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MAIN STREET REALITIES: EXAMINING THE CURRENT ECONOMIC LANDSCAPE IN AMERICA

HEARING

BEFORE THE

COMMITTEE ON SMALL BUSINESS
UNITED STATES
HOUSE OF REPRESENTATIVES

ONE HUNDRED EIGHTEENTH CONGRESS

SECOND SESSION

HEARING HELD
JULY 10, 2024



Small Business Committee Document Number 118–055
Available via the GPO Website: www.govinfo.gov

U.S. GOVERNMENT PUBLISHING OFFICE
56–137 WASHINGTON : 2024

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MAIN STREET REALITIES: EXAMINING THE CURRENT ECONOMIC LANDSCAPE IN AMERICA

WEDNESDAY, JULY 10, 2024

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

The Committee met, pursuant to call, at 10:00 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, Molinaro, Bean, LaLota, Maloy, Landsman, McGarvey, Gluesenkamp Perez, Scholten, Thanedar, Chu, and Davids.

Chairman WILLIAMS. Before we get started, I would like to recognize myself. If you will rise, we will say the prayer and the pledge.

Heavenly father, God of all people, thank you for allowing us to meet today and the [inaudible.] to share great thanks for our great country. Thank you for being with all of us the best day of our lives. In your name we pray. Amen.

Join me in the pledge. I pledge allegiance to the Flag of the United States of America, and to the Republic for which it stands, one nation, under God, indivisible, with liberty and justice for all.

Good morning to everybody and I now call the Committee on Small Business to order. I am authorized to declare recess of Committee at any time.

I now recognize myself for my opening statement and I want to welcome today's hearing all of you again for being here, where we will be focusing on the current economic realities impacting Main Street America. These types of hearing are especially important to our Committee because we get the chance to hear directly from our small businesses back home.

First, I want to thank our witnesses for being here today. I know all of you have traveled a long way, some as far as Texas, to share your stories with us and everyone here greatly appreciates it.

This Committee serves as the voice for Main Street America in Washington. Each and every day, we strive to learn more about the current state of small business from the people who know it best, our nation's job creators. There is no doubt that in the first half of 2024, they have experienced many ups and downs. I hold the opinion of starting a small business is the definition of the American Dream. Part of what makes America so special is it is a place

where anyone from any background can take a risk, bet on themselves and bring a new service or product to the marketplace.

Our economy is dependent upon small businesses. And it is our job here in Washington to ensure that they have a fighting chance. Unfortunately, many small businesses are dealing with a variety of challenges, many of which are the result of a bad policy decisions.

Main Street America has been getting bombarded with regulations that are causing small business firms to play defense. Just look at the numbers. Since President Biden took office, his administration has instituted new rules that are estimated to cost over $1.6 trillion. Every dollar spent on additional compliance staff could have been used to bolster their core operations, and every hour dedicated to reading and understanding the new regulations that have been used to discover new growth and opportunities. And worst of all, when a business owner fears expensive new mandates just beyond the horizon they hold up hiring that extra employee, or buying that new piece of equipment.

America's entrepreneurs have had to confront historic challenges, the COVID-19 pandemic, out-of-control inflation, broken supply chains, high interest rates and labor shortages is making it hard to find quality employees. But as small businesses have done countless times before, they have endured. Those of us here in Washington must fight back against these policies which have been strangling America's job creators.

As we listen to the state of small business in America, we salute the entrepreneurs who continue to fight and give selflessly back to their communities. This committee is here to help them and make life a little bit easier and we mean that, we really do.

I am excited to have all of you here with us today. And I am very much looking forward to today's hearing.

With that, I will yield for opening remarks. Congressman Chu, please.

Ms. CHU. Thank you, Mr. Chair, for this important opportunity to discuss the realities of our economy and hear from those who do incredible work directly in the communities we represent. Hearings like this allows us to take stock of how our efforts in Congress effect those on main street.

Four years ago, small businesses had to navigate an unprecedented array of challenges stemming from the COVID-19 pandemic from public health shutdowns to supply chain disruptions, labor shortages and rising costs. Yet, despite these obstacles, small businesses have demonstrated extraordinary resilience.

Obstacles remain, but our strong economic headline numbers clearly show slowing inflation, low unemployment and sustained growth. Looking around there is much to be proud of. We have seen a remarkable surge in small business creation since 2020, reversing decades of decline. It has become clear this isn't just an anomaly due to the pandemic, it is a trend that is continuing, even today, 4 years later. This terrible small business boon shows that so many Americans still have hope for the future and trust that we are moving in the right direction.

The ripples of the current startup boom will reverberate for decades, delivering wealth creation for families, opportunities for its

workers, and economic development for communities across the country.

This is especially significant because many who have historically been underrepresented in the business community, including women and minority business owners, are the ones who disproportionately power this small business boom, and reap the broad benefits delivered when we build the economy from the bottom up and the middle out.

The resilience in our economy continues to overcome headwinds, primarily because of investments made by the Democratic Congress and the Biden-Harris administration over the past several years. This transformational fiscal policy started with the American Rescue Plan, which played a critical role in stabilizing our economy during the pandemic. By extending support to small businesses and providing direct stimulus to American families we kept millions of businesses afloat, all while providing relief to the unemployed and cutting child poverty in half through the expanded Child Tax Credit.

This was complemented by historic bipartisan legislation when we passed the Infrastructure Investment and Jobs Act and the CHIPS and Science Act—two landmark laws that are providing long-term investments to strengthen our supply chains, rebuild our country's road and bridges, and lay the foundation for a more resilient and inclusive economy. These investments are supporting the growth and the flourishing of small firms and new startups.

Finally, Democrats and the Biden Harris administration pass the Inflation Reduction Act which included the largest ever investment in fighting climate change and provisions to further incentivize domestic manufacturing and lower cost for everything from healthcare to electricity.

While there is no doubt these laws will provide a boost for small firms into the foreseeable future, there is still much more to be done.

Access to capital remains a challenge, and the high cost of borrowing poses a long-term threat to small businesses. In this high interest rate environment, SBA's capital access programs are especially important for connecting small businesses to affordable financing.

Additionally, the government can continue to do more to incentivize innovation from reversing disastrous provisions of the Tax Cuts and Jobs Act to extending our core SBA programs, including SBIR and STTR.

Finally, investments in families will continue to strengthen small businesses, whether it is the expanded Child Tax Credit or continued investment in childcare, these actions can help build a more sustainable and resilient business environment, while delivering for American families. It is crucial that we continue to support these business through thoughtful legislation.

While the accomplishments of Democrats in Congress and the Biden-Harris administration have provided a strong foundation, we must continue to build on this progress, ensuring that small businesses can thrive in a stable and supportive economic environment.

Thank you, and I look forward to our discussion today. And I yield back.

Chairman WILLIAMS. The gentlelady yields back.

And I will now introduce our witnesses. Our first witness here with us today is Ms. Hazel Davis. Ms. Davis is the vice president, compliance manager and corporate responsibility officer for Jefferson Bank, located in San Antonio, Texas. Ms. Davis joined Jefferson Bank in 2013 as vice president of fair lending and CRA officer before transitioning to her current position because of her regulatory compliance expertise. Prior to joining Jefferson Bank she was compliance officer at Frost Bank and Hilltop Bank. Ms. Davis currently serves as a Board Member of the Texas Bankers Association and recently served as the president of Financial Women in Texas. Ms. Davis attended Chadron.

Ms. DAVIS. Chadron.

Chairman WILLIAMS. Chadron State College where she earned her Bachelor of Arts degree in business administration and accounting, then attended the Graduate School of Banking at the University of Wisconsin in Madison. I want to thank you for being with us today and I am looking forward to today's important conversation.

Our next witness here with us today is Mr. Steve Martinez. Mr. Martinez is the president of Tradewinds and General Contracting, Incorporated located in Boise, Ohio. Founded by his parents in 1980 Tradewinds and General Contracting has always been a part of Mr. Martinez's life, whether it was completing a small task as a kid, up to framing houses in college.

After graduating from college, Mr. Martinez began working for the business full-time, becoming president after 6 years with the company. Mr. Martinez has won numerous awards, including builder of the year multiple times from both local and State building associations, and has received recognition from the National Association of Home Builders. Mr. Martinez graduated from Boise State University, home of the Broncos, right, with a bachelor of business administration. I want to thank you for being here today and I look forward to our conversation.

Our next witness here with us today is J.D. Ewing. Mr. Ewing is the Chairman and CEO of COE Distributing, located in Smock, Pennsylvania. COE Distributing is the largest wholesale office furniture distributor in the U.S. and the Caribbean. Mr. Ewing took over the business when he was just 19 years old, and as the sole employee of the company becoming the third-generation owner, now with over 100 employees spread out across three States, the company has been consistently recognized among them fastest-growing private companies in America. In addition to serving as a Board Member for the Community Foundation of Fayette County, Mr. Ewing serves on the National Association of Wholesalers' Institute for Distribution Excellence as Chairman of the Board. Mr. Ewing graduated from Penn State University where he studied business. Thank you for joining with us today and look forward to our conversation.

And I now recognize the Ranking Member Chu to introduce the last witness appearing before us today.

Ms. CHU. Thank you, Mr. Chair. I am so honored to introduce our final witness today, my constituent, Tom McCarthy, the co-founder and vice president of business development at Motiv Space

Systems, which is located in Pasadena, of course, in my district. Tom spent 11 years at NASA's JPL, also in my district. And he is an electronics engineer designing motion control systems for rovers and robotic systems for extreme environments. He then spent 4 years as the director of business development at the Missile Defense Agency before cofounding Motiv in 2024.

Motiv was founded on the belief that space-based robotic systems could be produced more efficiently and with a higher level of quality by a small business and they were quickly proven right. They earned and successfully executed a range of contracts at NASA, including designing the robotic arm used on the Mars 2020 Perseverance Rover. They are also the recipients of several SBIR awards from the SBA and are using that investment to innovate the next generation of space exploration.

Thank you for joining us, Mr. McCarthy.

Chairman WILLIAMS. And again, thank you all for being here today. And before recognizing the witnesses, I would like to remind them that oral testimony is restricted to 5 minutes in length. That is a big number for us, we want to stick with that.

If you see the light turn red in front of you, that means your 5 minutes is up. And you should conclude your remarks immediately. And if you keep going, you are going to hear this. That means stop, okay? And so with that in mind, I now recognize Ms. Davis for her 5-minute opening remarks.

STATEMENTS OF HAZEL DAVIS, VICE PRESIDENT, COMPLIANCE MANAGER & CORPORATE RESPONSIBILITY OFFICER, JEFFERSON BANK, ON BEHALF OF TEXAS BANKERS' ASSOCIATION; STEVE MARTINEZ, PRESIDENT, TRADEWINDS GENERAL CONTRACTING, INC., ON BEHALF OF NATIONAL ASSOCIATION OF HOME BUILDERS OF THE UNITED STATES; JAMES D. EWING, JR., CHAIRMAN & CEO, COE DISTRIBUTING, ON BEHALF OF JMJS, INC AND COE DISTRIBUTING; AND TOM MCCARTHY, VP, CO-FOUNDER, MOTIV SPACE SYSTEMS, ON BEHALF OF MOTIV SPACE SYSTEMS.

STATEMENT OF HAZEL DAVIS

Ms. DAVIS. Thank you, Chairman Williams, distinguished Members of the Committee, my name is Hazel Davis, I am vice president, compliance manager and corporate responsibility officer for Jefferson Bank, a cornerstone of the San Antonio community since 1946. With assets totaling approximately $3 billion, we serve the dynamic and growing region of San Antonio-Austin, which encompasses 4.8 million people. We specialize in commercial lending and consumer mortgages.

San Antonio, a city where 64 percent of residents are Hispanic, thrives on the entrepreneurial spirit of 34,000 small businesses and 145,000 sole proprietorships. These businesses are the lifeblood of our economy, facing challenges such as workforce shortages, rising costs of materials, and housing affordability constraints. And yet, despite these hurdles, we continue to see robust demand for credit, although higher interest rates have impacted some of our price sensitive customers.

As a compliance officer and advocate for the community I have witnessed firsthand the profound impact that economic shifts and regulatory measures have on access to credit. Today, I am before you not only as a representative of a small business, but also as a voice for the Texas Bankers Association which represents 375 banks across our State, employing over 218,000 individuals. Community banks like ours play a pivotal role in supporting small businesses. We understand the local landscape intimately, offering personalized service and flexible terms that larger institutions often cannot.

Our commitment goes beyond transactions, it is about fostering relationships and ensuring our borrowers succeed. This approach not only drives economic growth, but also, strengthens the social fabric of our communities. In my opinion financial literacy remains a significant barrier for aspiring entrepreneurs. In my experience many start with personal funds before seeking formal credit, often unaware of the long-term ramifications if not utilized appropriately.

As a fair lending officer, I have reviewed numerous loan applications where a lack of financial acumen has proven detrimental. Community banks are dedicated to bridging gaps through education and targeted support programs, ensuring that all entrepreneurs have the tools required to succeed.

The Community Reinvestment Act is instrumental in our efforts emphasizing the importance of equitable and fair access to credit. Proposed revisions must strengthen, not dilute, support for underserved communities and foster small business growth.

In San Antonio, historical disinvestment in specific areas has left lasting scars, breeding mistrust of traditional financial institutions and minority communities.

Through proactive engagement and targeted investments, we work tirelessly to rebuild trust and forge lasting partnerships. However, escalating regulatory burdens and compliance costs threaten our ability to continue these efforts as every dollar devoted to regulatory compliance is a dollar less reinvested into our community businesses.

In conclusion, I urge the committee to consider the unintended consequences of regulatory actions on small businesses by fostering a regulatory environment that supports fair lending access, as well as small businesses, such as my institution, and recognizing the unique needs of commercial lending and promoting financial literacy. Together, we can pave the way for vibrant small business ecosystems to continue to grow.

Thank you for the opportunity to testify today. I am committed, along with you, to enabling, rather than hindering, the success of small businesses across our great nation.

Chairman WILLIAMS. Let me just say one thing to all of you, you are going to see Members move in and out, it has no effect on your testimony or anything, we have other hearings they will go to and come back, so that is the reason you may see that.

Next, I want to recognize Mr. Martinez for his 5-minute opening remarks.

STATEMENT OF STEVE MARTINEZ

Mr. MARTINEZ. Thank you, Chair. Chairman Williams and distinguished Members of the Committee, thank you for the opportunity to testify on the current economic landscape in America. Housing is, by far, the largest single expense for the American household. And rising costs are putting the nation in an ever-worsening situation.

A 2024 report by Harvard's Joint Center for Housing Studies found that record high 22.4 million Americans are paying more than 30 percent of their income on rent. And more than 12 million are paying more than half of their incomes.

A newly released housing affordability index by NAHB shows that in the first quarter of 2024, 38 percent of a typical family's income was needed to make a mortgage payment on a medium-priced single-family home. Shelter inflation and rent and ownership cost is still rising well above a 5 percent rate driven, in large part, by a nationwide shortage of about 1.5 million housing units. The only way to tame inflation and ease the nation's housing affordability crisis is to build more homes.

In order to increase the inventory of a single-family home and multifamily housing we must remove more barriers; regulatory barriers, labor barriers and supply chain barriers, that are preventing home builders from increasing housing production.

Regulatory barriers, which include complying with building codes make up nearly 25 percent of the cost of a single-family home, and more than 40 percent of an apartment home. Without adequate review or consideration of how it will affect home buyers or renters, HUD and USDA recently issued a mandate that will require all HUD and USDA financed housing to be built to the 2021 energy code. This will do little to curb overall energy use, but will worsen the housing affordability crisis and hurt the nation's most vulnerable house hunters and renters. It will also compel more buyers and renters to stay in their much older, less-efficient homes.

More concerningly, the Federal Housing Finance Agency is considering applying similar standards to those adopted by HUD and USDA for homes financed by Fannie and Freddie, which provides 72 percent of the financing for new home purchases. This would set a de facto national energy code severely disrupting new home construction, increasing the housing supply shortage and negatively impacting affordability. The adoption of this 2021 energy code can add $31,000 to every new home. In my home State of Idaho, every $1,000 that you raise the price of a house, 800 households are priced out of the market. All regulations should be designed with small business and their consumers in mind, and should consider the true real-world cost of these regulations.

Labor barriers are also contributing to the housing affordability crisis through higher home-building costs, and construction delays. In the construction industry a shortage of skilled labor means that we can expect almost 400,000 open jobs in any given month. And NAHB research suggests that we will need 2.2 million workers in the next 3 years to meet existing home-building demand.

This places upward cost pressures on existing home prices and rents and pushes the dream of homeownership out of reach for potential homeowners. Policymakers at all levels of government can

help by supporting full funding for building and construction trades education including the DOL's Job Corps program.

Since the pandemic, the cost of materials has surged 38 percent. Building materials, supply-chain barriers, are harming housing affordability as the cost of lumber, steel, aluminum and other imported materials and equipment increased price volatility and drive up housing costs. Of particular concern, currently, is the price of the availability of distribution transformers. Since February of to 2020 the price of distribution transformers is up 72 percent and NAHB's members report that wait times for transformers range from 12 to 36 months.

One of my recent condo projects was facing a potential delay of 18 months because we couldn't get the right transformer. We were forced to modify the product at a cost of an additional $60,000 on just six condos. These added costs are pricing local Idahoans out of the dream of homeownership.

Congress must help ease supply chain barriers by investing in the domestic production of sorely needed distribution transformers. The current economic landscape for the home building industry is challenging without question. It is a generational policy challenge that we can solve. We must solve it. And it begins with continually removing barriers to increase housing production.

Thank you again for this opportunity. And I look forward to your questions.

Chairman WILLIAMS. Thank you.

I now recognize Mr. Ewing for his 5-minute opening remarks.

STATEMENT OF JAMES D. EWING, JR.

Mr. EWING. Thank you, Chairman Williams, Ranking Member Chu, and Members of the Committee, good morning. Thank you for the opportunity to testify at today's hearing on state of the small business economy. My name is J.D. Ewing, Chairman and CEO of COE distributing, a national office furnishings, wholesale distributor and contract manufacturer based in Fayette County, Pennsylvania. COE Distributing is a family-owned business, it has operated since 1947 when my grandmother started the business in a basement of a tavern out of the necessity to support her two sons. I am the third-generation owner of COE Distributing after taking over the business at age 19 in 1989. At that time, I was COE's only employee.

Through an enormous amount of hard work and dedication from a number of dedicated and talented team members, COE has grown to over 120 employees with distributions centers in Charlotte, North Carolina; Houston, Texas; and southwest Pennsylvania; where our corporate headquarters are located.

At COE, we have cultivated and continuously strived to grow a robust culture, which is fundamental in the success of our and any small business. We take immense pride in fostering an inclusive environment or input from all team members at every level of the organization. It is not only encouraged, but actively sought. We are also proud to provide our team members with extensive benefits and career development programs, including health and retirement benefits, formal profit sharing, 401(k) plans, quarterly cash bo-

nuses and personal benefits, such as financial workshops and volunteer paid time off.

In addition, we are the official engagement partner of the Pittsburgh Penguins, and hold monthly peer-to-peer recognition program awarding a game worn Penguins helmet to the employee who embodies COE's core values of customer service, respect, teamwork, quality, safety, innovation and transparency. This and other employee engagement focus efforts allow our unique workplace culture to grow stronger every day.

Today, we see many challenges in the economy, including rising costs and supply chain disruptions, looming tax increases on small businesses and compliance costs with new regulations. Although the country has recovered from the pandemic, many of these same supply chain challenges we face then are beginning to reemerge today. Major ports are again beginning to see severe backlogs due to congestion and delays. The disruption in the Red Sea and the Suez Canal due to terrorist activity has had a material impact on shipping costs delivery time, adding up to 4 weeks to some shipping lanes. This disruption has led to substantial increase in the cost of shipping containers, with the average cost of the shipping container increasing over three times in the past 90 days alone.

In April, a container from Asia to the U.S. was approximately $2,500. By July, now the cost is over $8,000 and expected to rise to over $10,000 in the coming months because of the peak season that we are now entering. Many home furnishing retailers have already implemented ocean freight related surcharges to their goods reminiscent of the COVID supply chain consequences.

While small businesses like mine are already seeing the impact of the supply chain disruption, it will soon impact the entire economy as it did 2 years ago. In addition to rising costs, small businesses are also seeing their near-term challenge of potential tax increases. The 2017 tax reform reduced taxes for small businesses through the reduction in tax rates and the creation of the 199A small business deduction.

This tax cut helped us reinvest in our workers by giving us more resources to hire, raising wages and provide benefits and training as well as devoting more resources toward expanded the business and contributing to our local communities. Not only does this looming expiration of these tax reforms threaten our ability to continue reinvesting the workers in the communities, but it also makes it more challenging to compete with large businesses, especially in attracting and retaining talent given today's job market.

A longer-term tax challenge for family-owned businesses like mine is planning for the death tax, which makes businesses vulnerable by acquisition by large corporation or foreign entities and often forces family-owned businesses to liquidate a portion of the business or the entire business to pay this death tax.

Small businesses are also disproportionately hit by regulatory requirements. As a small-business owner, the time and cost to keep current on these issues is overly burdensome from the time and resource standpoint. While regulations are inevitably a cost of doing business, we must ensure together that all businesses are not unduly impacted by red tape and disproportionate cost.

Thank you again for the opportunity to testify today, Small Business Committee. I hope my insights on the economy are helpful and I look forward to your questions.

Chairman WILLIAMS. Thank you very much.

I now recognize Mr. McCarthy for his 5-minute opening remarks.

STATEMENT OF TOM MCCARTHY

Mr. MCCARTHY. Good morning, Chairman Williams, Ranking Member Chu, and distinguished Members of the Committee. Thank you for the opportunity to testify in this hearing about the current economic landscape in America.

I appreciate the opportunities that allow a small business like mine to participate in a setting like this in our Nation's Capital. Special thank you to Congresswoman Judy Chu who has worked tirelessly to support us and thousands of small businesses achieve success and thrive in today's economy.

My name is Tom McCarthy, I am a cofounder and the vice president of business development for Motiv Space Systems located in Pasadena, California. We support the civil national security and commercial space sectors by enabling maneuverability in complex environments primarily in space.

Over the past 10 years, our company has grown from a team of three people to almost 80 employees just last year. In preparation for this hearing, I looked at our subcontractor list and the results were pretty remarkable. Throughout our history, Motiv has utilized almost 800 suppliers across 42 States and four countries. Small businesses have a larger economic impact than most people realize. We started the company because we believed that we could develop and build space-based robotic systems more efficiently, with a higher level of quality and capability than our competitors in a globally competitive aerospace market.

And we were right, we successfully won and have executed multiple NASA contracts for a range of missions including a robotic arm and science camera systems on the Mars 2020 Perseverance Rover. From our beginning, innovation has been crucial for thriving in the highly competitive aerospace environment. Our company's long-term health relies on consistently incorporating new technology for our mission partners, this means continuously expanding our research and development.

I would like to discuss a few topics related to small business in the United States, and our relationships with various government partners today. With regard to the small business innovative research programs we have developed a chart that shows how SBIR contracts have been fundamental to innovating our technology. I think that may be how we got invited today. But the key here is we don't live off the revenue of SBIR contracts. We convert those SBIR investments into seeds to grow new commercial products and close technology gaps for our partners to enable new and exciting scientific missions continuing the pulse of scientific discovery.

We have won a total of 18 Phase I and Phase II SBIR awards, and leverage those awards into eight commercialized program awards. And then historically, that has amounted to about 25 percent of our revenue over the course of business.

As you look at the SBIR reauthorization next year, I would encourage you to absolutely keep this vital program alive. Talk with the small businesses in your community who leverage these programs, and then engage with those who are not aware of them.

With regard to consistent predictable budgets, many of our customers are dependent on federal budgets and the effects of budget delays to those customers amplified within the small business community. Over the last decade, I believe every single fiscal year started off under a continuing resolution. CRs only delay programs and forces our partners to make premature decisions, much like we saw with the Mars Sample Return Campaign. The aerospace industry has faced worsening supply chain disruptions and rising prices due to recent events. And on top of that, the cost and lead time for raw materials have doubled, and our suppliers have had to significantly increase their prices and that ripples through or community as well.

With regard to the research and development tax credit, I would also like to raise the importance of the R&D tax credit that has expired. It is extremely important for a small business like mine that operates on tight budgets. I have heard the discussions in press related to Fortune 500 companies but rarely from the small business perspective. Let me be clear: The R&D tax credit allowed us to reinvest into further R&D and other business operations to encourage innovation, and allows you to tackle more ambitious projects. Investing in R&D allows small technology businesses to develop new products and improve existing ones, helping us stay competitive in the global market.

In conclusion, small businesses are leading contributors to the economic success of this country. We cannot take this lightly and must consider all the tools in the toolbox when it comes to incentivizing the backbone of this great nation which are our small businesses.

Again, thank you for inviting Motiv to participate in this hearing, and to discuss how our small businesses is literally allowing our nation to do things out of this world while bringing jobs and economic prosperity to our hometown. I look forward to today's dialog and answering any questions you may have. Thank you.

Chairman WILLIAMS. The gentleman yields back. And those are great testimonies. We will get started now and I recognize myself for 5 minutes.

This Committee has routinely heard from small business owners that Bidenomics has not been working for Main Street America. As we have seen the cost of capital increase in this high interest rate environment, small businesses have become increasingly reliant on credit cards which carry high interest rates, and traditional bank loans to finance their operations.

I am very concerned that we are approaching a cliff with this mounting credit card debt piling up, but that is a conversation for another day. However, it is not just interest rates that are increasing the cost of borrowing, regulations add significant costs to financial institutions, which are ultimately passed along to their customers.

Ms. Davis, first question, you previously served as compliance officer to your bank and are very aware of the impact that regula-

tions have on the price of various financial products. So can you tell us how increased compliance burdens are negatively affecting the access to capital in your community? And which customers are most impacted by this increased cost?

Ms. DAVIS. Thank you, Chair. Yes, related to compliance costs, as I said in my statement, every dollar spent takes away from an investment in the community either through a loan, or through direct capital program investments to improve those LMI individuals lives specifically related to the increase in costs. It overhead costs the same amount to originate a $5,000 loan versus a $100,000 loan, but the cost ratio of what has had to be implemented is less proportional to the smaller-dollar loans. So it tends to affect our low- and moderate-income borrowers the most, because they are those that are looking for the smaller-dollar business loans.

Chairman WILLIAMS. The recent report projected that the housing industry will need an additional 500,000 workers annually to meet the demands of the market. This is an unfortunate reality for many industries across the country. When I served as Secretary of State of Texas, I was charged with overseeing the infrastructure projects in the State. And eventually we had to delay a bunch of these projects we had planned because we couldn't find enough qualified welders to do the work.

With this large infrastructure project to brand new homes, delays in work have drained local economy. So Mr. Martinez, how has a lack of skilled workers impacted your business?

Mr. MARTINEZ. Absolutely, thank you, Mr. Chair. We continue—Idaho is a small State, and so, we compete with labor from States like California, Washington and Oregon. We aren't able to find the labor that we need to complete our projects. And when we do, I feel like we are overpaying for the quality of work that we are getting. We do high-end residential and so in order to find the qualified worker that we need to do the project that we are talking about, we either have delays in time, we have delays in quality, we have a delay in trying to get somebody at a market rate that we feel is appropriate. And we continue to work with our—the Job Corps, we continue to work the Pell grants, we are working with the high schools. We are trying to find a way to funnel kids into our industry in a way that provides an incredible opportunity for them. It is a shorter route.

In Idaho, our Governor worked on lowering the requirements to get a journeyman's license because we can't—we just don't have enough bodies and the barriers to entry are so high that we are continually working on making it easier, fast-tracking, trying to get these kids in our industry.

Chairman WILLIAMS. That is good.

Mr. Ewing, the story of your family-owned business really hits home for me. I have been in the car business for over 52 years, still am. And I took my father's business over, now my daughters are third generation, and they are currently running its operations back in Texas. It is real rewarding—as it is—as rewarding as it has been to keep this business in the family, it comes with many unique challenges. So my question is to you, can you talk about some of the issues that your businesses faced, much like mine, as it has transitioned from generation to generation?

Mr. EWING. Thank you, Mr. Chair. Our business, thankfully, did not have a transition challenge. I have been running it for 35 years. My dad's still around, but he's not involved in the business. The challenge that we have in the business today, I touched on the rising costs, particularly in the supply chain, and you get a 3- to 4x increase in the cost of moving product that you need for inventory or product that you need to build houses; that is a very difficult situation to react to and pass the costs along, particularly as a small business.

That is the biggest challenge that we have today in my opinion, reining in costs and trying to understand how we can react to them appropriately and not overburden our customers at the same time.

Chairman WILLIAMS. That is a big deal. You just can't pass everything on to the customer.

Mr. EWING. No, sir.

Chairman WILLIAMS.—because if it rolls back on business.

So with that in mind, I now recognize the Ranking Member for 5 minutes for her questions.

Ms. CHU. Mr. McCarthy, thank you for being here today to share your experience as a high-tech small business. I was so impressed when I visited your facility last year and was able to see how remarkable Motiv's success and growth has been over the past decade.

Can you tell us more about Motiv's story, how you came to find success in Pasadena and build a customer base nationwide? And also, I was able to see your robotic arm, why was that so innovative allowed for the Mars Perseverance Rover to survive the harsh weather conditions on Mars.

And also, actually can you address this issue, we talk a lot about space, but do space programs help us here on Earth? Space programs have routinely returned some of the most advanced technology on the market to consumers. So can you talk about the next generation of products that will be coming from these small businesses to us?

Mr. MCCARTHY. Thank you, yes. So I think in terms of Motiv's success, I think the primary function that has made Motiv successful in building up and surviving and thriving over the last decade is really staying true to a particular common thread. For us, it is the robotics, it is the motion control and having the skilled expertise and constant workforce labor development in order to deliver that to our customer. We have to differentiate, we have to invest in ourselves constantly, we have to develop new technologies. We are creators and inventors all in a small building or a couple of buildings.

And so, that is important to us. And maintaining that energy, staying hungry and pushing and engaging with our customer base is the value proposition. And it makes us good partners to those groups. And so, I think that is primarily key to our success.

So, some of these programs that I talked about in my testimony or the predictable budgets for our customers and making sure that those are operating on a certain cadence allow us not to engage in disruption, allows us to keep working in those arenas.

Ms. CHU. And again, why was your robotic arm for the Mars Perseverance Rover so innovative that it allowed to you survive on Mars?

Mr. MCCARTHY. And what is really interesting about the things that we worked on, we look at the landscape of what NASA or other government agencies want to do in space, and what we try to do is we try to predict from a technological position. We try to understand and anticipate what they are going to need, and that is where our investments go, is to hone those skills and then apply them and test them and validate them so that the reliability and quality is high and the customer is going to get a good solid product that they know is going to work year in and year out. And fortunately we have had that success on the programs that we supported in the Mars' activities and that has been very rewarding for us.

You asked another question, I think, which was related to how does space benefit the rest of us? Space, it is interesting, sometimes we feel very disconnected to what happens in space, but the reality is we use it every day. It is part of our GPS activities, most of the functions on your phone have some origins or some biproduct that feeds into its utility through a space capability. Our weather predicting comes from space, our early warning systems from solar activity that could disrupt networks, power stations, distribution centers and that kind of thing come from space observation. So space, whether it is pursued for science or it is pursued for economic benefit, commerce, utility is really valuable. And it is easy to overlook because we are often doing things very terrestrially, if you will, but it is a huge contributor to the success of our——

Ms. CHU. And let me follow up on SBIR itself because you have a remarkable 18 contracts with SBIR, which of course is the program administered by the SBA. How do SBIR grants represent an opportunity for the American taxpayers and the federal government to see a return on their investment with these small businesses? And also, it was only reauthorized for 3 years in 2022. When it comes around next year, should we consider a long-term extension or even permanency?

Mr. MCCARTHY. So, I will answer the back half of that first, yes, please. I think long-term extension and permanency of that program is extremely valuable. I think it is something that for businesses that are in the high-tech arenas and are looking to serve different government agencies and help them close technical gaps, it is extremely valuable. Sometimes gaps exist in conceptual mission or technology development. And it is really that distilled talent that resides within America's small business force that sometimes is able to execute those functions, and that then makes future missions, future technologies, future capabilities viable.

So I think that SBIR program has shown its worth by those investments turning into the things that we see on a daily basis.

Ms. CHU. Thank you. I yield back.

Chairman WILLIAMS. The gentlelady yields back. I now recognize Representative Luetkemeyer from the great State of Missouri for 5 minutes.

Mr. LUETKEMEYER. Thank you, Mr. Chairman.

My questions today will be with regards to tax cuts and regulations, you know. I think the tax cuts of 2017 showed that leaving money in people's pockets, leaving money in business' pockets so they can reinvest it as they see fit, whether it is to expand your lines, to go expand your business, pay employees, buy more product whatever it is seems to work and generated a revolution in entrepreneurship during the 16, 17, 18, 19, 20-year cycle, where suddenly it went from more employees than jobs to over $1 million—a million more jobs than employees in just a short period of time.

So Ms. Davis, quite frankly as a former banker, you have got the toughest job at the became as a compliance officer. I empathize with you. You have a tough job, especially with the rules and regulations pouring out of Washington and the cost of complying with those. My question today is with regard to the tax cuts, you see it every day with the businesses that you finance in the bank. Have you seen those businesses take those dollars and reinvest them or do you see them sticking in their pocket and running off and vacationing with those things?

Ms. DAVIS. Most small businesses are members of their communities. So they are going to take those dollars that they have been able to accumulate and reinvest not only to grow their businesses, but also in their employees. A lot of them small businesses provide additional services, volunteer hours. Small businesses really are the lifeblood of all of our communities. And so, when they have dollars available they can expand their businesses.

Mr. LUETKEMEYER. You have to remember too, those are their dollars, not the government dollars.

Mr. Martinez, the other three of you have lived the American Dream. You started from basically nothing and built your companies. I admire you beyond what you know. Tell me whenever you got the tax cuts in 2017 what did you do with those dollars? How did it affect your business?

Mr. MARTINEZ. Absolutely, thank you, Representative.

Our business relies on debt. We have to procure debt in order to do more projects. And so, we were able to—and with that debt comes investment that we have to make, it comes with dollars that we have to come up with from a downpayment perspective.

So when we are doing lots, when we are doing a subdivision, when we are doing an apartment project, we have to come up with that additional money. And that was more money in our pocket to continue to grow the economy in our local market. It allowed us, it fast-tracked us an opportunity to be able to do projects that we had on the shelf that had been moth-balled waiting on funds to come in. And so it absolutely projected our company forward in those years after that.

Chairman WILLIAMS. Mr. Ewing, same question to you, how does the tax cuts affect you? And I would argue that since the pandemic, it actually is underpinning the growth of our economy by allowing businesses to keep their own money and then reinvest as you see fit. How did the tax cut affect you and your business? And how are you managing those dollars today?

Mr. EWING. Thank you for the question. You mentioned that the reinvestment into our team members through raising wages, additional training, creating a better environment for them is really

where we focused. Our business is also built on inventory and having product on the shelves so we were able to expand the amount of inventory that we had in our facilities and our distribution centers and therefore we could react to the market and our clients quicker. So it was really about reinvesting into the company mainly with the people.

Mr. LUETKEMEYER. Mr. McCarthy, you talked about the research and development tax credit, that is a huge deal for small business especially, and especially in your situation where you are doing a lot of research and development. The continuation of that is going to be very, very important, you know, we had tax cut, this 2017 tax cut is coming up for renewal next year. It is a really, really big deal that we make sure that happens. Can you talk about the impact on that?

Mr. MCCARTHY. Yeah, absolutely. So just like my colleagues here said the reinvestment is critical to success. In the past when those credits have been available, we have been able to put that into our facilities, put that into capital equipment, put that into capability. And those become again differentiating tools for us going forward and allow us to grow our company, train workforce, or, again, plan for the future.

So we try to develop a roadmap on how to better serve our customer base and that is a constant activity. And so those give us one more tool just like other programs to help us execute.

Mr. LUETKEMEYER. Thank you very much.

Mr. Martinez, I think you talked about the 2021 energy code that is very difficult to comply with. I have got a limited amount of time, can you just, very quickly, give us a little brief problem that you have there?

Mr. MARTINEZ. Yes. My concern is in my very limited time. The State of Idaho has done their own energy code that makes sense for Idaho. Through the negotiated rule-making process, we had the opportunity to take things out that don't make sense and add things that do make sense. With the national standardization of code, we are now I feel like taking States rights away on their ability to make changes on the energy code.

Mr. LUETKEMEYER. Thank you very much. My time has expired. With that, I yield.

Chairman WILLIAMS. The gentleman yields back.

I now recognize Representative Scholten from the great State of Michigan for 5 minutes.

Ms. SCHOLTEN. Thanks so much, Mr. Chair. And thank you to our witnesses for coming here today and for all of your incredibly valuable testimony. So proud of the small business footprint in my district, actually 99 percent of businesses in the State of Michigan are classified as small, if you can believe that. When I speak with businesses in my district, rising costs are the biggest concern that they have. Many of them say supply-chain bottlenecks concentrated market power as a primary cause.

My first question is for Mr. McCarthy. In your testimony, you emphasized how important it is to ensure small businesses can compete with larger companies, agree. In addition to funding mechanisms such as R&D Tax credit, are there other ways Congress can

encourage competition to keep prices low throughout the supply chain?

Mr. MCCARTHY. I think one thing that we have seen that has been difficult is that coming out of COVID with the supply-chain issues we saw that buying power changed dramatically, speaking to our particular supply-chain semiconductor industry.

What we started getting from the sellers of semiconductors was different requirements on how much you could buy, prices went way up, lead times got excessively long, and then in some cases, there was no guarantee of the price that you were actually being quoted as being the final price. I have never seen that before in my life, my entire career where there is an unstable price basis. And so, I think something needs to be looked at there. I don't know if that is all COVID-related or just a global economic situation, but that really hurts the buying power for small businesses that are trying to be innovative and are trying to compete against a variety of entities.

Ms. SCHOLTEN. Thank you, that is really helpful.

Another top concern among small business owners in west Michigan is the need for skilled labor. Some small-business owners tell me they have had to reduce hours and service because of the labor shortages they face. Our country has had low unemployment for several years now, a low unemployment rate for several years now. Usually is a very good thing, right? But we know that our small businesses are looking for the workers that they need. This has benefited our economy in some ways. However, unique circumstances brought on by the pandemic have meant that small businesses are now trying to grow without a workforce that can meet the demand that they have.

The next question is for Mr. Martinez. Are there additional factors that you see that are contributing to the labor shortages and actions that we specifically in Congress can take to meet those needs?

Mr. MARTINEZ. Yes, absolutely. So as we are facing a shortage of labor, the Job Corps funding, the $1.2 billion Job Corps funding got cut this year. We were jumping up and down saying, We are trying to train our workforce and you cut Job Corps funding. It did get reinstated fortunately and it did get reallocated for next year, but you have to remember through Job Corps, through Pell grants, we have to be able to fund these programs that are funneling kids into the trades. They are not even just kids, people that retraining our military, those that have been in the correctional system. We really are trying to retrain a group of people. I would say the last part of this is not everybody is made for college, and we keep pushing that narrative. And we are finally getting kids that are saying I can go for 2 years, I can work the whole time I am doing that 2 years, make money and come out with a trade or a skill set. But now, you have got to convince their parents that they are not going to college. And I think that is the next hurdle that we have to jump. So I think we have a cultural shift that needs to be made at the national level.

Ms. SCHOLTEN. I couldn't agree with you more. I have got a great bill, The Honoring Vocational Education Act, many of my colleagues here are cosponsors. It is a bipartisan bill, and it actually

changes the way the United States Census tracts what constitutes higher education. Currently, you only get to check that box if you completed a 4-year college degree. I know the vocational centers around my district. I go in and I see how these auto mechanics are trained. That is higher education. I couldn't do that work. So I completely hear you. I think more than, you know, funding which we absolutely need, there has to be a cultural shift around this in the United States. And I think it comes and starts by honoring, you know, all different types of education as being higher education. So one very small thing we are trying to do here, but I appreciate you bringing that up. Thank you.

I yield back.

Chairman WILLIAMS. The gentlelady yields back. I now recognize Representative Van Duyne from the great State of Texas for 5 minutes.

Ms. VAN DUYNE. Thank you very much, Mr. Chairman.

I continue to hear countless stories about how this administration has hampered the ability of small businesses to grow due to its reckless spending and taxing and overregulating. Throughout President Biden's administration, federal agencies have finalized, get this, 996 new regulations. It costs about $1.7 trillion to American businesses. Listening to small businesses in my district, that is a cost they can't absorb. It must be passed down to the consumer. And this isn't so these companies or these company owners can get rich, but it is just to be able to survive in a burdensome regulatory environment. Now this is part of the reason why earlier this year this Committee passed my bill, the Small Business Regulatory Reduction Act. And this bill requires that the Small Business Administration ensure for each fiscal year that the cost of small businesses at the administration's rulemaking is not greater than zero, which also requires the SBA to issue a report on any regulations issued by other federal agencies that impact small businesses. That is the role of the SBA, to actually be a champion of small businesses. And I look forward to seeing this bill move forward and to working to ensure that Congress reins in on the power of out of control, regulatory glutton executive branch. And I also look forward to continuing to work with this Committee to strengthen small businesses across the country. I appreciate all of the witnesses being here this morning.

Along with serving on this Committee, I also serve on the Ways and Means Committee which has established 10 tax teams in April to study key tax provisions from the 2017 Trump tax cuts set to expire in 2025, and to identify legislative solutions that will protect Americans from President Biden's multi trillion-dollar tax increase.

I am going to ask—basically I will go ahead and start with you, Ms. Davis. Can you tell me how the uncertainty in the tax world impacts your planning for the future?

Ms. DAVIS. Uncertainty in the tax world, specifically I can't answer that. From a regulatory perspective what I can tell you is that when small businesses don't have additional capital available, they are unable to support their communities. Providing tax credits and relief to small businesses allows them to thrive as well as our financial institution as a small business.

Ms. VAN DUYNE. Appreciate that.

Mr. Martinez.

Mr. MARTINEZ. Yeah, thank you. I think as we all know on this Committee, business doesn't do well with uncertainty. And so we start to horde cash when we feel that we have got a wave of regulation coming along.

The State of Idaho, Governor Little enacted a bill that for every one piece of regulation, two had to be stricken from the legislature. In doing so in the year of post-COVID we had a record surplus of $2 billion. Now that might not sound like a lot of money for some States where the Police Department's budget might be $2 billion, but in a State of 1.5 million people a $2 billion surplus is a huge number. And I think we are seeing the effects of some States taking that anti-regulation or deregulation stance. And Idaho has, by far, become the most deregulated or unregulated State. Some may argue that is a good thing and some argue that is a bad thing. But we have seen the consequence of that with a 99.2 percent small business community there was explosive growth in Idaho.

Ms. VAN DUYNE. Can you also, Mr. Martinez, I wanted to expand on this, in 2022 I hosted a program called the Texas 24 Works, and it brought together high school and middle school counselors. We took them around the district and we them there can be great careers that can be had where you are making six figures without a college degree. Can you talk about how the career in the technical education, vocational training and apprenticeships can play a great role in addressing our labor shortage?

Mr. MARTINEZ. Absolutely, thank you. We have partnered with the high schools as well. We brought in high schools through the Home Builder Institute that does receive funds from Job Corps, it has created a curriculum to bring kids into the trades. We started bringing them in. We have what we call the Parade to Homes for Pets, where they are building dog houses and they are engaging them. They are excited to work with their hands. It has essentially replaced shop that got cut out of the school program so long ago. And it is incredible as we meet with the youth, the excitement they have, the pride of doing something with their hands. So it is just getting the hook in and engaging them. And they see the potential for the growth is great so——

Ms. VAN DUYNE. In the 20 seconds I have got left, Mr. Ewing, would you like to expand on any of the questions that I have asked?

Mr. EWING. Just reinforcing the uncertainty creates a hoarding of cash and resources, which doesn't allow us to invest in our employees and the business. So that uncertainty is a challenge.

Ms. VAN DUYNE. Thank you very much.

I yield back.

Chairman WILLIAMS. The gentlelady yields back.

I now recognize Representative McGarvey from the great State of Kentucky for 5 minutes.

Mr. MCGARVEY. Thank you, Mr. Chairman.

Mr. McCarthy, we will start with you today. Talking about the SBIR program that is known as America's Seed Fund, not only is it a vital program for research and development, but it also awards small businesses like yours with access to the federal government as a partner. The federal government must fulfill its purpose and

invest in our communities, our constituents, and their ideas. Mr. McCarthy, your company has received both Phase I and Phase II SBIR awards. But Phase III is especially important because it encompasses two of the sort of primary objectives in the program, the commercialization transition of technologies. Have you had any trouble transitioning from Phase II of the program into Phase III?

Mr. MCCARTHY. So actually we have been awarded a couple of Phase III programs. And in my testimony, I referred to Phase I and II, because those are the allocated funds, whereas the phase three is the programmatic funds, the customer funding that utilizes that connection from the Phase I's and II's, the success from there, and then bridges the gap to development, the execution, the production of the technology into regular use case.

So we have had some success there and, I think, to your point, it has helped us develop that relationship stronger within the federal agencies in terms of those who want to utilize that technology. So I think that has been very successful.

Mr. MCGARVEY. Is there anything else helpful that we could do in these types of instances, like a centralized database for all the projects in Phase III that eligible agencies could use to shop for their needs?

Mr. MCCARTHY. That is an interesting idea. I think socializing that is a good thing.

I usually find that there is always a reeducation, even with customers, making sure that everybody is communicating about what the benefits are of the program. People who haven't used it before, haven't utilized it, even as a monitor of the program, they may be somewhat unfamiliar.

So I think any time there is more opportunity for education and awareness, I think those are wins.

Mr. MCGARVEY. Thank you very much.

I am going to switch topics here a little bit. Going to Mr. Martinez.

I appreciate all your comments today. I enjoyed your written testimony as well. And obviously agree that we should all continue working to lower costs.

I really like what you said about promoting careers in the skilled trades to address the labor shortage. This is something that we have worked on in multiple Committees here.

And I love the line in there where you say, "America should have a choice in securing safe, decent, and affordable housing." And I think that that is something, affordable housing, I think we are ready for a Marshall Plan of affordable housing, not just in my community, but in this country.

What I want to go to for a second, though, is in your written testimony you said that "increased regulations, especially energy building code requirements, are making it harder and harder for home builders and multifamily developers to build housing that is attainable and affordable for American families."

But when I went to your website—which is amazing. The homes are incredible on there. If you guys haven't checked out this website, it has absolutely stunningly beautiful homes.

You have advertised an incredible commitment to sustainability. In fact, it says on your website that, quote, "Commitment to sus-

tainability is woven into every aspect of our construction process." Quote, "We strive to minimize our environmental impact while maximizing energy efficiency and incorporating ecofriendly materials that set the standard for sustainable luxury living." And, quote, "We are leading the way in sustainable luxury home construction."

And so this is not going to—I don't want this—this is not a "gotcha" question. It is really a question.

When we have these—you complain about the regulations, but then obviously are building homes, I am guessing, because people want those. It makes having that home cheaper and more affordable.

How do we square that with the opposition then to the regulations that are encouraging that efficiency for every American who does deserve and want to have a home?

Mr. MARTINEZ. I actually really appreciate this question, because I get it asked at the legislature all the time at the State level, because nothing I build is affordable or cheap. And I am always, always, always advocating on the first-time home buyer.

What we don't understand is, if we don't have a first-time home buyer who is then able to sell their home and increase their wealth to become a second-time home buyer and a third-time home buyer, eventually I lose clients.

So, selfishly, I am trying to advocate on behalf of just getting people into a home initially who then will turn into customers down the road.

But I also—I was a first-time—we all were first-time home buyers in this room. And there is a difference of a mandate and giving people the choice.

My clients can afford to choose some of those things. They are willing to pay for those things. But if you have somebody that is trying to get into their home for the first time—and it is death by a thousand cuts.

It is not just the energy code. The energy code is a low-hanging fruit. But it is every jurisdiction, from the local to the State to the national, that ends up blowing that budget out of whack to where people can't afford their home.

Mr. MCGARVEY. We are out of time. I would love to ask you more questions about this, particularly for first-time home buyers. As competing Committee schedules go up here, I have a bill up in another Committee. But I really appreciate your testimony.

Mr. Chairman, I yield back.

Chairman WILLIAMS. The gentleman yields back.

I now recognize Representative Maloy from the great State of Utah for 5 minutes.

Ms. MALOY. Mr. Martinez, I was going to ask you something along the same lines, so let's just continue.

You said that a de facto national energy code sets pricing households out of the market.

I represent Utah's Second District, and Idaho's Number One being just north of Utah. So we have a lot of the same housing issues and affordability issues.

If an energy code isn't mandated by the federal government, do you have faith that the State of Idaho can figure out how to build homes that are right for Idahoans?

Mr. MARTINEZ. Yes, thank you for that.

I think when you talk the body of codes, it is not a federal code. It is actually a private group that puts these codes. There is an energy code, the residential code, the commercial code, the remodel code.

And so understanding kind of how this body puts it together, as you can imagine, lots of special interests: "You can only get to this level of insulation value by using my product. So I am advocating special interest on my product."

Versus the State of Idaho, which is also in the same climate zone as Boston, Massachusetts, doesn't quite make sense on some of the things. It is 108 degrees today in Boise. I think probably really similar.

Ms. MALOY. But it is a dry heat.

Mr. MARTINEZ. Yeah.

But the point is, is that we are involving the professionals. So we are sitting around the table with the building officials, with the State officials, with the builders, with the remodelers, and we are coming to a consensus of what makes the most sense.

So I absolutely believe that as a State we can regulate ourselves better, because we are looking at all of the pieces. We don't have our blinders on of what gets us the max amount of energy efficiency. We are looking at: How do we even get people in these homes to begin with? What are easy upgrades down the road? What are things we can't upgrade down the road?

Ms. MALOY. I agree. I admire your dedication to sustainability. I think sustainability is a great goal. I don't think the federal government needs to mandate it for home builders or States to figure out how to do sustainability.

Go ahead.

Mr. MARTINEZ. Real quick. I think the federal government's regard is in life safety. So I am not against building code and the things that progress building code for life safety. I have got a great relationship with the fire officials, with building officials. I think energy is a separate concept and an idea. And I agree with you there.

Ms. MALOY. Thank you.

Ms. Davis, you talked about self-funded entrepreneurs in your testimony and how making small loans and large loans cost the same amount but it ends up being more burdensome to the small loans.

I have good relationships with the regional banks in Utah, and one of the things they have expressed concerns about to me is that they don't always recommend federal small business programs. They specialize in main street businesses. They are investing in their communities.

But the programs that we are in charge of that are supposed to help small businesses have so much red tape and such an upfront cost and barriers to entry that they don't always recommend them to the same businesses that they are designed to help.

What has your experience been with that?

Ms. DAVIS. Thank you. That is a great point.

To many of our customers, it is more expensive to go through SBA loan programs and other federal programs because there is so much red tape.

Our experience is that we are able to meet those needs better, faster, cheaper. And we don't have prepayment penalties. You can pick up the phone and you can call someone directly. You don't have to go through specific representatives.

Ms. MALOY. Yeah. Thank you. That squares with what I am hearing from folks in Utah. And that is something that we as a Committee need to be aware of and be addressing that. We can design programs, but if they don't work for the people they are designed for, we are wasting our time and the taxpayers' money.

Mr. Martinez, I want to come back to you for a second.

You are talking about skilled labor and working with high schools. And I know not everybody needs college, but over the last couple of generations I think college has become the way people get into the workforce, the way they find jobs.

How are you finding laborers for your industry?

Mr. MARTINEZ. Yeah. I think the Band-Aid to the fix is immigration. Immigration through the visa program. The work visa is definitely a Band-Aid. And I think that is one, unfortunately, that just doesn't get enough attention.

Really it is identifying now this youth group that again wouldn't really go down the college route. In fact, I just talked to a guy the other day that is trying to—he has got all 8,000 of his hours to become a journeyman for HVAC and just hasn't finished his schooling.

Ms. MALOY. Yeah.

Mr. MARTINEZ. So they are putting in the time, but the requirement from the schooling perspective is so hard that it is a barrier to the entry.

Ms. MALOY. Yeah. I worry about main street businesses that have labor needs, and people are willing to do it, but they don't have a mechanism for connecting with each other.

Mr. Ewing, I had questions for you, but I am out of time. Thanks for being here.

Mr. Chairman, I yield back.

Chairman WILLIAMS. The gentlewoman yields back.

I now recognize Representative Thanedar from the great State of Michigan for 5 minutes.

Mr. THANEDAR. Thank you, Chairman Williams. Thank you for this hearing. And I appreciate all of our witnesses here.

I want to start with SBIR.

When I started a small technology business way back in 1990, one of the things that I did was I came across the SBIR proposals, request for proposals.

And I was excited. There were so many opportunities, innovative opportunities for me. As a Ph.D. scientist, I was excited to see and be able to solve some of those problems.

And so I wrote my first Phase I grant myself, but I realized the odds were so high back then. I don't know what they are today. Back then I was told that there is a 1 in 25 chance of me winning a Phase I SBIR grant, Phase I.

Is that true today, or is it better, worse?

Mr. MCCARTHY. It is definitely competitive. I think that what we see in our area is maybe it is closer to 20; 20 percent chance of success is pretty typical.

But I think it goes to the competitiveness and in the value proposition and so forth and answering the call, understanding the fit of your technologies or the science you are trying to secure and understand research.

So I think it would be great if that program could be expanded, that would be amazing, so we could offer more opportunity, because I am sure there are plenty of excellent proposals that are submitted but aren't funded just due to the limitation of what the pool is.

Mr. THANEDAR. Yeah.

Mr. MCCARTHY. But it definitely is competitive.

Mr. THANEDAR. Let me stop you there.

So what I noticed again was the competitiveness of it. And so in 3 years we will be—in 2025 we will have to reconsider in terms of renewing this.

And I see no downside to not only renewing this program, but making it permanent, because it is the small businesses that are responsible for most of the innovation in technology. And these innovations are something that is needed.

And I was later on able to get other similar grants. And while I was still running my technology business, I got my last patent on electric batteries in 2016.

And after that I said I want to go help others, other small businesses, because the small businesses in Michigan—Michigan is one of the most innovative States in the country.

And our small businesses are—one, they do not know about many of the SBA programs, including don't know much about the SBIR. It is really a best kept secret. It is not marketed. It is not talked about. So many innovative companies do not know that.

Secondly, there are not enough grants available.

And thirdly, there seems to be a huge shortage of highly skilled engineers, scientists that small businesses could hire.

And I would like any of you to comment on this.

But this is stifling innovation in America. This is hurting America's ability to stay on the forefront of innovation and discoveries.

And what can small business do in terms of promoting innovation, helping, getting this skilled workforce?

Often we have skilled workforce Ph.D.s, engineers who are highly skilled in American universities, who can't just get a work visa to stay in this country and continue to help American businesses, to help our innovation.

I want to just kind of get some idea on, some of you, on what we could do to improve America's position in innovation.

Mr. MCCARTHY. Well, just quickly.

I think for us from a small business perspective, I mean we have to make ourselves attractive to that workforce as well.

So it is a really a two-way street. We have to develop ourselves, invest in ourselves in order to make that happen. And I think that is a critical element of operating to improve the workforce and meet those challenges head on that you brought out.

Mr. THANEDAR. Thank you.

I am out of time, so I yield back.

Chairman WILLIAMS. The gentleman yields back.

I now recognize Representative Stauber from the great State of Minnesota for 5 minutes.

Mr. STAUBER. Thank you, Mr. Chair.

Since President Biden took office, as we have heard, over 900 new regulations have been passed, costing nearly $440 billion and climbing. And it has added more than 236 million paperwork hours to American small businesses.

Over the next decade compliance with Biden's regulations will cost Americans more than 1.5 trillion.

Regulations such as these are unacceptable and often take funding away from growth opportunities for your businesses.

Further, businesses should not need teams of compliance officers just to be able to compete in the marketplace. The costs alone are enough to force many of these small businesses to close, further harming our economy. We must and can do better for the small businesses in our communities.

Mr. Martinez, how big is your company's regulatory compliance division?

Mr. MARTINEZ. You are talking to it. So I would be compliance, I would be HR, I would be legal. We have four employees, period.

And so to your point, I read a great book called, "Buy Back Your Time." And reading through that, is the highest and best use of my time figuring out compliance? Is the highest and best use of my time figuring out regulatory burdens? Or should I be out selling homes and building communities?

And so I love the fact that you keyed in on that because for a small business, we have been kind of a mom-and-pop business for 44 years. You are talking to every one of those silos here at this table.

Mr. STAUBER. And how does the avalanche of regulations coming out of Washington make your job more difficult?

Mr. MARTINEZ. I can tell you that because we are talking energy codes, because we are talking building codes, when we get a new wholesale set of codes, it is a six to eight hundred page document that we have to peruse through oftentimes in our truck as we are trying to figure out a code change.

And that is just on the building code side of things. When you add OSHA, when you add EPA, when you add Army Corps of Engineers, I mean, the list goes on and on.

Mr. STAUBER. Local planning and zoning.

Mr. MARTINEZ. Yeah. Not to mention the anti-growth sentiment that we are getting now because of the amount of growth.

And so we are fighting it on all fronts. And, unfortunately, it is just making the problem worse.

Mr. STAUBER. And so reference the 2021 International Energy Conservation Code that is coming without amendment. What impact will these changes have on your business, and how might they impact potential home buyers?

Mr. MARTINEZ. Yeah, we already have a pricing problem. I mean, we have already priced in Boise the local buyer. And I am born and raised—I am one of the few that is born and raised in

my hometown. But we are pricing the local buyer out of the market.

And I think when a regulatory agency comes out and says, well, it is only $200 here, and it is only $300, they don't realize the total impact. Going from our current energy code to the 2021 code will be almost $30,000 for Idahoans. And that is a number I can't stomach.

Mr. STAUBER. I mean, the median income in the district that I represent is a little over $55,000. It is unbelievable when this comes down on you.

Ms. Davis, what effect does increased regulations have on inflation?

Ms. DAVIS. Well, I can speak directly to the costs that have to be passed to borrowers. You asked the size of the compliance departments. We have four full-time compliance people just to read the regs. We have one full-time person just to deal with the data collection efforts on CRA and HMDA. We will definitely have to add to staff with 1071. We have got two full-time CRA individuals; more than that on the BSA side. And then, of course, we have to invest in systems. So all the frontline individuals are part of our compliance team too.

Mr. STAUBER. It is just amazing the number of people you just mentioned you have to hire to keep up with these rules and regulations that are just crushing small businesses across America.

Ms. DAVIS. Correct. It is part of our overhead, and we have had to pass that down in origination charges.

Mr. STAUBER. Yeah.

Mr. Ewing, I am very happy that you are bringing your best employees to the Pittsburgh Penguins games. Minnesota is the State of hockey. And when I heard you testify, I said that is awesome. So I appreciate that.

Listen, I am almost out of time. I want to ask every one of you the question: Has Bidenomics and inflation affected your business?

Mr. Martinez, your business?

Mr. EWING. Inflation absolutely.

Mr. MCCARTHY. Inflation.

Mr. STAUBER. So here is the issue. There is not one person that has come in front of this Committee that has said, "We want more regulations. Please put more regulations on them." Every single Member that I have asked, witness at a hearing, "No more. We are done. We can't handle it."

I am a small business owner for 31 years. We sold our business. It is unbelievable, unacceptable what this administration is doing to you all.

Mr. Chair, I yield back.

Chairman WILLIAMS. The gentleman yields back.

I now recognize Representative Gluesenkamp Perez for 5 minutes from the great State of Washington.

Ms. GLUESENKAMP PEREZ. Thank you, Mr. Chairman.

And thank you to all of our witnesses for being here today.

Mr. Martinez, I wanted to talk with you a little bit about housing. I appreciate your perspective on the economic landscape for small businesses, including contracting companies like your own.

We have also talked in this Committee about how we feel the lack of affordable housing can actually be a barrier to small businesses being able to hire and retain quality employees. Someone isn't going to move to a new town for a job if there is no place to live. So this is especially a challenge in incentivizing business development in rural communities.

I agree with you completely that we need to boost the housing supply to address this issue of housing affordability. And this means in some cases tackling—in many cases—tackling burdensome local zoning regulations, shoring up the supply chain for materials, and promoting careers in the skilled trades so there is ample labor.

But I also wanted to talk about regulations. In November, the Consumer Product Safety Commission proposed a rule that would mandate finger detention technology on all consumer and commercial table saws, which sounds like it made for good reading.

But the reality is there is just one company that owns the monopoly on that patent technology, and effectively enforcing that would have been a government-mandated monopoly.

Your organization commented on the proposed rule that the cost of table saws has more than doubled, small manufacturers may be forced to exit the market, and businesses may be unable to operate.

I believe that if the Commission had had somebody who has worked in construction on the body, they would know that if you raise the cost of a table saw by $400, people are just going to put a circ saw on a sheet of plywood, and more people are going to end up hurt.

So that is why I introduced a bill to help maintain access to lower-cost table saws and prevent the proposed rule from leading to a monopoly on table saws with that kind of technology.

So my question, Mr. Martinez. Do you believe it would be helpful to have people in the decisionmaking room who have hands-on-the-ground knowledge about the potential impacts of rulemaking like this.

Mr. MARTINEZ. Yes, Representative. I really appreciate that question.

One, you have got way more common sense than a lot of the jurisdictions that we work with. We get excluded out of conversations all the time about growth, about safety, about the things that directly affect us.

I was at a summit a couple weeks ago, and even the members in that summit, they were activists, they were academics, they had never worked in our industry, and yet were proposing laws and regulations and rules that I just kept scratching my head.

I am a framer. I was telling my team the other day when we were talking about the table saw issue, I know ways around all of that safety. I am worried that we are going to use a SKIL saw as a table saw to get around that.

So it is very similar on the energy code side again where you have got one company that provides that product. They are the ones advocating on it. They go, advocate on behalf of that.

So I appreciate the commonsense approach to that. We should always be at the table on anything housing.

Ms. GLUESENKAMP PEREZ. Yeah. Board tables, table saws, whatever it is, we need to be there, you know.

Mr. MARTINEZ. Absolutely.

Ms. GLUESENKAMP PEREZ. I also recently visited a transformer distributor in my district, and we talked about their concerns about the implementation of DOE's recently finalized rule regarding efficiency standards for transformers.

I know this is a particularly salient issue in your industry due to the significant delays and high costs for transformers that you have outlined in your testimony as a barrier in the supply chain.

Could you elaborate on this and speak about what you think should be done to ease supply chain challenges for transformers and other building materials? What other checkpoints are you seeing?

Mr. MARTINEZ. Yeah, absolutely.

So you can't just do—just to define transformers for a minute, because it is not the movie—but when you do a transformer on a project, that is what brings power to your project, power to your home, power to a subdivision.

It was a very ill-timed rule in that we already had a shortage on a product, and then we were going to make it more energy efficient, which just made the supply chain side a bigger problem.

So we were able to defeat the efficiency standard of DOE, but we still have a shortage. And it is not the transformer itself, it is the alloy and the components that go into it.

But it continues to be a huge challenge. It is just the challenge of the day. Lumber was the challenge of the day 3 years ago. And coming from a lumber State, you have probably heard that a lot.

And so transformers just happen to be that, the issue of the day that we are really trying to solve. And there is such a cost impact to getting them. And kind of to your point, I don't even know what I am going to pay for them. I will put money down, just get it here, I need it, I can't do my project without it.

Ms. GLUESENKAMP PEREZ. Yeah, and we are not going to electrify without them either.

Thank you very much. Thank you all for your testimony.

I yield back.

Chairman WILLIAMS. The gentlelady yields back.

I now recognize Representative Molinaro from New York for 5 minutes.

Mr. MOLINARO. Thank you, Mr. Chairman. I appreciate that.

I appreciate you all being here.

And I do appreciate my colleague's common sense. In fact, we often, even this week, get ridiculed for having to draft legislation to preserve the rights of American citizens to buy their own home appliances as if that isn't the most significant issue facing Americans.

And here we are faced with bureaucrats establishing rules and regulations that make it difficult to purchase a table saw or a dishwasher or a refrigerator.

And it is often those faceless bureaucrats that establish policy that, frankly, make it so damn expensive for all of you. And then, of course, those costs either get passed down to your customers, our

constituents, or you fold up your tent and stop working. And that to me is the great crisis that is facing main street.

Mr. McCarthy, you had offered earlier that it was good to have small businesses at the table and the voice of small businesses being heard in tax policy, what have you. I do want to credit this Committee in a bipartisan way under the Chairman's leadership. We give voice to small businesses every week.

The problem is that small businesses often might make it to a White House roundtable, but they are not the ones at the table, as Mr. Martinez has offered, and you all have kind of referenced in your testimony, they are not the ones at the table when it comes to policymaking.

Yesterday, the Transportation and Infrastructure Committee held a hearing on new emission standards in California that California acknowledges would have an $86 billion disruption to supply chain and then went on to suggest that that would have nominal impact to American customers, whether they are buying food products or construction material.

Mr. Martinez, I wanted to return to you and give you an opportunity to kind of expand on some of the regulatory burdens.

You summed it up pretty well. You are all of the silos in your business. We know that in small businesses that is the case. For you it is a burden.

At times, it would be great if Washington or the federal government didn't have so many silos. In fact, it would be nice if one entity knew more about other challenges so we wouldn't have this regulatory regime that creates such a crisis.

The Biden administration consistently has ignored the voice of small businesses. We can pretend that sounds partisan, but it is not. Consistently, small businesses have been burdened with regulation because the left hand not only doesn't know what the right hand is doing, sometimes the left hand doesn't even know there is a right hand. And so what the EPA says might contradict with the Department of Labor, might contradict with some local zoning practice.

This administration finalized in 2023 alone more than $451 billion in final rules—imagine that—$451 billion in new costs because of regulations established in 2023 requiring 286 million paperwork hours. I can't even fathom calculating that.

I introduced the POST IT Act. Why? Because it would force the federal government to simplify regulations and require access transparency, small businesses having access to those regulations.

Mr. Martinez, in a real world sense just talk a little bit about how providing greater transparency might at the very least provide some benefit to your business, but also perhaps hold the federal government a bit more accountable.

Mr. MARTINEZ. Yeah, absolutely. Thank you, Representative.

Really knowing the basis for a rule, knowing why we are doing this, like what is the end goal in this rule. Is it to save money? Is it to save lives? Tell us what it is.

You had the EPA that had a waters of the U.S. standard. It was being challenged in the Supreme Court. And yet they still moved forward, the EPA kept moving forward with their rule, knowing

that they stood on very—and it was an Idaho case. Of course, I was a little sensitive to it.

But that Sackett case reversed the waters of the U.S. rule, and yet the EPA kept moving forward. And we as a small business who deal with the EPA and Army Corps, one or the other, kept saying this standard stopped, like let's wait till the Supreme Court rules, because we are going to just go right back and start all over again.

Mr. MOLINARO. I am glad you brought that up, because actually there are Members like me from New York. I have spent my entire life trying to preserve watersheds, wetlands in the Hudson River Estuary. And the fact that that particular determination by EPA, by rolling it back, some of my colleagues on the other side of the aisle suggest that somehow we are not interested in protecting water.

That couldn't be further from the truth. We have environmental standards, federal and state environmental standards that provided those protections. The EPA overstepped.

I am going to run out of time because of my own fault. But, Ms. Davis, I recall some years ago in the 1980s when my parents were thrilled that they finally got a mortgage at under 11 percent.

Can you talk about what the highest rate of inflation in the last 40 years has meant to lenders?

Ms. DAVIS. Well, for starters, the rates have been up. When I was in banking school, the Capstone Project provided this scenario that could never possibly happen to ensure that bankers were prepared. And, yet, we have see it rapidly increasing rates. And it surpassed even that.

Mr. MOLINARO. Thank you, Ms. Davis. I apologize. That was my fault.

Mr. Chairman, I yield back.

Chairman WILLIAMS. The gentleman yields back.

I now recognize Representative Bean from the great State of Florida for 5 minutes.

Mr. BEAN. Thank you very much, Mr. Chairman. A very good morning to you.

Good morning, Small Business Committee.

And to our all-star panel, welcome to your Nation's Capital, and thank you for your testimony. You will always remember this day, the day you testified before Congress.

There is no hiding it anymore: Bidenomics is not working for America, for main street. And your testimony today really is in sync with the business owners of northeast Florida, in Clay County, in Jacksonville, that are just struggling with curveball and fastball and just an environment that makes it extremely difficult.

In a perfect world, it is extremely difficult to run a small business. But when government is just throwing things in your way left and right, I know it is a struggle.

We have had dozens of people sit in the same chairs that you are sitting in right now. All—many—have testified that they have never—they have been in business a long time. They have never seen the regulatory environment, the new regulations come down more than right now.

Ms. Davis, would you agree with that? This is the most regulated environment we have ever seen? It is breaking the backs of small business? Would you agree with that statement?

Ms. DAVIS. I would agree with that.

Mr. BEAN. Very good.

Mr. Martinez, jump in. Tell us.

Mr. MARTINEZ. Yes. And I lived through a once-in-a-lifetime financial meltdown of 2008 to 2012 that I thought, okay, now I am good, I am back to being in business. And I do feel like we are in an environment now that is harder than it was in that financial meltdown.

Mr. BEAN. I am going to put you down a yes, because you agree with that, for sure.

Mr. MARTINEZ. A long way around it.

Mr. BEAN. No, no, I am with you.

Mr. Ewing, welcome. Glad to have you here.

What say you? Is it the most regulated? Is the federal government just throwing things at you left and right that you have never seen before?

Mr. EWING. For our business, I can't speak to that directly. But any time the federal government or any government adds cost of doing business to the business, it takes away from the employees and our ability to treat them better.

And that trickles down. And I think that is one of the effects that aren't recognized on regulatory burdens. Additional costs of running a business is—it is going to affect a business, but it is also going to affect the tens, dozens, hundreds of employees of those businesses which impact main street even further.

Mr. BEAN. It sounds like a yes to me. So thank you very much.

Mr. McCarthy, I haven't forgot about you. What say you? Trying to get to Mars, but it is hard to do so when the federal government throws all these monkey wrenches in the spaceship. What say you? Is it being overregulated right now?

Mr. EWING. I think there are a couple of things that have impacted us. I mean, as we mentioned before, inflation has. Definitely, we feel that. We feel that. That is our buying power.

Mr. BEAN. But you don't have to—do you have to have a circular saw or a stove to get to Mars?

Mr. MCCARTHY. No. No. I don't—correct. I don't have the same situation there.

But I will say something that is important that is coming on that does affect us, is there are standards associated with NIST and security and so forth.

And those are things that for small businesses to start up with those compliances and so forth, that is something that is a new activity, a new burden for us. But I am not saying that it is not important.

Mr. BEAN. No. I got you.

Mr. EWING. But those are—those are things—those are——

Mr. BEAN. So it is a challenging environment, and I will take that as a very strong maybe from you.

Mr. MCCARTHY. A very strong maybe.

Mr. BEAN. Ms. Davis, I was a banker too. You have the heartbeat of main street, and hopefully every small business. Get to

know your banker or a banker that can help you navigate the tough environment.

What are you seeing? What are you seeing right now at the bank? What are your customers doing to try to keep up with regulations and a rising interest rate?

Ms. DAVIS. Well, I think many of them are trying to cut costs. They are trying to figure out ways to continue to move forward.

Again, we have demand for credit, but that liquidity is such a big deal.

Mr. BEAN. It is. It is tough.

Mr. Martinez, what would you say if you could talk directly to the Chairman of the K-12 Subcommittee on Education on how do we pivot to a more society focused on teaching kids a skill? What would you say to that Chairman? How do we do it? What should you advise Congress? How do we have a new conversation?

Mr. MARTINEZ. I say reengage the industry. You walked away from the industry a while ago. It is time to come back. And doing that, there are plenty of programs, there are plenty of funds now. Like, there is no reason they can't be doing this.

Mr. BEAN. Very good. You just told the Chairman. I am the Chairman of that Committee.

Mr. MARTINEZ. Oh.

Mr. BEAN. We have had multiple Subcommittee—you did a great job by the way.

Mr. MARTINEZ. You are supposed to let me know.

Mr. BEAN. You did a great job. That is a little curveball here we can throw you to. But listen, thank you. You did a great job.

And we are having that conversation. We welcome input, and we are going to have to do it together. And I think it is changing. I think kids are realizing, "I can make more money without going into this debt"—which is a whole nother topic altogether.

Look at me, ran out of time. But I am grateful for each of your coming. Thanks for your testimony today.

Mr. Chairman, I yield back.

Chairman WILLIAMS. The gentleman yields back.

And I now recognize Representative Meuser from the great State of Pennsylvania for 5 minutes.

Mr. MEUSER. Yes, thank you, Mr. Chairman.

Thank you to all of you. My apologies for being late. I had an earlier Committee. And as my colleague just said, good luck following that.

Thank you, Representative Bean.

So I am a small business person as well for well over 20 years, helped grow a small business into what eventually became a large business. What is being faced today is really burdensome, to say the least, to put it in the nicest way possible. And, boy, oh, boy, we hope to correct that come next year.

But from energy, we in northeast Pennsylvania call it gas backwards energy policy, taxes, regulations, crime, interest rates, inflation. The regulations that seem endless. I start listing them here. It is a long list, from the beneficial ownership rule to 1071 coming out of the CFPB.

So I will start with you, Mr. Ewing. And you are from Fayette County?

Mr. EWING. Correct.

Mr. MEUSER. Great. Well, that is a beautiful spot in the world.

Mr. EWING. That it is.

Mr. MEUSER. I will be heading that way at the end of the week. But anyway—or in our great Commonwealth of Pennsylvania.

So you mentioned—well, first off, the sunsetting of the Tax Cuts and Jobs Act, R&D tax credits, potentially the 199(A) small business deduction, which has been stated by President Biden, doing away with that, all the tax relief that occurred.

So how do you all feel about that, Mr. Ewing?

Mr. EWING. Well, the 199(A) is going to eliminate a lot of investment that small businesses are able to make, and that is a problem. And we can't—we talked about it earlier. Not being able to plan to invest in your business, you start to pull back. Innovation is squashed a bit.

And for us, as I mentioned earlier in testimony, the investment into our people is really what is going to be challenging if the cost of doing business rises substantially because tax cuts go away.

Mr. MEUSER. That is devastating. I hear from my friends who own small businesses and my constituents, and all devastating.

So I read your OSHA officer issue, and in my district—and I have a conference call with them on Friday with OSHA—they seem to have this new walk-around rule where they stopped on a construction site the other day, just small putting up Sheetrock for people, and the ladder was over 15 feet high. And they said it wasn't secure enough.

So after 4 hours of interrogation and permits and getting their licensing, they informed—they wrote them a warning and stated that the fine will be anywhere from zero dollars to $14,500. Unbelievable. Walk-around. So-called walk-around by OSHA. So we are going to have a little conversation there.

Tell us a little bit more about your interlude with the OSHA officer.

Mr. EWING. It was in our Charlotte facility. And it was—I don't know that it was a walk-around, but it was an unexpected visit. And the officer identified what they believed to be a problem with stability of product on racking. All our racking was installed according to code. But this officer, who we found out much later in the process—this was a 6-month ongoing process—was new and very aggressive and wanted to put a name in the local agency for themselves.

Mr. MEUSER. Right, mount on the wall. Right.

Mr. EWING. Yeah.

Mr. MEUSER. Allow me to move on. I appreciate that.

Ms. Davis, do you think that the CFPB's 1071 rule will harm or help your ability to serve your customers?

Ms. DAVIS. It will absolutely harm it.

Mr. MEUSER. Can you elaborate?

Ms. DAVIS. Plain and simple.

As part of my testimony, we are able to meet the small business needs by being effective and fast and efficient. That added cost that we are going to have to tack on for all those data collection points is going to hinder the expediency of our lending efforts.

In addition, for every compliance officer that we have to hire to manage those data points and the examination ramifications, that is one fewer banker that we have out in the community serving our customers' needs.

Mr. MEUSER. Mr. Martinez, has there been anything done over the last three and a half years that has been a positive development? I know inflation, everything else. Is there any policy? And we are going to work on this. Believe me. That is why most of us are in Congress, to be advocates for small business.

Mr. Chairman, I have run out of time. But maybe we could talk afterwards. I appreciate it. I yield back.

Chairman WILLIAMS. The gentleman yields back.

I would like to thank our witnesses today for your testimony. It has been a great hearing. I think you have seen, unlike you see in many other hearings, we do have a lot of bipartisan agreement on where we need to take main street. And I want to thank you all for being here.

Without objection, Members have five legislative days to submit additional materials and written questions for the witnesses to the Chair, which will be forwarded to the witnesses. So I ask the witnesses to please respond promptly if that happens.

And if there is no further business, without objection the Committee is adjourned. Thank you.

[Whereupon, at 11:42 a.m., the Subcommittee was adjourned.]

APPENDIX

July 10, 2024

Testimony of

Hazel Davis

On behalf of the

Texas Bankers Association

before the

Committee on Small Business

United States House of

Representatives

Testimony of Hazel Davis

On behalf of the

Texas Bankers Association

before the

Committee on Small Business

United States House of Representatives

July 10, 2024

Chairman Williams, Ranking Member Velázquez, my name is Hazel Davis, Vice President, Compliance Manager and Corporate Responsibility Officer for Jefferson Bank in San Antonio, Texas. We are a family-owned community bank chartered in 1946, with approximately $3 billion in assets. With fifteen locations, we serve the needs of San Antonio and Austin, a growing mega region of approximately 4.8 million people. Our primary specialty is commercial lending, although we also have a robust consumer mortgage division. Demographically, San Antonio is more than 64% Hispanic, with 34,000 small businesses and 145,000 sole proprietorships.

As a regulatory compliance officer and community development professional I have had the opportunity to observe first-hand the impact of economic and regulatory change on the availability of credit. I appreciate the opportunity to be here to discuss the headwinds facing small businesses, both as an employee of a small business and co-owner of a small business, and as a board member and advocate for the Texas Bankers Association (TBA). TBA is the largest and oldest state banking association, representing 375 small, regional and large banks, employing over 218,000 people. Community banks make up 97 percent of all U.S. banking organizations and continue to be the backbone of businesses across America. As a sector, we have a personal stake in the economic growth, health, and vitality of our communities.

I. Community Banks Are Uniquely Equipped To Assist Small Businesses

San Antonio continues to experience economic growth with unemployment lower than the Texas and U.S. average. Hiring and/or retention of qualified staff, increased cost of materials, and workforce housing affordability have been identified by local business owners as challenges. Our bank has seen a steady demand for credit, however higher interest rates have impacted price-sensitive borrowers.

Our commercial credit portfolio has performed well with existing businesses meeting obligations. Loan officers are personally involved in their communities and are committed to working with borrowers should an extension or modification be required. Higher consumer mortgage rates have impacted commercial 1-4 family construction loans, with some requiring extensions to allow for properties to sell.

Supporting small businesses is part of the community bank business model – to mitigate risk, we must have a diverse loan portfolio of smaller dollar loans rather than rely on a limited number of large loans or one specific type of loan. By its nature, commercial lending is more complex than consumer lending due to the variety of purposes, financial structures, industries, and collateral types. It has been my experience that community banks are uniquely equipped to understand local small business challenges and complexities. Through prudent, sound, and compliant policies, community banks generally offer lower interest rates, faster processing times, and varied repayment terms compared to Small Business Administration (SBA) programs, which often charge prepayment penalties.

Relationships, service, and the ability to tailor products to our customers' needs are hallmarks of community banking. A healthy economy and banking sector require fair and equitably enforced laws and regulations. ***Credit unions and members in the financial and fintech space must be similarly regulated and examined. Commoditization of commercial lending will reduce the availability of credit to small businesses.***

II. Lack Of Financial Literacy Limits Access To Capital

As the designated fair lending officer, I regularly review declinations for patterns or trends. It is my observation that early entrepreneurial efforts by borrowers are often initially self-funded. The probability of obtaining capital after establishing their business is determined by credit, collateral, and liquidity. If the business owner has utilized their personal credit to

their determent, it becomes less likely that they will easily obtain credit without additional collateral or resources. Financial acumen, including the separation of personal and business expenses and adequate financial recordkeeping, substantially impacts the probability of application approval.

It would be reckless for a lender to grant a credit request if an applicant could not provide proof of income or other source of repayment. Our fiduciary responsibility as bankers requires us to act in our borrower's best interest. From this perspective, it is my opinion that the availability of capital within the marketplace is sufficient, however not all businesses are ready for borrowed capital. The Community Reinvestment Act (CRA) addresses these gaps and reenforces the importance of community banks within their communities.

Banks are personally and monetarily invested in their communities, providing financial literacy education and support for small business programs. The current CRA focuses on meeting the credit needs of communities. ***Proposed revisions repurpose the CRA regulation into a deposit-based assessment. This fundamentally shifts attention away from small business and financial literacy support.***

III. Increase Support For Small Businesses By Reducing Barriers

San Antonio is a majority-minority city with a rich history spanning more than 300 years. As with many cities, we have neighborhoods that have experienced historical disinvestment. This history has fostered an undercurrent of mistrust, with area business owners avoiding debt and traditional financial systems. Through relationships and consistent involvement, we have established deep partnerships in these areas.

The cost to originate a $10,000 or a $100,000 loan is similar, and dictated by the cost of loan origination platforms, personnel, and other overhead expenses. In recent years, the banking industry has seen an increase in regulatory action, requiring additional systems investments and causing an increase in overhead expenses. For us, this has included more robust Bank Secrecy Act (BSA) processes to support beneficial ownership rules and hiring additional compliance and audit department staff. Increased origination costs have a greater impact on smaller businesses, due to their generally lower loan amounts. Additionally, every dollar Jefferson Bank invests in systems for compliance purposes is one less dollar reinvested

in small businesses in our community. ***Regulatory burdens, such as small business data collection initiatives, have the potential to erode trust and increase origination costs, reducing the availability of capital.***

Conclusion

In summary, I ask the committee to consider the potential unintended consequences of regulatory action and its impact on small businesses. Consistent and fair regulation of the financial industry, recognition of the unique characteristics of commercial lending vs consumer lending, and support of small business financial literacy efforts are necessary to support a thriving small business ecosystem.



Testimony of Steve Martinez

On Behalf of the

National Association of Home Builders

Before the

House Small Business Committee

Hearing on

"Main Street Realities: Examining the Current Economic Landscape in America"

July 10, 2024

Introduction

Chairman Williams, Ranking Member Velázquez, and members of the Committee, I appreciate the opportunity to testify today on behalf of the National Association of Home Builders (NAHB) to share our views on the current economic landscape in America and the headwinds builders face in addressing the persistent undersupply of housing that is fueling a national housing affordability crisis. My name is Steve Martinez and I am a home builder from Boise, Idaho.

NAHB represents more than 140,000 members who are involved in building single-family and multifamily housing, remodeling, and other aspects of residential and light commercial construction. NAHB's members, most of whom build 10 or fewer homes per year, construct approximately 80% of all new housing in the United States each year.

Housing is by far the largest single expense for American households and rising costs are putting the nation in an untenable situation. A 2024 report by Harvard's Joint Center for Housing Studies found that a record-high 22.4 million households are paying more than 30% of their income on rent and that among those renters, more than 12 million are paying more than half their income on housing, also an all-time high.[1] And a newly released housing affordability index by NAHB shows that in the first quarter of 2024, 38% of a typical family's income was needed to make a mortgage payment on a median priced new single-family home in the United States.[2] Keep in mind that if an owner or renter is paying more than 30% of their gross income on housing, they are cost burdened, and if they are paying more than 50%, they are severely cost burdened.

And things aren't getting any better. Shelter inflation – rent and homeownership costs – is still rising well above a 5% rate driven in large part by a nationwide shortage of 1.5 million housing units. The only way to tame inflation and ease the nation's housing affordability crisis is to build more homes.

All of these rising costs for consumers are tied to rising business costs. Like home buyers seeking a mortgage, home builders and developers rely on banks for financing to build new homes and housing developments. Banks posted a decline in the volume of total outstanding acquisition, development and construction (AD&C) loans during the fourth quarter of 2023 as interest rates increased and financial conditions tightened. Tighter and more expensive lending conditions for AD&C loans are making it more difficult for builders and developers to finance new housing. In today's market, a limited supply of land, inefficient local zoning rules, permitting roadblocks and delays, and rising fees are all contributing to increased construction costs that make it increasingly difficult to boost the supply of housing.

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[1] https://www.jchs.harvard.edu/sites/default/files/reports/files/Harvard_JCHS_Americas_Rental_Housing_2024.pdf
[2] https://www.nahb.org/news-and-economics/housing-economics/indices/cost-of-housing-index

I am here today to urge members of this committee and all of Congress to support policies that will allow home builders to construct more homes and apartments to provide better, more affordable housing opportunities for all American households. Sensible policy solutions include reducing excessive regulations, promoting careers in the skilled trades to address a severe labor shortage in the construction industry, and fixing building material supply chains to name just a few. NAHB has released a more comprehensive, 10-point plan (attachment) to address the nation's housing affordability challenges for a more in-depth look.

As a nation, we can and must do better. All home buyers and renters in America should have a choice in securing safe, decent and affordable housing where they want to live. America's workforce families, including members of the armed forces, teachers and first responders, should be able to afford to live in homes or apartments in the communities they serve. NAHB strongly believes that increasing the inventory of new single-family and multifamily housing is key to improving housing affordability. To do this, we must remove the barriers that are preventing home builders from increasing housing production.

Regulatory Barriers

Regulatory costs, which include complying with building codes, make up nearly 25% of the cost of a single-family home[3] and more than 40% of the cost of a typical apartment development.[4] Increased regulations, especially energy building code requirements, are making it harder and harder for home builders and multifamily developers to build housing that is attainable and affordable for American families.

Although referencing model building codes in federal legislation and regulatory programs is not new, over the past few years, the breadth of programs and issues for which more stringent building codes are purported to be the answer is raising growing concern. In a move that will curb new construction and harm housing affordability nationwide, the U.S. Department of Housing and Urban Development (HUD) and U.S. Department of Agriculture (USDA) recently issued a final determination that will require all HUD- and USDA-financed new single-family construction housing to be built to the 2021 International Energy Conservation Code (IECC) and HUD-financed multifamily housing be built to 2021 IECC or ASHRAE 90.1-2019.

Without adequate review or consideration of how it will affect home buyers or renters, HUD and USDA have rammed through this mandate that will do little to curb overall energy use but will exacerbate the housing affordability crisis and hurt the nation's most vulnerable house hunters and renters. HUD and USDA are supposed to help the most vulnerable home buyers and renters — not price them out of the housing market. This

[3] https://www.nahb.org/blog/2021/05/Regulatory-Costs-Add-a-Whopping-93870-to-New-Home-Prices
[4] https://www.nahb.org/news-and-economics/press-releases/2022/06/new-research-shows-regulations-account-for-40-point-6-percent-of-apartment-development-costs

nationwide codes mandate will significantly raise housing costs — particularly in the price-sensitive entry-level market for starter homes and affordable rental properties — and limit access to mortgage financing while providing little benefit to new home buyers and renters. It will also compel more buyers and renters to stay in their current, less efficient homes.

This ill-conceived policy will act as a deterrent to new construction at a time when the nation desperately needs to boost its housing supply to lower shelter inflation costs. What's more, this problem may soon grow.

During the April 18, 2024 hearing before the U.S. Senate Committee on Banking, Housing, and Urban Affairs entitled "Oversight of Federal Housing Regulators", Federal Housing Finance Agency (FHFA) Director Sandra Thompson confirmed that FHFA is considering applying the same standards recently adopted by HUD and USDA for new homes and apartments financed by Fannie Mae and Freddie Mac (the Enterprises). The Enterprises provide 72 percent of financing for new home purchases.[5] Therefore, any requirements established by the Enterprises largely dictate the rules for the housing finance market overall. This is true today for underwriting and appraisal standards. If FHFA were to move forward and require a specific energy code, it would become a de facto national standard.

NAHB is particularly concerned that FHFA has not provided a compelling reason why the Enterprises should consider requiring new single-family and multifamily homes be built to the updated energy codes to be eligible for Enterprise financing, especially given that research has determined these codes are cumbersome and not cost effective. The Enterprises were created to provide liquidity, stability, and affordability to the U.S. housing market. Any mandate by FHFA that limits the availability of Fannie Mae and Freddie Mac financing for new construction to only those homes that meet the 2021 IECC is counter to their charge and would severely disrupt the construction of new homes, exacerbate the housing supply shortage and negatively impact the affordability of newly constructed homes. Such a mandate would not only increase the cost of new housing but would also create conflict between mortgage program requirements and local energy codes since most jurisdictions have not adopted the 2021 IECC. Equally important, it would decrease affordable financing options for first-time and low- to moderate-income home buyers who want to purchase newly constructed homes and leave them only with the option to consider the existing housing stock, which is far less energy efficient than new homes.

Increased regulations including building code requirements, among other things, add significant costs to homes and further harm housing affordability. Accordingly, NAHB has long support legislative efforts to ensure that all regulations are designed with small businesses in mind, that regulatory rulemaking agencies are required to consider the true cost of regulations on small businesses (and their consumers), and that regulatory rulemaking agencies comply with the letter and intent of the law in crafting new

[5] 72 percent of newly constructed homes were purchased with conventional financing in 2022. Share of Non-Conventional Financing Holds Steady in 2022 | Eye on Housing

regulations. Given this NAHB is proud to support and urges Congress to pass legislation such as H.R. 358, the Small Business Regulatory Flexibility Improvements Act.

Labor Barriers

A severe shortage of labor in the construction industry is worsening the housing affordability crisis through higher home building costs and construction delays. In the construction industry, we can expect almost 400,000 open and unfilled jobs in any given month and NAHB research suggests that we will need 2.2 million workers in the next three years just to meet existing home building demand. This places upward cost pressures on existing home prices and rents and pushes the dream of homeownership out of reach for potential homeowners and renters.

Job Corps

Federal workforce development programs, like Job Corps, can help make the difference in bolstering our nation's depleted labor pipeline. For nearly 50 years, Job Corps has been the nation's most successful career preparation program for at-risk youth. Each year, Job Corps equips 60,000 students with the skills they need to succeed in high demand industries like construction, manufacturing, and IT. Continued funding for this critical program means that home builders have access to the qualified and skilled labor they need to get projects off the ground. Moreover, a fully funded Job Corps ensures that at-risk youth are brought into the workforce and placed on pathways to economic prosperity.

It is encouraging to see that Job Corps was fully funded under the House's Fiscal Year 2025 appropriations bill for the Department of Labor, Health and Human Services, Education, and Related Agencies. At a time of endemic labor shortages, it is heartening to see Congress signal to the small business community that strengthening the workforce pipeline is a budgetary priority.

Adverse Rulemaking from the Department of Labor

In the last year, Department of Labor (DOL) rulemaking has worked against the small business community. The home building industry is characterized by many relatively small firms that operate over limited geographic areas and rely heavily on subcontractors. More than 95 percent of NAHB's builder members are small businesses, as defined by the U.S. Small Business Administration. As such, small home building firms lack the operational capacity to meet the demands of complex overregulation and are overexposed to legal and financial liability.

Furthermore, the DOL has moved to subvert the authority of home builders on job sites by targeting aspects of their business operation, including the employer-worker relationship and how employers manage their job site.

The Independent Contractor Rule

In March, DOL finalized a rule that would overturn existing methodology for determining employee or independent contractor status for workers. The new rule eliminates clarity and certainty by establishing a six-factor test which will force employers to measure workers against ambiguous criteria and create uncertainty for the thousands of independent entrepreneurs supporting the home building industry.

The home building industry is highly decentralized, supporting a large number of smaller, competitive firms. Besides being a sector that supports local small businesses, having a significant number of such small firms operating in the same industry promotes competition, providing a benefit for prospective home buyers. However, the ever-evolving liability that the worker classification standard has created for longstanding contractor-subcontractor relationships may lead to a point where utilizing these local businesses may not be legally or fiscally viable.

The Walk-Around Rule

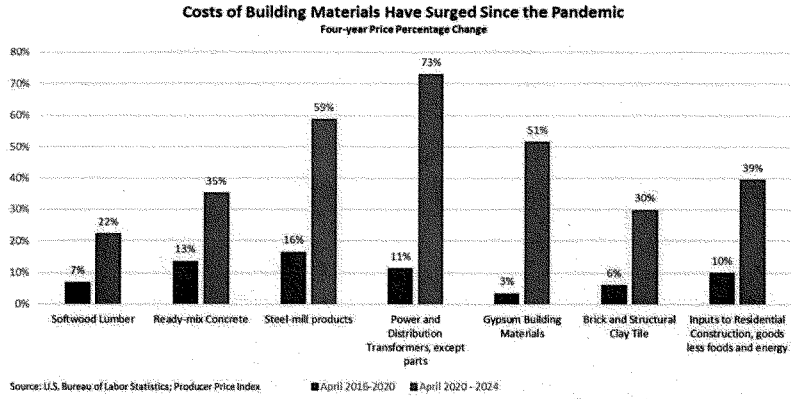
In May, another rule took effect that would impact a home builder's ability to effectively manage their job site. The Occupational Safety and Health Administration's (OSHA) "walk around" rule would expand the type of third-party individual that may accompany an OSHA inspector on a site during a health and safety inspection.

While third parties have only been allowed to participate when the individual "is reasonably necessary to the conduct of an effective and thorough physical inspection of the workplace," the new rule would allow union organizers, community activists, or other third parties to accompany an inspection of a workplace if employees request they do so. This rule exposes a job site to the potential ulterior motives of the requested third party, whether it be to instigate unionization, pursuing public pressure campaigns against the company, attempting to obtain or exploit employers' proprietary information, or seeking to target the workers themselves for any number of reasons.

The DOL must look closely at the unintended consequences of its rulemaking to ensure that small businesses are not constrained by regulation, but rather given the opportunity to grow and provide unlimited economic opportunity for their workforce and consumers.

Supply Chain Barriers

Since the pandemic, the cost of building materials has surged 38%.The rise in building material costs is harming housing affordability as the cost of lumber, steel, aluminum and other imported materials and equipment exacerbate price volatility and drive up housing costs.



The rising material costs are made worse by uncertainties within the production process and when supplies will be available to complete homes in a timely manner. Another key concern is whether the homes will appraise at the correct price to reflect these rising costs.

Builders are doing everything possible to avoid pricing consumers out of homes while still maintaining competitive prices necessary to operate their businesses — especially given the potential long-term impacts on consumers.

Of particular concern is the price and availability of distribution transformers. Since February 2020, the price of distribution transformers is up 72% and NAHB members continue to report that wait times for transformers often range from 12 to 24 months. In some isolated cases, the lag time approaches three years.

Unprecedented demand for critical electrical grid components remains and is expected to continue for the foreseeable future. According to the National Renewable Energy Laboratory, this demand will be driven largely by replacement of aging infrastructure and investments in electrification, such as data centers, electric vehicles, and heat pumps.

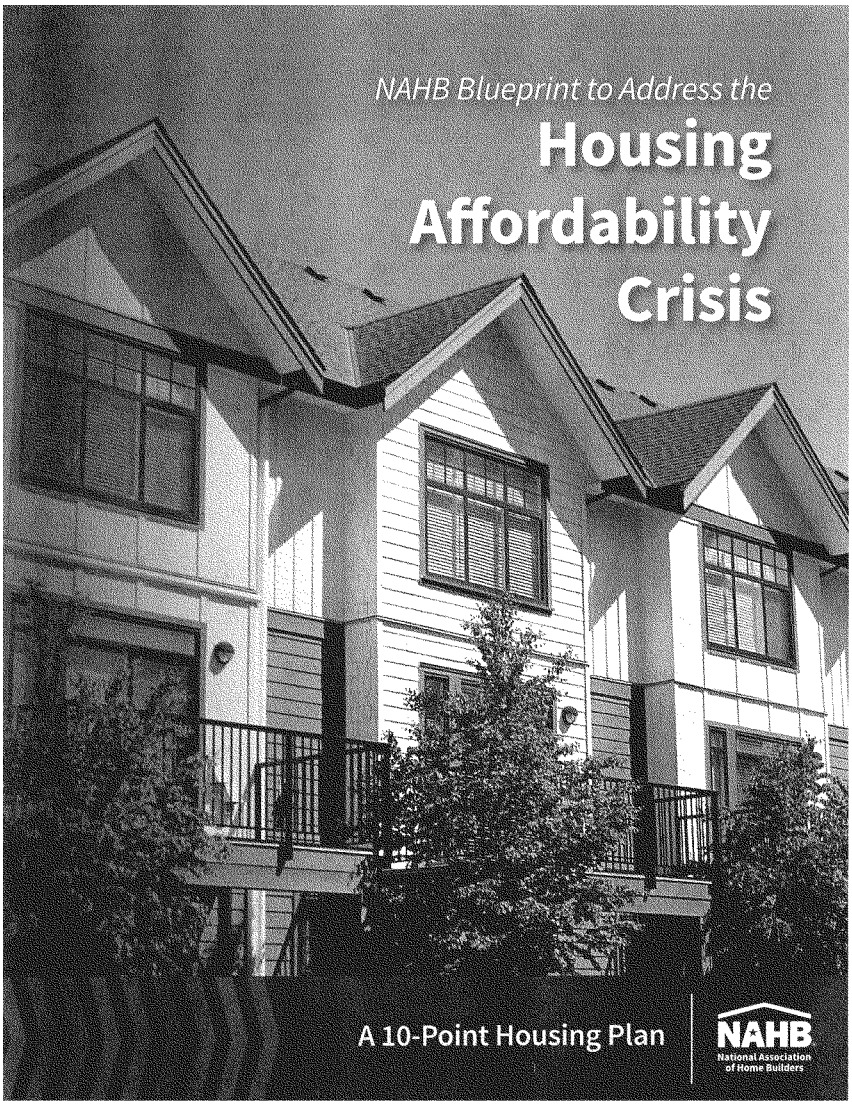
Congress must help mend faulty building material supply chains and ease price spikes and volatility by investing in the domestic production and/or reducing barriers to trade of sorely needed building materials including distribution transformers.

Conclusion

Thank you, Chairman Williams and Ranking Member Velazquez, for convening this

important hearing and allowing NAHB to share our views on the state of the housing industry and how to help ease the nation's housing affordability crisis. Home builders are not looking for hand-outs, but we are calling on policymakers to help remove the barriers that are impeding our ability to increase the production of quality, affordable housing.

These are important conversations, and NAHB stands ready to work with you and members of the committee to achieve thoughtful, effective policies to expand the availability of attainable, affordable housing for all Americans.


NAHB Blueprint to Address the
Housing Affordability Crisis
A 10-Point Housing Plan
NAHB
National Association of Home Builders

A 10-Point Plan to Tame Shelter Inflation, Ease the Housing Affordability Crisis

With a nationwide shortage of roughly 1.5 million housing units that is making it increasingly difficult for American families to afford to purchase or rent a home, the National Association of Home Builders (NAHB) provides this 10-point housing plan designed to tame shelter inflation and ease the housing affordability crisis by removing barriers that hinder the construction of new homes and apartments.

Shelter inflation – rent and homeownership costs – is still rising well above a 5% rate, and for the past year, more than half of overall inflation in the economy has been due to rising housing costs. The only way to effectively tame shelter inflation – particularly with elevated interest rates for both mortgages and development/construction loans – is to build more attainable, affordable housing.

Solutions Must Be Implemented at the Local, State and Federal Levels

With policymakers at all levels of government looking for ways to provide more affordable homeownership and rental housing opportunities for all Americans, NAHB is offering a blueprint that outlines initiatives that can be taken at the local, state and federal levels to address the root of the problem – the impediments to increasing the nation's housing supply.

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1 **ELIMINATE EXCESSIVE REGULATIONS.** On average, regulations account for nearly 25% of the cost of a single-family home and more than 40% of the cost of a typical apartment development. Agencies and officials at all levels of government must thoughtfully consider the true effect regulations have on small businesses by requiring a more thorough analysis, including indirect costs associated with a proposed rule. Federal efforts to further regulate the housing industry must be subject to greater congressional oversight, allow for increased public participation in the process, be based on sound data, and should only be undertaken after a careful consideration of the costs and benefits as well as the potential effects on small businesses. At the local level, policies like rent control actually worsen the nation's housing affordability crisis by discouraging new development, which is key to bringing down rising prices.

2 **PROMOTE CAREERS IN THE SKILLED TRADES.** In any given month, there is a shortage of roughly 400,000 construction workers, and home builders will need to add 2.2 million new workers over the next three years just to keep up with demand. This severe labor shortage is exacerbating the housing affordability crisis through higher home building costs and construction delays. Policymakers at all levels of government can help by supporting funding for building and construction trades education and providing more placement services to job seekers. In addition to promoting training and jobs in the trades, Congress can help by adopting sensible immigration policies that preserve and expand existing temporary work visa programs while also creating new market-based visa programs that will accurately match demand with available labor.

3 **FIX BUILDING MATERIAL SUPPLY CHAINS AND EASE COSTS.** The cost of building materials has surged 38% since the pandemic, with the four-fold lumber price spike in 2021 adding more than $30,000 to the price of an average new single-family home. The price of distribution transformers is up 72% since February 2020, and the severe shortage of transformers is delaying housing projects across the nation. Federal policymakers can help mend faulty building material supply chains and ease price spikes and volatility through boosting the production of sorely needed transformers and other materials, ending tariffs on Canadian lumber shipments into the U.S. and on building materials coming from China, and increasing the domestic supply of timber from federally owned lands in an environmentally responsive manner.

4 PASS FEDERAL TAX LEGISLATION TO EXPAND THE PRODUCTION OF AFFORDABLE AND ATTAINABLE HOUSING. The Low-Income Housing Tax Credit finances the production of affordable rental housing, but demand for this housing greatly exceeds available resources. NAHB supports bipartisan legislation to increase resources for this program. NAHB also supports bipartisan proposals to create a new tax credit to produce affordable workforce rental housing geared toward middle-income households, such as teachers, health care professionals and law enforcement.

5 OVERTURN INEFFICIENT LOCAL ZONING RULES. Many local and state governments have adopted zoning laws that inhibit home construction and drive up costs. Inefficient land use policies make it harder and more expensive to build. Localities need to rework their zoning plans to increase density and allow more flexibility for developers. NAHB supports ideas such as reducing minimum lot sizes, allowing more accessory dwelling units, minimizing parking requirements and promoting missing middle housing (townhomes and duplexes). In addition, localities should consider a range of housing types, including multifamily; opening up areas where residential development has not been previously allowed; and prioritizing development around existing or planned transit stations. Accommodating these ideas can increase supply and lower overall housing costs.

6 ALLEVIATE PERMITTING ROADBLOCKS. Permitting delays at all levels of government delay housing projects and raise construction costs. At the federal level, Congress can reform the Clean Water Act (CWA) and the Endangered Species Act (ESA) to expedite the permitting processes by providing clarity and predictability while respecting environmental safeguards. Obtaining a CWA Section 404 permit takes upwards of one year, and completing a required ESA consultation can take years. At the state level, the Building Industry Association of Washington estimates that the average permitting delay in the state is 6.5 months and costs home buyers more than $31,000. One easy solution is a time limit on how long the government has to either deny or approve a permit. If the time limit ends without action, the permit is deemed approved.

7 ADOPT REASONABLE AND COST-EFFECTIVE BUILDING CODES. New homes are resilient and energy efficient, yet there continues to be a push to mandate the use of restrictive, costly energy codes that raise housing costs while providing little energy savings to consumers. The U.S. Department of Housing and Urban Development (HUD) and the U.S. Department of Agriculture (USDA) recently finalized a decision that requires them to insure mortgages for new single-family homes only if they are built to the 2021 International Energy Conservation Code (IECC) and HUD-financed multifamily housing be built to 2021 IECC or ASHRAE 90.1-2019. A study by the Home Builders Association of Greater Kansas City found that building to the 2021 IECC can add as much as $31,000 to the price of a new home while only minimally increasing the energy efficiency of the home. Meanwhile, a Home Innovation Research Labs study revealed that it would require up to 90 years for a home buyer to realize a payback on the added upfront cost of the home. That's not a reasonable trade-off for a new home buyer and clearly would do very little to provide meaningful energy savings for residential homes and apartments. Policymakers also have to update appraisal practices to ensure that appraisers recognize the value of energy efficient and other green and innovative features in newly constructed homes.

8 REDUCE LOCAL IMPACT FEES AND OTHER UPFRONT TAXES ASSOCIATED WITH HOUSING CONSTRUCTION. While some impact fees may be necessary to cover the costs of increased public services for new home developments, those fees must be imposed fairly with the cost to the home buyer in mind. When fees are levied arbitrarily or used to fund unrelated city or county services not connected to new home construction, they unfairly raise housing costs for home buyers and renters alike. Excessive impact fees also act as a barrier to home construction at a time when more housing is needed to satisfy unmet demand.



9 **MAKE IT EASIER FOR DEVELOPERS TO FINANCE NEW HOUSING.** Like home buyers seeking a mortgage, home builders and developers rely on banks for financing to build new homes and housing developments. Banks posted a decline in the volume of total outstanding acquisition, development and construction (AD&C) loans during the fourth quarter of 2023 as interest rates increased and financial conditions tightened. Fannie Mae, Freddie Mac and the Federal Home Loan Banks should be encouraged to support a secondary market for AD&C financing that would expand financing options so that builders can increase the housing supply.

10 **UPDATE EMPLOYMENT POLICIES TO PROMOTE FLEXIBILITY AND OPPORTUNITY.** Building a typical single-family home requires the skills and commitment of 11 to 30 independent specialty trade contractor firms. Subcontracting out large portions of work has consistently proven to keep housing production costs low and provide opportunities for small businesses. But a builder's ability to compete efficiently and optimally price a home depends on the degree to which overall costs are certain and predictable. The current patchwork approach for determining worker status (i.e., employee or independent contractor), calculating overtime pay and prevailing wages, and documenting employment status not only creates additional and unforeseen burdens, but also disincentivizes housing production. Employment policies and requirements must both recognize the common practices among regulated industries and be simple and economical enough for all-sized businesses to comply.

The nation's home builders are committed to doing their part to boost housing production to meet the needs of a growing population, make homeownership and renting more affordable, and elevate housing as a national priority. But we cannot do it alone. By implementing these practical solutions and reaffirming their commitment to housing, policymakers at all levels of government can help fulfill the promise of the Housing Act of 1949, which set a goal of "a decent home and a suitable living environment for every American family."

About the National Association of Home Builders

The National Association of Home Builders (NAHB) strives to protect the American Dream of housing opportunities for all, while working to achieve professional success for its members who build communities, create jobs and strengthen our economy.

Each year, NAHB's members construct about 80% of the new homes built in the United States, both single-family and multifamily.

A federation of 700 state and local builders associations, NAHB represents more than 140,000 members who work to provide homeownership and rental housing opportunities for all Americans.

NAHB
National Association of Home Builders

MAY 2024

Learn more about each element of NAHB's housing plan at **nahb.org/plan.**

Testimony of J.D. Ewing, Chairman & CEO of COE Distributing
House Small Business Committee
Main Street Realities: Examining the Current Economic Landscape in America
Wednesday, July 10, 2024

Chairman Williams, Ranking Member Velasquez, and Members of the Committee:

Thank you for the opportunity to testify at today's hearing on the state of the Small Business Economy. My name is J.D. Ewing, Chairman & CEO of COE Distributing, a national office furnishings wholesale distributor and contract manufacturer based in Fayette County, Pennsylvania.

COE Distributing is a family-owned business that has operated since 1947, when my grandmother started the business in the basement of a tavern. I am the third-generation owner of COE Distributing after taking over the business in 1989 at age 19. At that time, I was COE's sole employee and had to handle multiple roles including tackling sales, driving trucks, loading products, collecting money, paying bills and learning each position inside and out. From these humble beginnings and through an enormous amount of hard work and dedication from a number of dedicated and talented team members, COE has grown to become the largest office furniture only distributor in the United States.

I am also an active member of the National Association of Wholesaler-Distributors (NAW) and I am chairman of NAW's Institute for Distribution Excellence. NAW represents the $8 trillion wholesale-distribution industry and represents national, regional, and state employers of all sizes, industry trade associations, partners, and stakeholders spanning all distribution sectors.

Today, COE has grown to over 120 employees with distribution centers in North Carolina and Texas in addition to our distribution center and headquarters in Southwest Pennsylvania. While we have seen significant growth, we see many challenges in the economy including rising costs and supply chain disruptions, looming tax increases on small businesses, and compliance costs with new regulations.

I appreciate the opportunity to share my perspective on these challenges and talk more about my business.

At COE, we have cultivated and continuously strive to grow a robust culture, which is fundamental to the success of any small business. We take immense pride in fostering an inclusive environment where input from team members at every level of the organization is not only encouraged but actively sought. This collaborative approach empowers our team to bring forth innovative ideas that drive the improvement of our products and processes, ensuring we remain agile, competitive, and forward-thinking.

In addition to generous pay & benefits, we are proud to provide our team members career development programs like Rising Stars training, employee recognition including Core Value champion of the month, employee of the quarter and employee of the year. Benefits include health care, dental and vision insurance, disability and life insurance, a formal profit-sharing and 401k program, a traditional pension plan and quarterly cash bonus profit sharing, as well as personal benefits such as financial workshops, volunteer paid time off and virtual book clubs. COE also sets daily goals for sales and shipments and when eclipsed all team members enjoy a free lunch!

As the official employee engagement partner of the Pittsburgh Penguins, COE also holds a monthly peer-to-peer recognition program awarding a game-worn Penguins helmet to an employee embodying COE's Core Values of Customer Service, Respect, Teamwork, Quality, Safety, Innovation and Transparency. This and other employee engagement focused efforts allow our unique workplace culture to grow stronger every day.

While we take pride in our strong culture, like all businesses and families, we are seeing significant challenges in today's economy including rising costs and supply chain breakdowns. The COVID-19 pandemic exposed how supply chains disruptions, including congested ports, can negatively impact the American economy by raising prices and creating shortages in the most basic commodities.

While the country has recovered from the pandemic, many of the same supply chain challenges we faced then are beginning to reemerge. Today, major ports are again beginning to see severe backlogs due to congestion and delays. The disruption in the Red Sea and the Suez Canal has had a material impact on shipping costs and delivery time, adding up to four weeks to some shipping lanes.

This has led to a substantial increase in the costs of shipping with the average cost of shipping a container increasing over 3X in the past 90 days. In April, a container from Asia to the U.S. West Coast cost just $2,500 but by July the cost is now over $8,000 and could exceed $10,000 in the coming months as we are about to enter the peak season for shipping. Many home furnishings retailers have already implemented freight related surcharges to their goods, reminiscent of the COVID supply chain consequences.

Shipping and trade impact small businesses even more than big businesses because we don't have the liquidity or scale to absorb or pass along dramatic increases in shipping costs or tariffs that larger companies might have.

While small businesses like mine are already seeing the impact of this supply chain disruption, it will soon impact the entire economy. Manufacturers will see higher inputs leading to an increase in the cost of new products. Higher prices will be passed on to distributors, retailers, and consumers, which will be exacerbated by inflation seen in other areas of the economy including rising energy, food, and labor costs.

One of the lessons I hope policymakers might learn from the COVID pandemic, is to look at the supply chain holistically. The supply chain is more than just raw materials and manufacturing, they are transportation, distribution and retail working together.

In addition to rising costs, small businesses are also seeing the near-term challenge of potential tax increases. COE Distributing is organized as an S-Corporation and is one of the 30 million small businesses organized as pass-through businesses that pay taxes through the individual side of the tax code.

The 2017 tax reform reduced taxes for small businesses through the reduction in individual tax rates and the creation of the 199A small business deduction. This tax cut helped us reinvest in our workers by giving us more resources to hire, raise wages, and provide benefits as well as devoting more resources toward expanding the business and contributing to our local communities.

It also ensured we have tax parity with large, publicly traded C-corporations, whom we compete with every day, and they saw their rate permanently reduced to 21 percent. However, unlike large corporations, small business tax cuts are scheduled to expire at the end of 2025, which could see the top tax rate on pass-through businesses rise 33 percent.

This would see small businesses face a top rate of 39.6 percent, almost double the corporate tax rate. Not only does this threaten our ability to continue re-investing in workers and communities, but it also makes it more challenging to compete with big business, especially in attracting and retaining talent given today's tight labor market.

A longer-term tax challenge for family-owned businesses like mine is planning for the death tax. The death tax saddles family-owned businesses with a 40 percent tax every time the next generation takes over the business. This is another competitive disadvantage that family-owned businesses face compared to publicly traded corporations, which never die and never face the death tax. It makes these businesses vulnerable to acquisition by large corporations or foreign entities and often forces family-owned businesses to liquidate a portion of the business to pay for the tax.

While there is currently a $13 million exemption on the death tax, this figure is on total assets, not on income and is scheduled to be cut in half at the end of 2025. In addition, many family businesses below this threshold must devote time and resources to estate planning in the event they may one day have to pay the tax.

Small businesses are also disproportionally hit by regulatory requirements. As a small business owner, the time and cost of keeping current on these issues is overly burdensome from a time and resource standpoint.

When we are forced to comply with new regulatory requirements it takes away from other needs of the business. Added costs in one place may take away from employee development opportunities or new equipment to make the business safer and more efficient.

For instance, one of my distribution centers recently had to deal with an overly aggressive and unreasonable OSHA officer. We take compliance with regulations seriously and are proud of our safety record, however the individual's unreasonable demands forced our facility manager to jumping through hoops over a six-month period.

Ultimately, we were forced to file a complaint, an investigation was initiated, and the OSHA officer was terminated due to the unreasonable and unnecessary requests. This matter was extremely costly to my business as we spent over 100 hours and more than $50,000 unnecessarily dealing with this issue. While regulations are inevitably a cost of doing business, we must ensure that small businesses are not unduly impacted by red tape.

Thank you again for the opportunity to testify at today's Small Business Committee hearing. I hope my insights on the economy are helpful and I look forward to your questions.

House Committee on Small Business
Hearing: "Mainstreet Realities: Examining the Current Economic Landscape in America"
Wednesday, July 10, 2024

Opening:
Good morning. Chairman Williams, Ranking Member Velázquez, and distinguished members of the Committee, thank you for the opportunity to testify in this hearing about the *Current Economic Landscape in America*. I appreciate the opportunities that allow a small business like mine to participate in a setting like this – in our Nation's Capital.

A special thank you to Congresswoman Judy Chu who has worked tirelessly to support us and thousands of small businesses achieve success and thrive in today's economy.

My name is Tom McCarthy, I am a co-founder and the Vice President of Business Development for Motiv Space Systems in Pasadena, CA. We support the civil, national security and commercial space sectors by enabling maneuverability in complex environments – in space.

Over the past 10 years, our company has grown from a team of three people to almost eighty employees last year. In preparation for this hearing, we looked at our subcontractor list and the results were pretty remarkable – throughout our history, Motiv has utilized almost 800 suppliers (780), across 42 states (and 4 countries). Small businesses have a larger economic impact than most people realize.

We started the company because we believed that we could develop and build space-based robotic systems more efficiently and with a higher level of quality and capability than our competitors in a globally competitive aerospace market. And we were right – we successfully won and have executed multiple NASA contracts for a range of missions, including the robotic arm and science camera systems on the Mars 2020 Perseverance rover.

From our beginning, innovation has been crucial for thriving in a highly competitive aerospace environment. Our company's long-term health relies on consistently incorporating new technologies for our mission partners – this means continuously expanding our research and development.

I'd like to discuss a few topics related to small businesses in the United States and our relationships with various government partners today.

Small Business Innovative Research programs
We have a slide that shows how SBIR contracts have been fundamental to innovating our technology. I think that may be how we got invited today, but the key here is we don't live off SBIR contracts – we convert those SBIR investments into seeds to grow new commercial products and close technology gaps for our partners to enable new and exciting scientific missions continuing the pulse of scientific discovery.

We have won a total of 18 Phase I & II SBIR awards – and leveraged those awards into 8 commercialized program awards, totaling ~25% of our historical revenue.

As you look at the SBIR reauthorization next year, I would encourage you to absolutely keep this vital program alive. Talk with small businesses in your community who have leveraged these programs, or who may not even be aware of them.

Consistent Predictable Budgets
Many of our customers are dependent on federal budgets and the effects of budget delays to those customers are amplified within the small business community. Over the last decade, I believe every single

Fiscal Year started off under a continuing resolution. CR's only delay programs and forces our partners to make premature decisions, like we saw with Mars Sample Return.

Supply Chain Delays and Increase in Costs:
The aerospace industry has faced worsening supply chain disruptions and rising prices due to recent events. The cost and lead time for raw materials have doubled and our suppliers have had to to significantly increase their prices.

Research and Development (R&D) Tax Credit:
I would also like to raise the importance of the R&D tax credit that has expired. This was extremely important for a small business like mine that operates on tight budgets. I've heard the discussions in the press related to the Fortune 500 companies, but rarely from small businesses. Let me be clear, the R&D tax credit allowed us to reinvest into further R&D and other business operations to encourage innovation and allow us to tackle more ambitious projects. Investing in R&D allows small technology businesses to develop new products and improve existing ones, helping us stay competitive in a global market.

Conclusion:
Small businesses are leading contributors to the economic successes of this Country – we cannot take this lightly and must consider all tools in the toolbox when it comes to incentivizing the backbone of this great Nation, our small businesses.

Again, thank you for inviting Motiv to participate in this hearing to discuss how our small business is literally allowing our Nation to do things out of this world while bringing jobs and economic prosperity to our hometown. I look forward to today's dialogue and answering any questions you might have.

Associated Builders and Contractors

July 10, 2024

The Honorable Roger Williams
Chair
House Committee on Small Business
U.S. House of Representatives
Washington, DC 20515

The Honorable Nydia Valázquez
Ranking Member
House Committee on Small Business
U.S. House of Representatives
Washington, DC 20515

Dear Chairman Williams, Ranking Member Valázquez and Members of the House Committee on Small Business:

On behalf of Associated Builders and Contractors, a national construction industry trade association with 67 chapters representing more than 23,000 members, I appreciate the opportunity to comment on the committee's hearing, "Main Street Realities: Examining the Current Economic Landscape in America." The majority of ABC's general contractor and subcontractor members qualify as small businesses as defined by the Small Business Administration. The industry consistently has one of the highest concentrations of small business participation and its members play an integral role in building America's infrastructure.

Small business contractors around the country continue to face economic uncertainty. ABC's Construction Confidence Index, based on an ABC member survey conducted between June 20 and July 3, reveals that almost 20% of respondents expect a decrease in sales and profit margins. In addition, the National Federation for Independent Business' Small Business Optimism Index reached 91.5 in June, which marks the 30th consecutive month below the 50-year average of 98. Despite these statistics, the Biden administration has advanced numerous regulations that generate substantial burdens for America's small businesses by reducing competition and driving up costs. Moreover, federal agencies continue to utilize loopholes in the Regulatory Flexibility Act to implement these regulations at the expense of America's small business community.

In 2023, the NFIB reviewed comment letters from the SBA's Office of Advocacy and found 28 instances where they cited agencies for lack of RFA compliance. The Office of Advocacy found agencies often improperly certify that rules will not have a significant economic impact on a substantial number of small entities, only consider the direct costs on small businesses or misrepresent the costs on small businesses from regulation.

In one instance, the Office of Advocacy found that the U.S. Department of Labor's analysis of the impact of its independent contractor rule, the now effective final rule on Employee or Independent Contractor Classification Under the Fair Labor Standards Act, failed to estimate the costs that would be incurred by small businesses when reclassifying independent contractors as employees. Despite their findings, the Biden administration bypassed small business considerations and moved forward with implementing the harmful rule.

In another example, Phase I of the DOL's final rule changing overtime regulations under the Fair Labor Standards Act went into effect on July 1 and by Jan. 1, 2025, the minimum annual salary level threshold for overtime exemption will increase 65% to $58,656. The change represents yet another challenge to small business contractors who are already dealing with inflation, supply chain disruptions, high materials prices and workforce shortages, all of which continue to increase their operational costs.

America's small businesses are the backbone of our economy. ABC appreciates the committee's efforts to examine their state in the face of challenges and uncertainties and our members stand ready to build and maintain America's infrastructure in a regulatory environment crafted with their needs in mind.

Sincerely,

Kristen Swearingen
Vice President, Legislative & Political Affairs

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