$8 trillion committed by the Federal Reserve in the last two years for the Recovery Act, bank and auto industry bailouts, and inter-bank loans. The bill by U.S. Representative Ron Paul (R-Tex.), would provide a full accounting of the "Fed's irresponsible activities of moving trillions of dollars to foreign governments and banks, crashing markets, and wrecking the economy." The national debt already exceeds \$11 trillion, and the Congressional Budget Office projects that more than \$1 trillion will be added per year for the next decade, in large part due to stimulus funding, according to Coburn's report.

"Democrats in Congress have pushed through the largest spending plan ever proposed, saddling us with more debt than under every president from George Washington to George W. Bush combined," says U.S. Senator Kay Bailey Hutchinson (R-Tex.). "It is now estimated that the U.S. borrows nearly 50 cents for every dollar we spend. At this rate, will our lenders, too often other nations like China, continue to buy our debt, and what will happen to our economy if they don't? Or if they do lend, at what interest rate?"

As a result of borrowing trillions of dollars and "printing money," Wilson believes the U.S. is going to experience "massive problems" after the Federal Reserve releases most of the stimulus money beginning next year.

"Under all the old rules of Keynesian economics, when you spend in a downturn, the idea is to spend that money on something that has long-term benefits, not just on immediate consumption," Wilson says. "Unfortunately, a huge percentage of this money - around 80 percent - goes to current consumption. It's going for unemployment benefits and to bail out states that have bad budgets. And a very small percentage, something like seven to eight percent, goes to investments in roads, sewers, and similar projects."

From a businessman's standpoint, Wilson says the stimulus money



**The state expects to receive
\$19.2 billion in stimulus funds.**

**This includes
\$14.3 billion the Texas
Comptroller's Office will distribute,
\$2.6 billion going directly
to cities and counties and
an additional \$2.3
billion designated for federal
projects at military
bases and other
federal agencies.**

designated for transportation, water, electric, and other infrastructure projects will help increase business productivity. However, Wilson says, the bulk of the money will only "stick us with a very large bill." This tab will be repaid at high interest rates, contribute to currency inflation, and will have a devastating impact on the ability of businesses to compete in the world and offer products and services that the American public can afford.

"I think potentially we could see very high inflation and a double-dip recession – much like the double-dip depression of the 1930s," Wilson says. "We have to realize that in 1933 and 1934 everybody thought things were fine. The stock markets had recovered, employment had started to rebound; and then all of a sudden, the dip in 1937 was far worse than the original one, and it was longer. And we are using, to a large extent, the same type of policies today."

Rick Kaplan, a principal and chief investment officer at Legacy Asset Management in Houston, agrees that "printing money" to stimulate the economy is a bad long-term policy. Currently, consumers and corporations are spending conservatively and saving money.

"But when people start spending, the velocity of money will increase, inflation will rear its ugly head, and we'll be in a 1980s environment where we'll have tremendous amounts of debt and hyperinflation," Kaplan says.

U.S. Representative Joe Barton (R-Tex.), says the biggest problem involving the Recovery Act is that the money is not being spent right away because it's going through normal bureaucratic channels.

"It's probably acceptable to spend some federal money to try to stimulate the economy," Barton says. "But I don't think there is going to be much of a positive benefit from a business perspective, because over time we'll have to raise taxes and interest rates to pay the money back."

Despite these assessments, Texas officials believe the funding is beneficial in a state that is consistently ranked the top state for job growth and business development. The state expects to receive \$19.2 billion in stimulus funds. This includes \$14.3 billion the Texas Comptroller's Office will distribute, \$2.6 billion going directly to cities and counties and an additional \$2.3 billion designated for federal projects at military bases and other federal agencies. So far, the comptroller has received \$1.6 billion. The comptroller's office is distributing the money to various state agencies for job training, health care, construction projects, employment, and energy efficiency and conservation programs.

Comptroller's office spokesman R. J. DeSivla suggests that businesses regularly check with city and county contracting offices to find out if they are launching stimulus-related projects. For more information on Texas Recovery Act funds, log onto www.window.state.tx.us/recovery.

"We are still in the initial phases of a lot of this money coming through," DeSilva says. "TxDOT is in the process of getting money to start projects. We expect funds to be used for energy efficiency projects in public buildings around the state. That will create work for companies that check energy use in buildings or specialize in energy efficient equipment."

By May of 2010, TxDOT expects it will have awarded \$1.7 billion in contracts using stimulus funds that, together with other investments, will generate \$3.1 billion in maintenance and mobility projects. The U.S. Department of Housing and Urban Development is distributing nearly \$120 million to Texas public housing authorities to make improvements to tens of thousands of public housing units.

Nationwide, the Act includes more than \$467 million to expand and accelerate the development of geothermal and solar energy, nearly \$800 million for biofuels research, \$93 million to develop wind energy, and \$43 million

By May of 2010,
TxDOT expects it will have awarded \$1.7 billion
in contracts using stimulus funds that,
together with other investments, will generate
\$3.1 billion in maintenance and mobility projects.

to spur growth of fuel cell markets.

“Because of the Recovery Act, our business is growing, not shrinking,” says John Berger, founder and chief executive officer of Standard Renewable Energy, a Houston-based company that helps homeowners, businesses and government agencies reduce energy consumption. “We just opened a new office in Phoenix, and by year’s end, our workforce will have grown over 70 percent.”

Another company seeking stimulus funds is the Dallas-based Oncor Electric Delivery Company, which operates the largest distribution and transmission system in Texas. Oncor recently joined Ford Motor Company’s application for U.S. Department of Energy stimulus funds to support a test of plug-in hybrid and electric vehicles. If approved by the DOE, Oncor could receive as many as 67 vehicles built by Ford as part of a nationwide effort to develop a commercial market for the new technology. Oncor leads the nation in the deployment of advanced metering systems – devices that record real-time use of energy, making it possible to charge vehicles at off-peak times when electricity prices are lower.

“Oncor is building 800 miles of transmission lines to bring wind power from West Texas to major population centers throughout Texas,” Oncor spokeswoman Carol Peters says. “That is cheap, renewable energy that would be available primarily at night because the wind blows primarily at night. That energy would be available for charging plug-in hybrid and electric vehicles. We are looking forward to being leaders among electric utilities in the U.S. developing electrified vehicle fleets.”

Meanwhile, SBA offices throughout the state are facilitating an increasing number of stimulus-related loans to businesses, including a more than 120 percent increase at the Houston office.

One of those loans went to Friendly Ford of Crosby, which has experienced a 35 percent drop in monthly vehicle sales and revenues. Like many car dealers, owner Fred J. Salinas says his company also faces working capital challenges, so he contacted the SBA office in Houston.

“The bankers, who are aware the stimulus package is out there and that the government guarantees the loan, know it’s a no-brainer,” Salinas says. “What we are doing is consolidating some debt, and the remainder we’ll use for working capital.”

Dwight Hilton, the Dallas-based SBA regional sales manager for Wells Fargo in Texas, Oklahoma, and Arkansas, says the loan the bank gave to Studio 22 may create 15 to 17 jobs.

“We are seeing signs of stability and increasing loan demand as people are wanting to grow their businesses,” Hilton says.

For Michelle Hafle and Sergey Korshunov, the upcoming opening of their ballroom dance studio is a dream come true.



“As a first-time business owner, especially in today’s economy, to receive any type of stimulus helps out immensely,” Hafle says. “As a small business owner, there are always a lot of unforeseen costs, and it’s nice to know there is this little extra assistance that helps offset those costs.” **N**

Troy Anderson, an award-winning newspaper reporter based out of Southern California, freelances for a variety of national and regional magazines.