

**MARKUP OF COMMITTEE'S BUDGET VIEWS AND  
ESTIMATES**

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**HEARING**

BEFORE THE

**COMMITTEE ON SMALL BUSINESS**

**UNITED STATES**

**HOUSE OF REPRESENTATIVES**

**ONE HUNDRED EIGHTEENTH CONGRESS**

**FIRST SESSION**

HEARING HELD  
FEBRUARY 28, 2023



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## MARKUP OF COMMITTEE'S BUDGET VIEWS AND ESTIMATES

TUESDAY, FEBRUARY 28, 2023

HOUSE OF REPRESENTATIVES,  
COMMITTEE ON SMALL BUSINESS,  
*Washington, DC.*

The Committee met, pursuant to call, at 9:47 a.m., in Room 2360, Rayburn House Office Building, Hon. Roger Williams [Chairman of the Committee] presiding.

Present: Representatives Williams, Luetkemeyer, Stauber, Meuser, Van Duyne, Mann, Ellzey, Molinaro, Alford, Bean, Hunt, LaLota, Velázquez, Phillips, Landsman, McGarvey, Gluesenkamp Perez, Scholten, Thanedar, Davids, and Pappas.

Chairman WILLIAMS. Good morning to everyone. I want to thank everybody for being here. And I call the Committee on Small Business Meeting to order. Without objection, the Chair is authorized to declare the recess of this Committee at any time. Today's first order of business is to consider the views and estimates on the priorities of the Committee on Small Business for fiscal year 2024. Then, we will then briefly adjourn to re-set the room for our first hearing, which will take place immediately following this meeting. I now recognize myself to make an opening statement.

There is no question that our country relies on small business. In fact, 99 percent of all U.S. businesses are small businesses. We are a nation of creators, inventors, and risk takers. Our economy was structured to be driven by entrepreneurs. Most net job growth in this country comes from small firms, yet we are hearing from small business owners back home that they are struggling. In fact, after this mark-up, we will hear from four of those small business owners, who will educate us on the problems they face in today's economy.

Our goal, this Congress, is to pass meaningful reform to lessen regulatory burdens and increase access to capital to those who need it most. The last few years of overburdensome regulations and inflation have brought many small businesses to the breaking point. That is why last week Republican Members on this Committee sent 25 letters to agencies, asking how they were considering small businesses in their rulemaking process. The Small Business Administration, over which we have jurisdiction, has a vital role in helping small firms expand and grow our economy. It is our job on this Committee to ensure that the SBA's programs are working efficiently and effectively to the benefit of all types of small business. We must ensure that this is a positive return on investment for the taxpayers.

The budget views and estimates presented today for this upcoming fiscal year note that the SBA faces a significant number of challenges. For instance, the emergency funding programs from the pandemic quickly overwhelmed the SBA and were subject to total fraud. In addition, as of May 2022, the SBA had 44 outstanding recommendations for improvement from the Government Accountability Office. The implementation of these recommendations is vital to ensure the SBA fulfills its mission, and we intend to oversee that effort.

Our views and estimates also commit to conducting oversight over systematic failures in the SBA and promote legislative changes that will ensure the right people have access to the capital and acts and assistance they need to succeed.

So, with that, I yield to the distinguished Ranking Member, Ms. Velázquez, for 5 minutes for any remarks she may wish to make on the budget views and estimates.

Ms. VELAZQUEZ. Thank you, Mr. Chairman, for holding this mark-up today on the Committee's views and estimates of the Small Business Administration.

Let me begin by saying the economic progress we have made over the past 2 years is undeniable. We have added more than 12 million new jobs, and more than 10.5 million people applied to start a new business. This is in large part due to the policies enacted by Democrats in the last Congress. More work needs to be done, and I am committed to working with Chairman Williams to make important budgetary decisions for SBA programs.

The submission of this document to the Budget Committee is an important aspect of the Committee's work, and I am sure my colleagues will agree that it would have been better to wait until the President submits his proposed budget for FY 2024 next week. Having the agency's up-to-date information and projections would enhance our recommendations to the Budget Committee.

Our views and estimate letter focuses broadly on improving programs and oversight at the Small Business Administration. We agree with much of the Majority's views. For example, recommending that SBA take steps to improve its capital access, procurement, and entrepreneurial development programs is prudent governance. Doing so advances SBA's mission to assist small businesses and better protect taxpayers.

Another area of agreement is our commitment to conducting vigorous oversight of lending rules to ensure they will actually enhance the current program without causing harm to it or the borrowers. Expanding lending to borrowers in underserved markets is a top priority, and that is why Democrats support codifying the Community Advantage Program, a proven program that has been effective in reaching underserved borrowers.

Turning to SBA's disaster loans, which are the primary form of federal assistance for both homeowners and small businesses, we have seen multiple once-in-a-century weather events. We must ensure sufficient funds are available to help Americans in their times of need, just as we did during the pandemic, when SBA delivered \$390 billion to 4 million small businesses through the COVID EIDL program.

SBA will need significant funding to service these loans over the next 30 years. Federal funding for SBA entrepreneurial development programs provide free or low-cost counseling and training to more than a million entrepreneurs each year. The Committee has worked in a bipartisan manner to reauthorize this program and increase the levels of funding, which we continue to support.

Similarly, SBA procurement programs maximize small business participation in federal contracts, which in turn boosts competition, lower prices, and expand our nation's supplier base. Robust funding is imperative if we want to provide this program with the personnel and resources needed to adequately meet their intent.

Turning to the Regulatory Flexibility Act, we agree agencies need to follow the process to reduce regulatory burdens for small firms, but we oppose a blanket rejection of regulations that safeguard health, safety, and environment.

We must proceed with thoughtful deliberation to tailor regulations for small businesses and provide compliance assistance. This agreement on agency priorities is not unusual, and that is why Committee Democrats will be submitting additional views and estimates to the Budget Committee.

SBA remains the government's best resource for small businesses, be it capital access, counseling, or contracting opportunities. The success of the economy depends on small businesses leading the way, and the SBA is central to this.

I thank the Chairman again for holding this mark-up. I look forward to working together in a bipartisan way to further foster entrepreneurship.

Thank you. I yield back.

Chairman WILLIAMS. Thank you. Are there any other Members who wish to be recognized for a statement on the views and estimates on the priorities of the Committee for fiscal year 2024?

All right, seeing none, the Committee now moves to consideration of the views and the estimates.

A copy of the proposed views and estimates has been distributed to Members in advance. Without objection, the views and estimates are considered read and open for amendment. Does any Member seek recognition for the purpose of offering an amendment?

All right, seeing no amendments, the question is on adopting the views and estimates on the priorities on the Committee for fiscal year 2024.

All those in favor, say, aye.

All opposed, say, no.

In the opinion of the Chair, the ayes have it, and the views and estimates are agreed to.

The Ranking Member is now recognized for a motion.

Ms. VELAZQUEZ. Mr. Chairman, I would like to give notice, pursuant to House Rule XI 2(1), that the Committee's Democrats will be filing additional views with the Committee on the Budget regarding SBA FY 2024 budget.

Thank you.

Chairman WILLIAMS. Without objection, so ordered.

Without objection, the staff is authorized to make technical and conforming changes, and I would like to thank everyone for participation today.

This meeting of the Committee on Small Business is adjourned. Members, please stay seated, and we will bring the witnesses up for the hearing today.

[Whereupon, at 9:57 a.m., the committee was adjourned.]



APPENDIX

ROGER WILLIAMS, TEXAS  
CHAIRMAN

NYDIA M. VELAZQUEZ, NEW YORK  
RANKING MEMBER

Congress of the United States  
U.S. House of Representatives  
Committee on Small Business  
2361 Rayburn House Office Building  
Washington, DC 20515-0315

February 28, 2023

The Honorable Jodey C. Arrington  
Chairman  
Committee on the Budget  
204 Cannon House Office Building  
Washington, D.C. 20515

Dear Chairman Arrington:

I am transmitting the Views and Estimates for the Fiscal Year 2024 Budget Resolution for the House Committee on Small Business. The Committee approved, with a quorum being present, the Budget and Estimates for FY2024 on February 28, 2023, by voice vote.

Should you or your staff have further questions regarding this document, please contact Lauren Holmes, General Counsel for the Committee, at 202-225-5821.

Sincerely,



Roger Williams  
Chairman  
Committee on Small Business

Enclosure

**Views and Estimates of the Committee on Small Business on Matters to be set forth in the Concurrent Resolution on the Budget for Fiscal Year 2024**

Pursuant to clause 4(f) of Rule X of the Rules of the House and § 301(d) of the Congressional Budget Act of 1974, 2 U.S.C. § 632(d), the Committee on Small Business (Committee) is transmitting herein the views and estimates on the priorities within its jurisdiction or functions to be set forth in the concurrent resolution on the budget.

The United States Small Business Administration (SBA) has responsibility for programs that help create jobs and grow the economy of the United States (U.S.). Entrepreneurs continue to depend heavily on these programs to receive not only needed capital, but also advising, mentoring, and training. It is essential that SBA programs are efficient, effective, and achieve real results for small businesses and America's taxpayers. Entrepreneurs and taxpayers deserve nothing less.

The Committee reiterates its ongoing concerns about SBA-created initiatives. Many of these efforts have not been reviewed, approved, or sanctioned by this Committee and often duplicate longstanding small business outreach efforts funded through SBA's annual appropriation. In addition, these SBA-created initiatives have often not been adequately assessed by SBA prior to, or after, their implementation. In the Committee's view, this funding could be eliminated without hindering outreach to small businesses, and the funds saved could be reallocated to technology improvements, hiring appropriate SBA employees to assist small businesses gain their fair share of federal government contracts, or implementing the priorities that Congress has mandated for SBA.

The Committee believes that the SBA and its programs can operate more efficiently and effectively with this reassignment and reallocation of existing resources. The SBA's financing programs operate with zero subsidy and minimal administrative cost, and any program reform legislation would not have a significant budgetary impact.

**I. Introduction—SBA's Mission and Management**

Since its founding, America has relied on small businesses to shape and grow the economy. Our nation's economic policies have been tailored to assist small firms. As of December 2022, the 33.2 million small businesses in America employ 61.7 million workers—46.4 percent of all U.S. employees. Over the last 25 years, small businesses have added nearly 13 million jobs to the economy, making up two-thirds of all jobs added during that time. However, in recent years, inflation and the growing number and complexity of federal regulations have held back economic expansion and job growth, particularly by small firms, and have made it increasingly difficult for them to thrive and compete in the global economy. As a result, even more small businesses are dependent on the SBA programs, so it is critical that those programs are tailored to yield the most beneficial results.

The SBA was created in 1953 by President Eisenhower to replace the Small Defense Plants Administration<sup>1</sup> and the Reconstruction Finance Corporation.<sup>2</sup> According to the Small Business Act, 15 U.S.C. §§ 631-57s, the SBA's mission is to "aid, counsel, assist, and protect, insofar as is possible, the interests of small business concerns...."<sup>3</sup> The SBA meets its statutory mission by performing three major functions: 1) assisting small businesses in obtaining needed capital; 2) helping small businesses in navigating the federal procurement marketplace; and 3) offering managerial counseling and assistance to small businesses. Each function is carried out through Congressionally mandated programs, sometimes in conjunction with private sector partners. Specifically, the SBA provides loans and loan guarantees to creditworthy small businesses; entrepreneurial counseling and technical assistance to build startups; and disaster services to disaster survivors. Most of these services are delivered, either by SBA or one of its partner organizations, through SBA's district offices throughout the U.S.

In June of 2022, the SBA received a letter from the Government Accountability Office (GAO) regarding GAO's comprehensive assessment of SBA's overall management, which was undertaken at the Committee's request.<sup>4</sup> In its audit, which was requested by the Committee, GAO found many long-standing SBA management deficiencies, including deficits in strategic planning, human capital, organizational structure, and information technology (IT). GAO recommended a number of specific steps to the SBA, such as increased training, procedural guidance, strategic and workforce planning, and oversight of IT investments. As of May 2022, SBA had 44 incomplete recommendations.<sup>5</sup> The Committee remains very concerned that SBA has not made these management recommendations a priority, and the Committee will continue its stringent oversight in this area.

On October 14, 2022, SBA's Office of the Inspector General (IG) released a report outlining SBA's most significant challenges in FY2023.<sup>6</sup> The report noted that inaccurate procurement data and eligibility concerns in the contracting programs and significant challenges in IT investment, among other things, are contributing to the SBA's failure to fulfill its mission effectively.<sup>7</sup> The report also noted that the SBA's economic relief programs are susceptible to significant fraud, the disaster assistance program needs to better balance efficiency with accuracy, better identify improper payments in the 7(a) program, and better manage and monitor the 8(a) business development program.<sup>8</sup> Finally, the report found that the SBA needs robust

<sup>1</sup> *Organization, SBA History*, U.S. SMALL BUS. ADMIN. (last visited Feb. 23, 2022) <https://www.sba.gov/about-sba/what-we-do/history> (The Small Defense Plants Administration was created during the Korean War to help maintain a robust small business industrial base for providing goods to U.S. military services.)

<sup>2</sup> *Organization, SBA History*, U.S. SMALL BUS. ADMIN. (last visited Feb. 23, 2022) <https://www.sba.gov/about-sba/what-we-do/history> (The Reconstruction Finance Corporation began in 1932 as a federal lender to businesses).

<sup>3</sup> 15 U.S.C. § 631(a).

<sup>4</sup> U.S. GOVT. ACCOUNTABILITY OFFICE (GAO), LEADERSHIP ATTENTION NEEDED TO OVERCOME MGMT. CHALLENGES (GAO-15-347) (2015) (hereinafter "GAO SBA Management Report").

<sup>5</sup> Letter from Gene L. Dodaro, Comptroller General, Gov. Accountability Office, to Isabella Casillas Guzman, Administrator, Small Bus. Assoc. (Jun. 3, 2022).

<sup>6</sup> U.S. SMALL BUS. ADMIN., OFFICE OF INSPECTOR GENERAL, TOP MGMT. & PERFORMANCE CHALLENGES FACING THE SMALL BUS. ADMIN. IN FISCAL YEAR 2023, vi-vii (Oct. 14, 2022).

<sup>7</sup> *Id.*

<sup>8</sup> *Id.*

grants management oversight.<sup>9</sup> The Committee remains concerned that SBA is not operating at its most efficient or effective level and will continue its stringent oversight over these issues.

SBA released its draft FY 2022-2026 Strategic Plan on March 28, 2022.<sup>10</sup> The plan, which SBA called the principal document within the agency's comprehensive management framework, summarizes the strategies that SBA intends to use to accomplish its three strategic goals.<sup>11</sup> The primary goals, to be completed by September 30, 2023, are: 1) expand the number of Community Financial Institutions enrolled in Lender Match by 20 percent; 2) increase federal contracting awards to small disadvantaged businesses to 12 percent; and 3) increase the number of loans that include mitigation measures by 20 percent from the FY2022 baseline.<sup>12</sup> The Committee will closely follow SBA's efforts to accomplish its goals during the upcoming four-year period.

## II. Capital Access Programs

As a result of the economic crisis over the last two years, small businesses are facing incredible hardship and are having difficulty obtaining needed capital. SBA administers four major capital financing programs: the 7(a) Guaranteed Loan; the Certified Development Company Loan Program; the Small Business Investment Company (SBIC) Program; and the Microloan Program. In these programs, SBA does not lend funds directly to small businesses, but through government guarantees, SBA works with private-sector and non-profit partners and intermediaries on the repayment of issuance of credit and equity.

The SBA must operate its capital access programs within the Federal Credit Reform Act, 2 U.S.C. §661-661f (FCRA). Under FCRA, the budget records the federal government's estimated long-term cost (its subsidy cost) in the year the direct loan or loan guarantee is made. Agencies generally update these subsidy costs annually to reflect loan performance. To the extent that the President's budget states the need for appropriations to cover the cost of loan programs, the Committee believes that the budget resolution should ensure that the program is running in a safe and sound manner, without the need for additional taxpayer subsidies.

Many of the SBA's programs are designed to operate without a federal government subsidy. However, if SBA does require a subsidy to operate these programs, the rationale has been that, because small businesses create much needed jobs, it would be counterproductive to increase the cost of making loans to them. In 2015, SBA's 7(a) Program experienced unprecedented demand and reached its \$18.75 billion authorized loan limit. Unfortunately, SBA did not inform Congress until the lending ceiling was reached, and lending was temporarily delayed until Congress took emergency action. In legislation to raise the lending level to \$23.5 billion, Congress required SBA to regularly report on loan levels so future emergency action will not be needed. For FY23, the authorized lending limit reached a record level of \$35 billion dollars.<sup>13</sup> The Committee will continue to monitor the authorized lending limit.

<sup>9</sup> *Id.*

<sup>10</sup> U.S. SMALL BUS. ADMIN., STRATEGIC PLAN FISCAL YEARS 2022–2026, 10 (Mar. 28, 2022).

<sup>11</sup> *Id.*

<sup>12</sup> *Id.*

<sup>13</sup> Consolidated Appropriations Act, 2023, Pub. L. No. 117-328.

The Committee will conduct vigorous oversight of the SBA's proposed "*Small Business Lending Company (SBLC) Moratorium Reversion and Removal of the Requirement for a Loan Authorization*," and the proposed "*Affiliation and Lending Criteria for the SBA Business Loan Programs*" rules. The Committee will examine if the rules have an effect on the integrity of the 7(a) lending program and if they will pose any additional risk to the taxpayer. The Committee will scrutinize the SBA's abilities to prudently manage risk within the program.

In addition to multiple Congressional hearings and Congressional inquiries, the SBA Inspector General in recent years identified SBA's failure to provide effective lender oversight as one of the most serious issues facing the agency. It is critical for SBA to improve its oversight of its lending program participants and ensure that it can provide proper oversight of the capital access programs so that the underlying policy goals are met.

In the past, the Committee has noted that appropriate lender oversight requires a robust technology system. According to the most recent Office of Inspector General report, the SBA faces significant challenges in IT investment, system development, and security controls.<sup>14</sup> The Committee expects to continue its oversight of these functions to ensure that SBA can provide the data needed to measure the efficacy of its programs, protect it from cyberattacks, and meet the goals of the Small Business Act.

Beyond the four main capital access programs, the SBA is the primary provider of disaster assistance to small businesses and homeowners after a disaster. The COVID-19 pandemic provided the most aggressive test of the disaster loan program to date and, unfortunately, the SBA fell short. In March 2020, Congress passed the Coronavirus Aid, Relief, and Economic Security Act (CARES Act),<sup>15</sup> which created the bipartisan Paycheck Protection Program (PPP) and activated the Economic Injury Disaster Loan (EIDL) Program.<sup>16</sup> Both of these programs were subject to substantial fraud and abuse, and the Committee will conduct rigorous oversight of these programs and seek to determine ways to ensure a better response for future crises.

### **III. Entrepreneurial Development Programs**

A significant portion of SBA's budget is allocated to providing technical assistance and outreach to small businesses. This is carried out through a number of programs that SBA operates at the express direction of Congress. The major SBA entrepreneurial development counseling programs authorized by Congress are the following: the Small Business Development Center (SBDC) Program, the SCORE Program, and the Women's Business Center (WBC) Program.

Over time, the SBA has also created, using its general authority to "aid small businesses," initiatives that duplicate the services of programs that Congress has specifically directed the SBA

<sup>14</sup> U.S. SMALL BUS. ADMIN., OFFICE OF INSPECTOR GENERAL, TOP MANAGEMENT AND PERFORMANCE CHALLENGES FACING THE SMALL BUS. ADMIN. IN FISCAL YEAR 2023, vi-vii (Oct. 14, 2022).

<sup>15</sup> Pub. L. No. 116-136 (2020).

<sup>16</sup> *Id.*

to implement. In recent years, these SBA-created initiatives have comprised a significant portion of the SBA's entrepreneurial development budget, and the Committee believes that no such funds should be allocated to these often-duplicative efforts in FY 2024. In addition, to the extent that these SBA-created programs impose new outreach duties on SBA's Congressionally mandated entrepreneurial development programs, the Committee suggests that SBA reprogram funds from SBA's general salaries and expenses account to cover incurred costs. SBA's programmatic duplication has been exacerbated by its failure to measure the effectiveness of its programs. This has been particularly true in the area of entrepreneurial development programs in which SBA offers technical assistance to small business owners. In fact, §18 of the Small Business Act expressly prohibits duplication of effort by SBA if a program is already offered by another federal agency, unless Congress expressly authorizes the duplication. The Committee will continue to work with SBA to ensure priority is given to Congressionally mandated initiatives.

The SBDC Program is operated through cooperative agreements with either state agencies or institutions of higher education. Most state agency grantees subcontract operations to institutions of higher education in their respective states. The grantees have established over 1,000 service centers that provide technical assistance to small businesses for business strategy; technology transfer; government procurement; engineering; and accounting. The SBDC Program is an important and time-tested program on which small businesses depend. The Committee has stated in the past that it believes that the SBA undervalues the SBDC Program, and the Committee supports funding to be reallocated from SBA-created initiatives to the SBDC Program.

The SCORE Program provides face-to-face counseling by over 300 chapters with more than 11,000 SCORE volunteers. SCORE volunteers provide a full range of business consultation services, such as business plan development, strategic marketing, and financing ideas. SBA's SCORE database enables small businesses to find SCORE volunteers that best match the needs of the business. As with the SBDC Program, should SBA-created initiatives place additional burdens on SCORE volunteers, the Committee recommends that SBA reprogram funds from SBA's general salaries and expenses account to cover these services.

Women's Business Centers (WBC) provide training, counseling, and mentoring to women entrepreneurs. WBCs are public/private partnerships in which the federal government provides funds that are matched by private donors. There are currently over 100 Centers across the country. Many WBCs seek to provide their clients with flexible training opportunities, offering courses at night or on weekends and often in more than one language. The Committee believes that WBCs could further increase their impact by locating in areas not already served by SBDCs and tailoring their training to women. Again, this goal could be achieved by reprogramming funds and focus from SBA-created initiatives to the WBC program.

The Committee will continue to work with Congressional appropriators to ensure that priority is given to statutory mandates rather than optional initiatives that SBA has created on its own and without Congressional authorization.

#### IV. Cyber Security Programs for Small Businesses

Small businesses are increasingly victims of cyber attacks, and improving cyber security for small businesses has been a priority for the Committee over the last two Congresses. In the 117<sup>th</sup> Congress, the Committee passed some important bills that were signed into law that will help bolster cybersecurity efforts. Specifically, H.R. 3462, better known as the SBA Cyber Awareness Act, will require reports to be conducted that will discuss the overall strategy of the SBA to protect their internal IT systems. Additionally, S. 1687, the Small Business Cyber Training Act of 2022, was signed into law, which requires SBDC to be able to train small businesses on best practice for cyber defenses. While these bills are a step in the right direction, the Committee believes that there is more work to be done to protect small businesses' data from these new threats posed by cyber criminals and thinks that additional legislation will be needed in the 118<sup>th</sup> Congress.

Vitally important to procurement and SBA as a whole is the successful implementation of IT. Over the years, however, SBA has had challenges in implementing IT. Government watchdogs have issued numerous reports detailing the SBA's failure to prioritize IT and outlining the many flaws and failures.<sup>17</sup> In addition, the SBA has experienced high turnover at the position of Chief Information Officer (CIO), making it difficult to create and implement a cohesive IT strategy.<sup>18</sup>

#### V. Federal Procurement Programs

One of the primary missions of the SBA is to ensure that small businesses receive a "fair proportion of the total purchases and contracts for property and services for the Government in each industry category..."<sup>19</sup> To achieve this objective, Congress created within the Small Business Act a number of programs designed to increase contracting opportunities for small businesses. The SBA does not itemize the funds needed for operating its government contracting programs; instead, these funds are subsumed within the SBA's general salaries and expenses accounts. In its annual budget requests, historically, the SBA has not explained how the funds will be used to help small businesses to obtain federal government contracts.

In addition, the Committee has long been concerned that SBA has failed to implement regulatory changes necessitated by Congress that would enhance the participation of small businesses in the federal procurement marketplace. It seems that the SBA has failed to devote sufficient funds to the hiring and retention of personnel that is vital to maximizing the participation of small businesses in federal contracting programs. Further, OIG and Government

<sup>17</sup> See WEAKNESSES IDENTIFIED DURING THE FY 2014 FEDERAL INFORMATION SECURITY MANAGEMENT ACT REVIEW (Evaluation Report 15-07) (2015); SBA IG, WEAKNESSES IDENTIFIED DURING THE FY 2016 FEDERAL INFORMATION SECURITY MODERNIZATION ACT REVIEW (Report No. 17-14) (2017); U.S. SMALL BUS. ADMIN., OFFICE OF INSPECTOR GENERAL, TOP MANAGEMENT AND PERFORMANCE CHALLENGES FACING THE SMALL BUS. ADMIN. IN FISCAL YEAR 2023 (Oct. 14, 2022).

<sup>18</sup> Memorandum from Committee on Small Business Staff to Committee Members on Hearing: Help or Hindrance? A Review of SBA's Office of Chief Information Officer (July 12, 2017), available at [https://smallbusiness.house.gov/uploadedfiles/7-12-17\\_ocio\\_hearing\\_memo.pdf](https://smallbusiness.house.gov/uploadedfiles/7-12-17_ocio_hearing_memo.pdf); Peter Musurlian, *SBA names its third CIO in two years*, FED. NEWS NETWORK (Aug. 5, 2022).

<sup>19</sup> 15 U.S.C. § 644(a)

Accountability Office (GAO) audits have revealed a widespread problem of misreporting by agencies that award contracts to small firms with provisions or other contract language that allows larger companies to do most of the work.<sup>20</sup>

Unfortunately, a new report shows that just under 60,000 small businesses received federal contracts in FY2022—less than half of the total number of small businesses that received federal contracts in 2010.<sup>21</sup> The Committee will conduct oversight over the federal procurement process as it relates to small business and pursue options for increasing transparency and fairness in the process.

The Historically Underutilized Business Zone (HUBZone) Program was designed to direct federal contracts to small businesses in distressed areas and promote the economic development of those businesses. Federal contracting officers are permitted to set aside contracts for limited competition among HUBZone eligible small businesses. HUBZones are distressed urban and rural areas with chronically high unemployment, low household income, or both. Numerous investigations over several years by the Government Accountability Office (GAO) found weaknesses and vulnerabilities in the HUBZone Program, including inadequate vetting of participants, fraudulent awards, and falsified documents and employee information.<sup>22</sup>

According to the October 2022 OIG report, in 2018 and 2019, the SBA did not properly enforce HUBZone eligibility requirements. In 2020, SBA changed a HUBZone requirement to allow the business to continue to meet the residency requirement as long as the business has employees who lived in a HUBZone for at least 180 days after the business was first certified.<sup>23</sup> The Committee is concerned that the SBA is deviating from the intent of the program and will conduct oversight and work to ensure that the program is properly utilized.

Committee Members will continue to explore the effect of changes in federal agency construction contracts with small businesses. The Committee will continue to collaborate with other House Committees on this issue and potential legislation.

## VI. Regulatory Reform and Paperwork Reduction

Under Rule X, Cl. 1(q) of the Rules of the House,<sup>24</sup> the Committee's legislative jurisdiction includes the protection of small businesses related to regulatory flexibility. This rule recognizes that federal regulations may pose significant challenges for small businesses, which

<sup>20</sup> U.S. SMALL BUS. ADMIN., OFFICE OF INSPECTOR GENERAL, TOP MANAGEMENT AND PERFORMANCE CHALLENGES FACING THE SMALL BUS. ADMIN. IN FISCAL YEAR 2023 (Oct. 14, 2022).

<sup>21</sup> *Small Businesses Awarded Record \$159 Billion from Federal Government in 2022*, HIGHERGOV (Feb. 13, 2022).

<sup>22</sup> See U.S. GOVT. ACCOUNTABILITY OFFICE (GAO), HUBZONE PROGRAM: FRAUD AND ABUSE IDENTIFIED IN FOUR METROPOLITAN AREAS (GAO-9-440) (2009); GAO, SMALL BUS. ADMIN.: UNDERCOVER TESTS SHOW HUBZONE PROGRAM REMAINS VULNERABLE TO FRAUD AND ABUSE (GAO-10-759) (2010); GAO, HUBZONE PROGRAM: ACTIONS TAKEN ON FEBRUARY 2015 GAO RECOMMENDATIONS (GAO-16-423R) (2016); and HUBZONE PROGRAM: OPPORTUNITIES EXIST TO FURTHER IMPROVE OVERSIGHT (GAO-16-866T) (2016).

<sup>23</sup> U.S. SMALL BUS. ADMIN., OFFICE OF INSPECTOR GENERAL, TOP MGMT. AND PERFORMANCE CHALLENGES FACING THE SMALL BUS. ADMIN. IN FISCAL YEAR 2023, vi-vii (Oct. 14, 2022).

<sup>24</sup> Rules of the U.S. House of Representatives, 118th Congress (2023).



have less revenue and a smaller employee base over which regulatory and paperwork compliance costs can be spread.

America's small business owners want to comply with regulations, but they cannot do so if the regulations are crafted in a way that makes it impossible for them to comply. Recognition that small businesses are disproportionately burdened by one-size-fits-all regulations and underrepresented in the federal rulemaking process encouraged Congress to enact the Regulatory Flexibility Act (RFA) in 1980.<sup>25</sup> The RFA requires federal agencies to assess the economic impacts of regulations and to consider alternatives to reduce burdens on small businesses. The RFA has been amended twice, in 1996 and 2010, to improve agency compliance with the statute's analytical requirements. Those amendments made marginal changes, but agency compliance has remained inconsistent. Too often, agencies are exploiting gaps in the law's current requirements or ignoring their obligations under the law. The Committee has closely examined agency compliance with the RFA over many Congresses and has concluded that further strengthening of the law is needed to ensure that federal agencies comply with its requirements and truly consider the effects of regulations on small businesses.

The Committee has been at the forefront of efforts to strengthen the RFA so that the nation's regulatory process will work better for entrepreneurs. The Committee anticipates conducting a series of oversight actions that will show that many agencies are failing to comply with the RFA. SBA's Office of Advocacy has already documented nearly 30 instances of agencies' failures to properly comply with the RFA in the last two years alone. The Committee will propose substantive legislative solutions to strengthen the RFA and ensure that agencies are considering small entities when writing regulations and fully complying with the RFA. The Committee expects that no additional funds will be needed to implement the Act because federal agencies already engage in the type of outreach and analysis that is required by the legislation.

Federal paperwork can also pose a substantial burden on small businesses. The sheer volume and complexity of information collection requests can be daunting, and minor mistakes can often result in significant fines. While the federal government needs accurate information on the economy and activities of small firms, small businesses have fewer resources to absorb the paperwork burden. In addition, time spent on paperwork diverts resources from growing the business, creating jobs, and benefiting the economy as a whole.

Recognition of these challenges led Congress to enact the Paperwork Reduction Act (PRA)<sup>26</sup> in 1980. The PRA was revised in 1986 and 1995, and in 2002, the Small Business Paperwork Relief Act (SBPRA) was enacted.<sup>27</sup> Despite those efforts, the paperwork burden for small businesses continues to grow. The Committee held two hearings on the Paperwork Reduction Act, on March 29, 2017 and October 11, 2017, to evaluate the Paperwork Reduction Act and learn how paperwork burdens on small firms may be reduced.<sup>28</sup> The Committee will

<sup>25</sup> 5 U.S.C. §§ 601-612.

<sup>26</sup> 44 U.S.C. §§ 3501-3521.

<sup>27</sup> 5 U.S.C. § 601.

<sup>28</sup> *Evaluating the Paperwork Reduction Act: Are Burdens Being Reduced? Hearing Before the House Comm. On Small Business*, 115<sup>th</sup> Cong. (Mar. 29, 2017) and *Evaluating the Paperwork Reduction Act Part II: Are Burdens Being Reduced? Hearing Before the House Comm. On Small Business*, 115<sup>th</sup> Cong. (Oct. 11, 2017).

continue to build upon these efforts in the 118<sup>th</sup> Congress to ensure that these statues are still fulfilling the original Congressional intent of reducing the burden on small businesses.

#### **VII. Conclusion**

The Committee will continue to work with SBA and Congressional appropriators to ensure that small business owners receive the services that they need to start and grow their businesses. For much of its history, the U.S. has formulated policies that focused on the facilitation of economic growth. As a result, most new jobs created in the U.S. have been generated by small businesses, and about 50 percent of America works for small businesses. The Committee will do all in its power to help small businesses to compete in the ever-expanding global economy.

### Minority Views

#### **The following represent the views of the Democratic members of the Committee on Small Business on the Budget for Fiscal Year 2024**

Pursuant to clause 4(f) of Rule X of the Rules of the House and section 301(d) of the Congressional Budget Act of 1974, the Committee on Small Business is transmitting herein: (1) the views and estimates on the priorities within its jurisdiction or functions to be set forth in the concurrent resolution on the budget.

The Committee on Small Business has legislative jurisdiction over the Small Business Administration (SBA) and this letter accordingly focuses on the Fiscal Year 2024 (FY 2024) budget request for this agency and the programs it operates under the authorizations contained in the Small Business Act (15 U.S.C. § 631 *et seq.*) and the Small Business Investment Act of 1958 (15 U.S.C. § 661 *et seq.*).

#### **OVERVIEW**

America's small businesses are the engines that drive economic growth. According to the Office of Advocacy's 2022 Small Business Profile, 33.2 million small businesses, comprise 99.9 percent of all businesses and employ 61.7 million Americans.<sup>1</sup> Small businesses are also powerful job creators, accounting for 66 percent of new jobs over the past 25 years.<sup>2</sup> Not only do small businesses fuel economic growth, but they support local communities and towns through innovation, trade, and business reinvestment. The COVID-19 pandemic devastated small businesses across the country, resulting in more than 8.6 million job losses in the second quarter of 2020.<sup>3</sup> Since then, the state of the small business economy has been steadily improving, adding more than 12 million new jobs over the past two years. Moreover, a record breaking 10.5 million people have applied to start a new business.<sup>4</sup> Moving forward, the committee must ensure that small businesses have the resources and services they need to not only survive but thrive.

The SBA meets its statutory mission through four major components: (1) assisting small businesses obtain capital; (2) helping small businesses navigate the federal procurement marketplace; (3) offering small businesses managerial counseling and assistance; and (4) offering loans for small businesses, homeowners, and renters to aid in the recovery from a natural disaster. Each component is carried out through Congressionally mandated programs, sometimes in conjunction with private sector partners. The majority of these services are delivered, either by the SBA or one of its partner organizations, through the SBA's district offices across the United States.

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<sup>1</sup> U.S. SMALL BUS. ADMIN., OFFICE OF ADVOCACY, 2022 *Small Business Profile*, (Aug. 2022).

<https://cdn.advocacy.sba.gov/wp-content/uploads/2022/08/30121338/Small-Business-Economic-Profile-US.pdf>

<sup>2</sup> U.S. SMALL BUS. ADMIN., OFFICE OF ADVOCACY, *Small Business Facts: Small Business Job Creation*, (April 2022). <https://cdn.advocacy.sba.gov/wp-content/uploads/2022/04/22141927/Small-Business-Job-Creation-Fact-Sheet-Apr2022.pdf>

<sup>3</sup> U.S. SMALL BUS. ADMIN., OFFICE OF ADVOCACY, *Frequently Asked Questions*, (Nov. 2021, updated Dec. 2021).

<sup>4</sup> U.S. CENSUS BUREAU, *Business and Industry Time Series/Trend Charts*, (last visited February 22, 2023).

[https://www.census.gov/econ/currentdata/?programCode=BFS&startYear=2004&endYear=2023&categories\[\]=TO TAL&dataType=BA\\_BA&geoLevel=US&adjusted=1&notAdjusted=1&errorData=0](https://www.census.gov/econ/currentdata/?programCode=BFS&startYear=2004&endYear=2023&categories[]=TO TAL&dataType=BA_BA&geoLevel=US&adjusted=1&notAdjusted=1&errorData=0)

## ACCESS TO CAPITAL

When testifying before the Committee, small business owners consistently cite the lack of available capital as a significant problem. The SBA administers four major capital financing programs: 7(a) Loan Guarantee Program (7(a) program), 504/Certified Development Company (CDC) Loan Program, Small Business Investment Company (SBIC) program, and Microloan Program.

### SBA 7(a) Program

The SBA's flagship lending program, the 7(a) program, provides small firms with financial assistance, including working capital, fixed and intangible asset financing, as well as refinance and export support through term and revolving loans. The mission of the 7(a) program is to provide entrepreneurs who cannot access traditional capital markets with an affordable source of loans. During FY 2022, the 7(a) program supported a substantial volume of lending nationally, with over \$25.7 billion across 47,678 loans.<sup>5</sup> In FY 2024, the Committee supports robust funding for this program to ensure capital access needs are met for the nation's small business community. Additionally, it is recommended that the Community Advantage pilot program be codified into law and made permanent because it is an effective tool in reaching underserved entrepreneurs often left out under the traditional 7(a) program.

Recently, the SBA issued three proposed rulemakings,<sup>6</sup> two of which would have a major impact on the 7(a) Program. The Committee recommends the agency proceed with caution before finalizing the proposed rules due to concerns the agency does not have the necessary staff, specifically in the Office of Credit Risk Management (OCRM), to properly oversee the 7(a) program if the moratorium on SBLCs is lifted. If the rulemakings do go forward, at a minimum, the Committee recommends that OCRM be provided additional funding in order to handle the inclusion of more non-depository institutions, especially Fintechs, to take part in the 7(a) program. The Committee believes the agency should address and better understand the fraud within PPP before making major policy changes to the 7(a) program. Finally, the Committee recommends more funding be provided in order for the agency to further study whether new SBLCs, with no mission focus, can fill the gaps in lending.

### Microloan Program

The SBA Microloan Program provides loans to intermediaries, which are nonprofit community-based organizations with experience in lending as well as management and technical assistance. Intermediaries in turn help the smallest of small businesses access capital to help new businesses get off the ground. The program plays a critical role in the small business economy, providing credit to those unable to secure traditional bank-based financing. In FY 2022, \$82.6 million in Microloan funding went to 5,055 small businesses, with 76 percent of loans going to small firms

<sup>5</sup> U.S. SMALL BUS. ADMIN., *Weekly Approvals Report with data as of 09/30 for each FY*, (last visited Feb. 14., 2023), [https://data.sba.gov/dataset/70771c79-e7eb-48fb-8e1c-0fe18a5c8551/resource/24f6542c-e0b4-4d05-b9a1-e640eb1f5f75/download/websitereport\\_asof\\_20220930.pdf](https://data.sba.gov/dataset/70771c79-e7eb-48fb-8e1c-0fe18a5c8551/resource/24f6542c-e0b4-4d05-b9a1-e640eb1f5f75/download/websitereport_asof_20220930.pdf)

<sup>6</sup> The proposed rules intend to modernize the 7(a) program by allowing for alternative credit analysis used by lenders for SBA's core programs and allowing individuals to use 7(a) loan proceeds to fund partial changes of ownership; streamline the principles for determining affiliation in the 7(a), 504, Microloan, Intermediary Lending Pilot Program (ILP), Surety Bond Guarantee Program (SBG), and Business Disaster Loan programs; and lift the existing moratorium on licensing new Small Business Lending Companies (SBLCs).

located in underserved communities.<sup>7</sup> This is approximately a 10% increase in the amount of loans approved by Microloan intermediaries from FY 2021. Although, the program's combination of capital access and technical assistance is targeted to first-time entrepreneurs and is especially important to women and minorities as the loans made to underserved businesses decreased by 3% in FY 2022 when compared to FY 2021. The Committee supports robust funding for the program and the accompanying Microloan Technical Assistance.

#### 504/CDC Loan Program

The 504/CDC program provides permanent, fixed rate financing for businesses to acquire industrial or commercial buildings or heavy equipment and machinery. The program is delivered by local Certified Development Companies (CDCs) working in partnership with private lenders and the SBA. In FY 2021, the 504/CDC program experienced record-high demand that exceeded the Congressionally authorized level of \$7.5 billion.<sup>8</sup> This forced SBA to pause lending in the 504/CDC program in early September when the program reached the \$7.5 billion limit. In FY 2022, the program was on pace to exceed its lending authority prior to the end of the fiscal year. The Committee worked with the Biden Administration and the Appropriations Committee to adjust the cap on the program level to \$11 billion for FY 2022. For FY 2024, it is recommended to provide \$16.5 billion for the combined level of funding for both accounts.

#### Small Business Investment Company Program

The SBIC program is an investment program that increases access to capital for high-growth start-up businesses. Specifically, with a \$4 billion authorization per year, the SBIC program provides long-term loans and equity capital to small businesses with potential for substantial job growth and economic impact. SBICs are privately owned and managed investment funds, licensed and regulated by SBA, that use their own capital plus funds borrowed with an SBA guarantee to make equity and debt investments in qualifying small businesses. SBA provides funding to qualified investment management firms with expertise in certain industries. In FY 2022, SBICs provided approximately \$7.9 billion in financing to 1,217 small businesses, which is a 13% increase from FY 2021.<sup>9</sup> However, only 6.7% of the companies receiving SBIC financing were women-, minority-, or veteran-owned.<sup>10</sup> Therefore, it is recommended the SBA prioritize expanding outreach to increase minority- and women-led funds, and to increase the number of women-, minority-, and veteran- owned businesses that benefit from the program. The Committee supports robust funding for the SBIC program.

#### **DISASTER ASSISTANCE**

The SBA Disaster Loan program includes home disaster loans, business physical disaster loans, and Economic Injury Disaster Loans (EIDL). Disaster assistance through the SBA is the primary

<sup>7</sup> Press Release, Small Bus. Admin, SBA Announces End-of-Year Capital Benchmarks Showing Historic Support for Small Businesses under Administrator Guzman (Dec. 13, 2022), <https://www.sba.gov/article/2022/dec/13/sba-announces-end-year-capital-benchmarks-showing-historic-support-small-businesses-under>.

<sup>8</sup> U.S. SMALL BUS. ADMIN., *Weekly Approvals Report with data as of 09/30 for each FY*, (last visited Apr. 13, 2022), [https://www.sba.gov/sites/default/files/2021-10/WebsiteReport\\_asof\\_20210930.pdf](https://www.sba.gov/sites/default/files/2021-10/WebsiteReport_asof_20210930.pdf).

<sup>9</sup> U.S. SMALL BUS. ADMIN., *Small Business Investment Company (SBIC) Program Overview Report as of September 30, 2022*, (Sept. 30, 2022), - <https://www.sba.gov/document/report-small-business-investment-company-sbic-program-overview-report-fiscal-year-ending-september-30-2022>.

<sup>10</sup> *Id.*

form of federal assistance for the repair and rebuilding of private sector disaster losses. The SBA's disaster assistance is unique as it is provided in the form of loans that go directly to the ultimate borrower, and there are circumstances where the loans are not limited to small businesses. In FY 2022, the SBA approved more than 36,500 direct loans natural disasters totaling \$1.96.<sup>11</sup> In FY 2023 and FY 2024, the SBA will continue to encourage disaster preparedness to mitigate and minimize disaster damage for small businesses and communities.

In its FY 2023 budget request, the SBA requested authority to permanently increase the unsecured threshold on physical damage loans in Agency declarations from \$14,000 to \$25,000. The unsecured threshold for physical damage loans in Agency declarations reverted to \$14,000 for disasters declared on or after November 24, 2022. In the 116th Congress, the House of Representatives passed the ASCEND Act (H.R. 277), led by Ranking Member Velázquez, to retain the higher threshold. However, this legislation was not considered by the Senate. In the 117<sup>th</sup> Congress, the House of Representatives passed the Wildfire Response and Drought Resiliency Act (H.R. 5118), which included a provision, led by Ranking Member Velázquez, to retain the higher threshold, but the Senate did not consider this legislation. The Committee supports increasing the threshold to \$50,000 and increasing that figure annually to correspond to increases in the Consumer Price Index.

In addition to traditional SBA Disaster Assistance programs, the SBA experienced a massive and unprecedented increase in lending due to the COVID-19 pandemic and the broadened authority to provide EIDL disaster relief to every state and territory during the pandemic, which was provided in the first emergency supplemental.<sup>12</sup> While the SBA is no longer accepting new COVID EIDL applications, these are 30-year loans, and the SBA will need the resources and capacity to monitor and service these loans in the years to come. The Committee remains supportive of providing sufficient resources needed by the agency to service these loans. This includes fully funding the agency's new COVID-19 servicing unit that is located within the SBA's Processing and Disbursement Center.

#### **ENTREPRENEURIAL DEVELOPMENT PROGRAMS**

Each year, more than one million entrepreneurs receive mentoring, training, entrepreneurial resources, and localized assistance through SBA's Resource Partner network. The network is comprised of Small Business Development Centers (SBDCs), Women's Business Centers (WBCs), SCORE, and Veterans Business Outreach Centers (VBOCs), and offers services at every stage of business growth and development. In the past, the SBA has funded unproven pilot programs that lack a specific authorization at the expense of proven core programs. The committee remains skeptical of unauthorized Entrepreneurial Development programs due to a lack of demonstrated need, absence of robust controls, and potential for duplicative services.

#### Small Business Development Centers

<sup>11</sup> U.S. SMALL BUS. ADMIN., *Agency Financial Report: Fiscal Year 2022*, (last visited Feb. 15, 2023), [https://www.sba.gov/sites/default/files/2022-12/2022\\_SBA-AFR\\_R02-508.pdf](https://www.sba.gov/sites/default/files/2022-12/2022_SBA-AFR_R02-508.pdf).

<sup>12</sup> Coronavirus Preparedness and Response Supplemental Appropriations Act, 2020, Pub. L. No. 116-123, tit. II, 134 Stat. 147 (2020).

SBA provides grants to SBDCs to leverage a unique mix of federal, state, and private sector financial resources. This funding model enables SBDCs across the country to deliver management and technical assistance to small businesses through an extensive network comprised of 62 lead centers managing nearly 1,000 outreach locations throughout the country.<sup>13</sup> SBDCs deliver professional business advice and training focused on strategic planning, business development, financial planning, and cash flow management to hundreds of thousands of business clients annually. In FY 2022, SBDCs provided training and advising to 306,141 entrepreneurs and small business owners, helped start 20,288 new small businesses and supported nearly 1.3 million jobs. SBDCs also helped small businesses access nearly \$8 billion in capital for FY 2022.<sup>14</sup>

In FY 2023, SBDCs received \$140 million in federal funding.<sup>15</sup> Yet, funding for a number of individual SBDC centers has decreased due to an expansion of the SBDC program to the Commonwealth of the Northern Mariana Islands and shifts in the population from the 2020 Census. As a result, many SBDC networks have been forced to cut programs and services while demand remains high. To improve the quality of services provided by SBDCs, the Committee requests \$175 million in funding, which is consistent with the amount authorized in H.R. 6445 Small Business Development Centers Improvement Act of 2022, which passed the House in the 117th Congress.

#### Women's Business Centers

The SBA provides grants to 145 non-profit organizations that provide quality advising and training services primarily to women entrepreneurs, many of whom are socially and economically disadvantaged. In FY 2022, the WBC program served more than 84,000 unique clients, and helped launch 2,821 small businesses and recorded 8,363 transactions to support capital infusion.<sup>16</sup> In FY 2023, the WBCs received \$27 million in federal funding.<sup>17</sup> To ensure that women entrepreneurs across the country have access to the vital counseling and technical training services to take them from startup to success, \$31.5 million for the WBC program in FY 2024 is recommended. This increase will allow the WBCs to maintain day-to-day operations, accommodate the increase in demand for services as more individuals turn to entrepreneurship, support newly established centers, and expand outreach to underserved women entrepreneurs. The request is consistent with the amount authorized in H.R. 6441, the Women's Business Centers Improvement Act of 2022, which passed the House in the 117th Congress.

#### SCORE

SCORE provides face-to-face counseling at over 250 chapters with 10,000 SCORE volunteers.<sup>18</sup> SCORE volunteers provide a full range of business consultation services, such as business plan development, strategic marketing, and financing ideas. The SBA's SCORE database enables small businesses to find SCORE volunteers that best match the needs of their business. In FY 2022,

<sup>13</sup> U.S. SMALL BUS. ADMIN., FY 2023 CONG. JUSTIFICATION/FY 2021 ANNUAL PERFORMANCE REPORT (2022). [hereinafter, FY 23 SBA Budget Justification].

<sup>14</sup> E-mail from the U.S. Small Bus. Admin. to the Committee on Small Business (Feb 23, 2023.) (on file with the Committee).

<sup>15</sup> Consolidated Appropriations Act, 2023, P.L. No. 117-328.

<sup>16</sup> *Supra* note 24.

<sup>17</sup> Consolidated Appropriations Act, 2023, *Supra* note 25.

<sup>18</sup> FY 23 SBA Budget Justification, *Supra* note 23 at 84.

SCORE served 322,881 unique clients and helped start more than 3,900 new businesses.<sup>19</sup> In FY 2023, the enacted level of funding for SCORE was \$17 million,<sup>20</sup> and level funding for FY 2024 is recommended.

#### Veteran's Business Outreach Centers

The Veterans Business Outreach Center program provides entrepreneurial development services such as business training, counseling and mentoring, and referrals for eligible veterans and military spouses who own or are considering starting a small business. There are currently 22 VBOCs across the country that deliver these services and the Boots to Business program at 180 military installations worldwide. In testimony before the Committee, witnesses have stated that the Boots to Business program is a good resource that helps veterans see what they learned in military service and apply that to business ownership and operations.<sup>21</sup> In FY 2022, VBOCs served more than 42,000 veteran small business owners, holding 1,912 training events, including 827 Boots to Business classes and 5,546 modules.<sup>22</sup> In FY 2023, VBOCs received \$17.5 million in funding<sup>23</sup>, and it is recommended that at least level funding for the program be instituted.

#### State Trade Expansion Program

The State Trade Expansion Program (STEP) is a competitive grant awarded to States with the goal of increasing the number of small businesses that export, increasing the dollar value of exports and providing new market opportunities. The program provides small businesses with a wealth of financial support and resources to navigate the complexities of international trade, including foreign trade missions, translation services, website and e-commerce support, and subscriptions to services provided by U.S. Department of Commerce. According to recent testimony before the Committee, demand for the STEP program is strong, with SBA receiving a record number of applications and much higher requests for funding in 2022.<sup>24</sup> Given that less than 1 percent of small businesses export, and 95% of the world's customers live outside of the United States, \$30 million in funding for STEP to promote small business exporting is supported.

#### Native American Outreach Program

The SBA aids Native American communities in starting, growing, and expanding their small businesses through the Native American Outreach Program. The Native American Outreach Program is critical to traditionally underserved often geographically isolated American Indian, Alaska Natives, and Native Hawaiian communities. In FY 2023, the Native American Outreach Program received \$4 million in funding.<sup>25</sup> The Committee remains committed to supporting Native American-owned small businesses and supports robust funding to expand the programs' outreach capabilities.

### **GOVERNMENT CONTRACTING PROGRAMS**

<sup>19</sup> *Supra* note 24.

<sup>20</sup> Consolidated Appropriations Act, 2023, *Supra* note 25.

<sup>21</sup> Military to Main Street: Hearing Before the H. Comm. on Small Business, 117<sup>th</sup> Cong. (2022).

<sup>22</sup> E-mail from the U.S. Small Bus. Admin. to the Committee on Small Business (Feb 24, 2023) (on file with the Committee).

<sup>23</sup> Consolidated Appropriations Act, 2023, *Supra* note 25.

<sup>24</sup> SBA Management Review: Office of International Trade: Hearing Before the H. Comm. on Small Business, 117<sup>th</sup> Cong. (2022).

<sup>25</sup> *Id.*



The primary purpose of the SBA's Government Contracting and Business Development (GCBD) programs is to assist small businesses by increasing their access to the federal marketplace. Through federal contracts, small businesses can expand their capabilities and capacity, thereby improving their competitiveness. In turn, the Federal Government benefits from the innovation, agility, and the quality goods and services small businesses offer.

While these programs are essential to opening doors for small businesses and diversifying the small business base, unfortunately, the creation of these programs has not necessarily augmented the number of small businesses awarded Federal contracts each year. In fact, the overall participation of small firms in the federal procurement space has declined in recent years. From 2005 to 2019, the number of small businesses entering the federal marketplace decreased by 79%.<sup>26</sup> Equally concerning, the number of small businesses providing common goods and services decreased by 38% from 2010 to 2019.<sup>27</sup>

#### Procurement Staffing Levels

Procurement Center Representatives (PCRs) are responsible for overseeing approximately \$637 billion in federal contracting and play an important role in helping agencies identify opportunities for small businesses. They are also in charge of reviewing solicitations for consolidation or bundling of requirements which impede small business participation in the Federal marketplace. As of February 15, 2023, there were a total of 57 authorized PCR positions, which is already a limited number to cover all federal buying activities across the country. In particular, 35 positions were filled with 5 additional positions being posted for recruitment.<sup>28</sup> The remaining 17 positions were vacant due to funding constraints,<sup>29</sup> meaning 4 filled positions have been lost in the last 2 years at a time when preserving contracting opportunities to build the small business base is critical. There is also a limited number of Commercial Market Representatives (CMRs) assisting small businesses with subcontracting opportunities. As of February 15, 2023, there were 10 CMRs nationwide.<sup>30</sup>

The lack of resources available to review contracting actions has prevented small businesses from receiving the maximum practicable opportunities available to them and as a result fewer of these firms have been able to participate in the marketplace. Therefore, the Committee strongly recommends robust funding be made available to increase the overall number of small business advocates.

#### Small Business Set-Aside Programs

The SBA administers several governmentwide small business contracting programs. These programs reserve contracting opportunities at the prime level for small businesses in the form of sole-source opportunities (where the contract is awarded without competition) or set asides (where

<sup>26</sup> Bipartisan Policy Center, *Supporting Small Businesses and Strengthening the Economy through Procurement Reform* (Jun. 22, 2021).

<sup>27</sup> *Id.*

<sup>28</sup> E-mail from the U.S. Small Bus. Admin. to the Committee on Small Business (Feb. 15, 2023, 10:08 EST) (on file with the Committee).

<sup>29</sup> *Id.*

<sup>30</sup> U.S. SMALL BUS. ADMIN., *Commercial Market Representatives*. (Last visited Feb. 15, 2023) <https://www.sba.gov/federal-contracting/counseling-help/commercial-market-representatives>

they compete with similar situated firms for federal awards). The four procurement programs are the 8(a) Business Development Program, the HUBZone Program, the Service-Disabled Veteran-Owned Small Business Program (SDVOSB), and the Women-Owned Small Business (WOSB) Federal Contracting Program. To further incentivize small business contracting, the Small Business Act establishes the governmentwide goal of awarding at least 23% of all federal prime contracting dollars to small businesses. Additionally, the Act sets the goal of awarding 5% of all prime contracting and subcontracting dollars to both small disadvantaged businesses (SDBs) and women-owned businesses (WOSBs); and 3% to both HUBZone businesses and service-disabled veteran-owned small businesses (SDVOSBs).<sup>31</sup>

Traditionally, SBA has not broken out the funds for these programs in its budget although they are all managed by the SBA's GCBD Office; instead, the funds are subsumed in SBA's general salaries and expenses account. Given that the SBA's OIG has identified small business contracting as a serious management challenge since FY 2005 and the substantial workload this office has, it is imperative for SBA to have adequate resources to operate and improve these programs.

The 8(a) Business Development Program and the 7(j) Technical Assistance Program

The 8(a) program is a nine-year program that helps small businesses owned by socially and economically disadvantaged individuals participate in federal contracting. The program offers business development assistance through a network of Business Opportunity Specialists (BOSs) in 68 District Offices across the nation. A major benefit of the program is that 8(a) certified firms can generally be awarded contracts on a sole-source basis when the anticipated value of the contract is \$4.5 million or less (\$7 million or less in the case of manufacturing contracts). Above these thresholds, participants are eligible for set aside opportunities in which competition is restricted to 8(a) firms, thereby precluding firms from having to compete with large businesses that may have an industry advantage. In addition to these contracting incentives, 8(a) certified firms are eligible for management and technical assistance training through SBA's 7(j) program. However, participation in the 7(j) program is not limited to 8(a) firms. Other businesses eligible for the 7(j) program include SDBs that are not participating in the 8(a) program, businesses operating in areas of high unemployment or low income, small businesses owned by low-income individuals, HUBZone small businesses, and economically disadvantaged women-owned small businesses.

As of February 15, 2023, there were 4,932 firms in the 8(a) program and 154 applications were being reviewed.<sup>32</sup> With respect to the 7(j) program, the number of businesses that have sought technical assistance through it is expected to triple since FY 2017.

According to SBA's OIG, one of the main concerns in the 8(a) program is that SBA continues to face challenges in providing effective business development assistance, as well as measuring and reporting the outcomes of the program.<sup>33</sup> This is partly driven by the fact that SBA still does not count with an IT system capable of performing regular monitoring and reporting of 8(a)

<sup>31</sup>Section 15(g)(1) of the Small Business Act, 15 U.S.C. §644(g)(1).

<sup>32</sup> E-mail from the U.S. Small Bus. Admin. to the Committee on Small Business (Feb. 15, 2023, 10:08 EST) (on file with the Committee).

<sup>33</sup> U.S. SMALL BUS. ADMIN., OFFICE OF INSPECTOR GEN., TOP MGMT. AND PERFORMANCE CHALLENGES FACING THE SMALL BUS. ADMIN. IN FISCAL YEAR 2023 (2022).

participants to ensure they are progressing in their business plans.<sup>34</sup> However, there are more factors involved including that SBA has not established performance metrics for the program to help measure its success and that SBA was not ensuring BOSs regularly monitored a participant's business goals, assessed their development needs, and followed up with actions for training and accountability.<sup>35</sup> While SBA has made some progress in correcting this situation – for example, by implementing a standard process to ensure business plans are monitored and any updates are captured – there is still significant work to be done to guarantee the program is meeting its intent.

Despite this concern, in recent years, the Federal Government has been successful in meeting the goal of awarding 5% of all prime contracting dollars to SDBs, which includes businesses participating in the 8(a) program. In fact, SDBs were awarded 11.5% of eligible prime federal contracts in FY 2021. Recognizing that Federal contract spending can be a powerful tool to advance equity, the Administration is committed to increasing the share of federal contracts awarded to SDBs to 15% by 2025. In this context, the relevance of both programs is underscored as the 8(a) program is the primary way in which agencies contract with SDBs and the 7(j) program plays a significant role in training these firms.

The Committee is supportive of the Administration's efforts to increase the SDB goal. However, it is cautioned that tripling the goal, in and of itself, will not achieve the desired outcome of expanding small business participation in federal procurement. Moreover, OIG audits continue to raise concerns regarding agencies receiving credit toward the SDB goal based on firms that are no longer eligible for the 8(a) program or for firms that falsely self-certify as SDBs.<sup>36</sup> Thus, this goal should be accompanied by modifications in contracting policies to achieve meaningful change.

Consequently, a substantial increase in funding for the 8(a) program for staffing resources is supported. The additional funding will help bolster the 8(a) program by enabling the necessary modifications in contracting policies and ensuring it counts with the processes and metrics needed to measure success, all while allowing the current level of service to continue. Similarly, a considerable increase in funding for the 7(j) program commensurate with the high number of small businesses to which it offers business development training every year is recommended.

#### HUBZone Program

The HUBZone program aids urban and rural small businesses located in designated distressed areas to access federal procurement opportunities. There have been many reports from GAO and the SBA OIG detailing fraud and abuse in the program. However, SBA has come a long way in addressing those concerns. For example, from 2008 to 2015, GAO issued 11 recommendations to address weaknesses in the program, all of which have been closed.<sup>37</sup> According to the SBA OIG, the agency has made substantial progress in adding controls to the program to detect ineligible firms. Specifically, SBA updated its HUBZone policy directives and trained staff to standardize analysis and oversight. In addition, SBA required HUBZone firms to annually recertify that they

<sup>34</sup> *Id.*

<sup>35</sup> *Id.*

<sup>36</sup> *Id.*

<sup>37</sup> U.S. GOV'T ACCOUNTABILITY OFF., GAO-15-234, OPPORTUNITIES EXIST TO FURTHER IMPROVE HUBZONE OVERSIGHT (2015); U.S. GOV'T ACCOUNTABILITY OFF., GAO-09-440, FRAUD AND ABUSE IDENTIFIED IN FOUR METROPOLITAN AREAS (2009); AND U.S. GOV'T ACCOUNTABILITY OFF., GAO-08-643, ADDITIONAL ACTIONS ARE NEEDED TO CERTIFY AND MONITOR HUBZONE BUSINESSES AND ASSESS PROGRAM RESULTS (2008).

meet program eligibility requirements and to complete a program examination every 3 years.<sup>38</sup> Based on these changes, SBA has taken action to decertify firms that are no longer eligible for the program and as of May 31, 2022, the agency has decertified 2,548 firms.<sup>39</sup>

Currently, there are 4,498 active firms participating in the HUBZone program and 120 applications undergoing the review process.<sup>40</sup> Despite the interest in the program, the goal of awarding 3% of prime Federal contracts to HUBZones has never been met. In FY 2021, only 2.53% of contracts were awarded to HUBZone firms. The SBA needs to dedicate funding and staffing resources to this program to ensure its proper performance, therefore additional funding is supported.

#### Women-Owned Small Business Contracting Program

An issue of great importance to women-owned small businesses is their lack of access to federal contracting. The WOSB Program was enacted by Congress in 2000. However, it took more than ten years for the SBA to implement the program. Currently, the program counts with 8,039 participants,<sup>41</sup> almost twice the number of participants in the 8(a) program or the HUBZone Program. Despite its size, the WOSB statutory goal has only been met twice. In FY 2021, agencies failed to meet the goal with only 4.63% of prime contracting dollars going to WOSBs.

In 2020, the SBA finally implemented a formal certification process for the program, which was required by the 2015 National Defense Authorization Act (NDAA).<sup>42</sup> While the SBA is implementing the formal certification process, there is still a substantial backlog of applications despite the SBA's best efforts. In fact, as of February 15, 2023, there were 2,741 applications undergoing the WOSB review process.<sup>43</sup> Thus, the Committee recommends the SBA dedicate funding and staffing resources to the program to adequately serve its high number of participants, to eliminate the backlog of applications currently pending and to work on the processes needed to achieve efficiencies.

#### Service-Disabled Veteran-Owned Small Business Program

The SDVOSB program provides procuring agencies with the authority to set aside contracts for exclusive competition among service-disabled veteran-owned small businesses, as well as the authority to make sole-source awards. The goals for SDVOSB contracting have been met in recent years with 4.41% of the total value of prime federal contracts going to SDVOSBs in FY 2021. Congress enacted legislation in the FY 2021 NDAA eliminating small businesses' ability to self-certify, which was the main fraud concern in the SDVOSB program, and instituting a formal certification process.<sup>44</sup> Moreover, the statute abolished the verification program used by the Department of Veterans Affairs (VA) for its own veteran-owned small business program and

<sup>38</sup> FY 2023 Management Report, *supra* note 45.

<sup>39</sup> FY 2023 Management Report, *supra* note 45.

<sup>40</sup> E-mail from the U.S. Small Bus. Admin. to the Committee on Small Business (Feb. 15, 2023, 10:08 EST) (on file with the Committee).

<sup>41</sup> *Id.*

<sup>42</sup> Carl Levin and Howard P. "Buck" McKeon National Defense Authorization Act for Fiscal Year 2015, Pub. L. No. 113-291, § 825, 128 Stat. 3292 (2014).

<sup>43</sup> E-mail from the U.S. Small Bus. Admin. to the Committee on Small Business (Feb. 15, 2023, 10:08 EST) (on file with the Committee).

<sup>44</sup> William M. (Mac) Thornberry National Defense Authorization Act for Fiscal Year 2021, Pub. L. No. 116-283, §862, 134 Stat. 3388 (2021).

vested the SBA with the authority to provide formal certifications for that program. In January 2023, a certification process was stood up as schedule. However, in the next few years it will be facing a high number of applications as companies seek to get certified in one or both programs. This will demand substantial efforts in terms of resources and staff and justifies considerable funding be allocated to adequately deal with the surge of applications.

#### **OTHER PRIORITIES**

##### Office of Field Operations

The SBA assists small businesses through business loans, loan guarantees, counseling, and contracting preferences. To deliver these programs and services throughout the country, SBA relies largely on a network of 68 district offices located across the United States and its territories, with at least one district office based in every state. In 2020, the Committee held a management review hearing on the Office of Field Operations and learned the aggregate number of Full Time Equivalents (FTE) employees in district and regional offices decreased from 813 in FY 2014 to 637 in FY 2022.<sup>45</sup> To ensure the agency meets its mission to serve small businesses throughout the nation and deliver high quality services to the small business community, the Committee recommends that SBA dedicate funding to the Office of Field Operations to ensure adequate staffing levels.

##### Technology

The SBA OIG continually identifies IT as a top management and performance challenge, with the FY 2023 report calling for improved IT investment controls, updates to existing systems, and stronger security controls.<sup>46</sup> The Committee also supports significant investment in IT security systems and processes that will protect against cybersecurity threats and reduce the risks of fraud in current and future SBA programs. SBA received “C” on the December 2022 FITARA scorecard, which monitors agencies progress implementing IT recommendations and cybersecurity improvements.<sup>47</sup>

Certify.gov is the online platform created to support SBA’s contracting programs. It was envisioned as the “one-stop” portal where small businesses could obtain their contracting certifications. It was also intended to streamline the application process and offer a multiplicity of functionalities to SBA officials, including analytical tools and reporting capabilities. However, many of the applications were never developed or lacked basic functionalities and the platform was deemed unsustainable in the long term due to the costs of maintaining it.<sup>48</sup> SBA plans to have one single certification platform but unfortunately, the plan – along with expected costs and timelines – remain unclear. As these plans materialize, robust levels of funding to bolster technological and cybersecurity resources may be required, which in turn will ensure certification processes for the contracting programs work properly.

##### Office of Rural Affairs

<sup>45</sup> Supra note 24.

<sup>46</sup> FY 2023 Management Report, Supra note 45.

<sup>47</sup> MERITALK, FITARA Dashboard, (last visited February 21, 2023), <https://fitara.meritalk.com/view/sba>.

<sup>48</sup> *Id.*

For decades, rural communities have been the backbone of the American economy. But many rural businesses face challenges that can put them at a competitive economic disadvantage, and they often struggle to utilize traditional small business support systems. Recognizing this, Congress directed the SBA to establish an Office of Rural Affairs as part of the Small Business Reauthorization and Amendments Act of 1990<sup>49</sup> yet, by 1995 this office was no longer being staffed at SBA. In 2019, the SBA named a National Director for the Office of Rural Affairs to assist in connecting rural communities and entrepreneurs with SBA resources. The CARES Act provided additional funding to SBA for salaries and expenses, some of which were used to hire staff for the Office of Rural Affairs.<sup>50</sup> The Committee requests adequate levels of funding in the FY 2024 budget to ensure that the Office of Rural Affairs has the staff necessary to support rural small businesses and entrepreneurs in attaining equitable access to the wide range of programs supported by the SBA.

#### COVID-19 Emergency Programs

SBA has made nearly 10.5 million Paycheck Protection Program (PPP) full or partial forgiveness payments, representing 93% of all PPP loans.<sup>51</sup> In addition, SBA has forgiven over \$755.7 billion in PPP loans in full or in part, representing 96% of total PPP volume. However, PPP forgiveness data reveals a burgeoning small-dollar forgiveness gap. As of April 3, 2022, 803,059 PPP borrowers have not submitted forgiveness applications, and of these non-submissions, 770,280 are loans \$50,000 or less, representing over 95% of all non-submissions.<sup>52</sup> As of March 31, 2022, SBA approved more than 3.9 million COVID Economic Injury Disaster Loans (EIDL) totaling nearly \$390 billion.<sup>53</sup> The SBA also approved more than \$28.5 billion in relief to more than 101,000 restaurants through the Restaurant Revitalization Fund (RRF)<sup>54</sup> and approximately nearly \$14.5 billion in awards to small businesses in the live event sector.<sup>55</sup>

In 2021, the Government Accountability Office (GAO) added the SBA's emergency loans for small businesses to its high-risk list, citing that oversight of funds is needed to reduce the risk of fraud.<sup>56</sup> As the committee considers federal funding for FY 2024, it is important to recognize that

<sup>49</sup> Small Business Reauthorization and Amendments Act of 1990, Pub. L. No. 101-574, § 302, 104 Stat. 2815 (1990).

<sup>50</sup> CARES Act.

<sup>51</sup> U.S. SMALL BUS. ADMIN., *FORGIVENESS PLATFORM LENDER SUBMISSION METRICS – OCTOBER 23*, [HTTPS://WWW.SBA.GOV/SITES/DEFAULT/FILES/2022-10/2022.10.24\\_WEEKLY%20FORGIVENESS%20REPORT\\_PUBLIC.PDF](https://www.sba.gov/sites/default/files/2022-10/2022.10.24_WEEKLY%20FORGIVENESS%20REPORT_PUBLIC.PDF).

<sup>52</sup> *Id.*

<sup>53</sup> *Id.* The Majority provided that the pandemic was the most aggressive test of the disaster loan program to date, and the SBA fell short. Even though there are issues with fraud surrounding the program, the Brookings Institution noted that the COVID EIDL program was better targeted than PPP in helping small businesses and in reaching businesses in minority communities. See WENDY EDELBERG ET AL., BROOKINGS INSTITUTION, *RECESSION REMEDIES: LESSONS LEARNED FROM THE U.S. ECONOMIC POLICY RESPONSE TO COVID-19* (2022), <https://www.brookings.edu/wp-content/uploads/2022/04/RR-Chapter-4-Support-for-Business.pdf>.

<sup>54</sup> U.S. SMALL BUS. ADMIN., *COVID-19 EIDL Reports 2022*, (April 28, 2022), [https://www.sba.gov/sites/default/files/2022-04/COVID-19%20EIDL%20TA%20STA\\_04282022\\_Public-508.pdf](https://www.sba.gov/sites/default/files/2022-04/COVID-19%20EIDL%20TA%20STA_04282022_Public-508.pdf).

<sup>55</sup> U.S. SMALL BUS. ADMIN., *Restaurant Revitalization Fund Reports* (Jun. 30, 2021), <https://www.sba.gov/document/report-restaurant-revitalization-fund-reports>; U.S. SMALL BUS. ADMIN., *2022 Shuttered Venue Operators Grant Program Reports* (July 5, 2022), [https://www.sba.gov/sites/default/files/2022-07/SVOG%20Public%20Report%20-%20Midday%205%20July%202022-508\\_0.pdf](https://www.sba.gov/sites/default/files/2022-07/SVOG%20Public%20Report%20-%20Midday%205%20July%202022-508_0.pdf).

<sup>56</sup> U.S. GOV'T ACCOUNTABILITY OFFICE, GAO-21-119SP, GAO'S 2021 HIGH-RISK SERIES: DEDICATED LEADERSHIP NEEDED TO ADDRESS LIMITED PROGRESS IN MOST HIGH-RISK AREAS.

increased federal resources are necessary in order for the agency to meet the increased demand for small business programs, including servicing COVID EIDL loans, and continued oversight of SBA's pandemic relief programs.

#### Office of Inspector General

The Office of the Inspector General (OIG) provides auditing, investigative, and other services to support the SBA in achieving its mission. The OIG has identified the SBA's economic relief programs as being susceptible to fraud and has made it a priority to provide oversight of the funding that has been made available through the CARES Act and the subsequent economic relief Acts. The agency has overseen more than a trillion dollars in lending authority and entrepreneurial assistance in the wake of the pandemic. The OIG has reported on systemic weaknesses that were evidenced by the strain on SBA's program and operations for its pandemic response that will take many years to resolve, possibly decades, and will require robust OIG oversight.

The economic relief laws provided the OIG with an additional \$70 million to carry out its work to prevent waste, fraud, and abuse, which are projected to remain available for several years. These supplemental funds allowed the office to hire 186 new employees, of which 165 are full-time positions. However, the Infrastructure and Investment and Jobs Act<sup>57</sup> rescinded \$20 million of the supplemental funds provided to the office. In order to right-size the OIG's budget and to support the hiring of additional full-time employees needed for oversight over the SBA's pandemic relief funds, the Committee supported the Administration's recommended increase in OIG's budget for FY 2023.

A significant amount of the supplemental funding will expire at the end of FY 2024. At a minimum, the Committee supports another increase to OIG's budget in FY 2024 to allow the office to maintain funding for 185 FTEs. We also support increasing the OIG's budget to allow the office to hire 30 more investigators and auditors and to fund COLA increases to help ensure the OIG continues to conduct rigorous oversight of the economic relief programs for years to come.

#### CONCLUSION

Democrats on the Committee have provided their priorities for how the SBA should operate in FY 2024. The agency should be provided with the resources necessary to administer and oversee its core lending, entrepreneurial development, and contracting programs, while also servicing the COVID-19 programs that have ongoing Congressional mandates.

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<sup>57</sup> Pub. L. No. 117-58, 135 Stat. 429 (2021).

