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MARKUP OF: BUDGET VIEWS AND ESTIMATES 2025

HEARING

BEFORE THE

COMMITTEE ON SMALL BUSINESS
UNITED STATES
HOUSE OF REPRESENTATIVES

ONE HUNDRED EIGHTEENTH CONGRESS

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MARKUP OF: BUDGET VIEWS AND ESTIMATES 2025

WEDNESDAY, FEBRUARY 14, 2024

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

The Committee met, pursuant to call, at 9:54 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, Salazar, Mann, Ellzey, Molinaro, Alford, Crane, Bean, Hunt, LaLota, Maloy, Velázquez, Golden, Mfume, Phillips, Landman, McGarvey, Gluesenkamp Perez, Scholten, Thanedar, Chu, Davids, and Pappas.

Chairman WILLIAMS. Before we get started, I want to recognize Congresswoman Maloy from the great State of Utah to say the Pledge of Allegiance and a short prayer.

Ms. MALOY. Prayer first. Our Father in heaven, we thank thee for the opportunity we have to [audio malfunction].

Please rise for 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.

Chairman WILLIAMS. Good morning. This Committee will come together in order. Without objection, the Chair is authorized to declare a recess of the Committee at any time.

Today's first order of business is to consider the views and estimates on the priorities of the Committee on Small Business for fiscal year 2025. Then we will briefly adjourn to reset the room for a full Committee hearing, which will take place immediately following this meeting.

I now recognize myself for an opening statement.

It is no secret to anyone that small businesses are the engines of our economy, and we rely on them heavily. In my opinion, a key component of the American dream is the ability to start your own business, to take a risk, work hard, and be rewarded for that hard work. It is this Committee's job to ensure the SBA's programs are working efficiently and effectively to the benefit of all of our small businesses, and to ensure there is a positive ROI, return on investment, for the American taxpayer.

The budget views and estimates presented today for this upcoming fiscal year note the SBA faces a significant number of challenges. We as a Committee commit to conducting oversight over systematic failures in the SBA and to promote legislative change

that will ensure small businesses have access to the capital assistance they need to succeed.

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

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

Our nation's 33 million small businesses are the heart and soul of our nation. They employ 46 percent of our nation's workers, creating good paying jobs in our communities. They get more money circulating the local economy, lifting up neighborhoods, restaurants, and retail shops. And they increase the tax base, leading to community improvements, like better schools, roads, and greenspaces. But more work needs to be done, and I am committed to working with Chairman Williams to make important budgetary decisions for the SBA programs.

The submission of this document to the Budget Committee is an important aspect of the Committee's work, and I am sure my colleagues will agree that it would have been better to wait until we pass a full and complete budget for our current fiscal year of 2024. It would also be incredibly helpful to wait for the President to submit his proposed budget for fiscal year 2025, so we can appropriately react to those requests. Having the agency's up to date information and projections would enhance our recommendations to the Budget Committee.

While not ideal timing, I appreciate the bipartisanship to find agreement on improving programs and oversight at the Small Business Administration. We agree with much of the majority's views. For example, recommending that SBA take steps to improve its capital access, procurement, and entrepreneurial development programs is prudent governance. federal funding for SBA's entrepreneurial development programs to provide free or low-cost counseling and training to more than a million entrepreneurs each year is an area we both remain committed to. I look forward to working with the Chairman to reauthorize this program.

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

Despite much consensus, there are still areas we differ, which is perfectly normal. For instance, it is a Democratic priority to do more to provide working families and entrepreneurs with resources like childcare, give second chances to returning citizens who were previously incarcerated, and provide robust oversight funding to our OIG to ensure we are holding fraudsters accountable.

And finally, we do not dispute that agencies need to follow the process to reduce regulatory burdens for small firms, but we oppose a blanket rejection of regulations that safeguard health, safety, and environment. Instead, we must proceed with thoughtful deliberation to tailor regulation for small businesses and provide compliance assistance.

I thank the Chairman again for holding this markup and look forward to working together in a bipartisan way to further foster entrepreneurship. Thank you, and I yield back.

Chairman WILLIAMS. The lady yields back. And are there any other Members who wish to be recognized for a statement on the views and estimates on the priorities of the Committee for fiscal year 2025?

Seeing none, the Committee now moves to consideration of the views and estimates. A copy of the proposed views and estimates has been distributed to Members in advance. Without objection, the views and estimates are considered read and open for amendment.

Does any Member seek recognition for the purpose of offering an amendment?

Seeing no amendments, the question is on adopting the views and estimates on the priorities on the Committee for fiscal year 2025.

All those in favor, say aye.

All those opposed, say no.

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

If there is no further business, this concludes today's markup. Without objection, the staff is authorized to make technical and confirming changes, and Members have until February 29 to submit the additional supplemental dissenting and minority views.

I would like to thank everyone for participating today. Without objection, the Committee stands adjourned.

Members, please stay seated. We will bring in the witnesses for today's hearing, which will start momentarily.

[Whereupon, at 10:00 a.m., the Committee was adjourned.]

APPENDIX

Views and Estimates of the Committee on Small Business on Matters to be set forth in the Concurrent Resolution on the Budget for Fiscal Year 2025

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

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

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

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

According to the letter sent to the Committee from the House Budget Committee on February 8, 2024, there are six programs within our jurisdiction with expired authorizations of appropriations with identifiable appropriations. The Committee is working to reauthorize those programs in a fiscally responsible manner and in a way that has the potential to be signed into law. The Committee is also working with the SBA on ways to reduce fraud, waste, and abuse at the SBA with a particular interest in reducing improper payments in the lending programs.

I. Introduction—SBA's Mission and Management

Since its founding, America has relied on small businesses to shape and grow the economy. As of January 2024, the 33.3 million small businesses in America employ 61.6 million workers—45.9 percent of all U.S. employees. Over the last 25 years, small businesses have added nearly 13 million jobs to the economy, making up two-thirds of all jobs added during that time. However, in recent years, inflation and the growing number and complexity of federal regulations have held back economic expansion and job growth—particularly by small firms—and have made it increasingly difficult for them to thrive and compete in the global economy. As

a result, even more small businesses are dependent on the SBA programs, so it is critical that those programs are tailored to yield the most beneficial results.

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

The Government Accountability Office's (GAO) placed SBA on their high-risk list due to evidence of fraud and significant program integrity risks which GAO stated needed much greater oversight and management attention. Further, GAO found many long-standing SBA management deficiencies, including deficits in strategic planning, human capital, organizational structure, and information technology (IT). As of February 9, 2024, the SBA had 40 open recommendations with GAO—ten of which are designated as priority recommendations.[4] The Committee will continue its stringent oversight in this area.

On October 16, 2023, SBA's Office of the Inspector General (IG) released a report outlining the SBA's most significant challenges in FY2024.[5] The report stated that SBA's economic relief programs are susceptible to significant fraud risks and vulnerabilities including a significant concern over the ability of the agency to meet the long term servicing burden for the COVID Economic Injury Disaster Loan (COVID EIDL) portfolio.[6] The report also noted that inaccurate procurement data and eligibility concerns in the contracting programs and significant challenges in IT investment, among other things, are contributing to the SBA's failure to fulfill its mission effectively.[7] Further, the SBA needs to better identify improper payments in the 7(a) program, and better manage and monitor the 8(a) business development program.[8] Finally, the

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[1] *Organization, SBA History,* U.S. SMALL BUS. ADMIN. (last visited Feb. 23, 2022) https://www.sba.gov/about-sba/what-we-do/history (The Small Defense Plants Administration was created during the Korean War to help maintain a robust small business industrial base for providing goods to U.S. military services.)
[2] *Organization, SBA History,* U.S. SMALL BUS. ADMIN. (last visited Feb. 23, 2022) https://www.sba.gov/about-sba/what-we-do/history (The Reconstruction Finance Corporation began in 1932 as a federal lender to businesses).
[3] 15 U.S.C. § 631(a).
[4] *Recommendations Database*, U.S. GOVT. ACCOUNTABILITY OFF. (last visited Feb. 9, 2024), https://www.gao.gov/reports-testimonies/recommendations-database?priority=all&agency_id=73321&subs=1&topic=all&agency=Small%20Business%20Administration.
[5] U.S. SMALL BUS. ADMIN., OFFICE OF INSPECTOR GENERAL, TOP MGMT. & PERFORMANCE CHALLENGES FACING THE SMALL BUS. ADMIN. IN FISCAL YEAR 2024 (Oct. 16, 2023).
[6] *Id.*
[7] *Id.*
[8] *Id.*

report found that the SBA needs robust grants management oversight.[9] The Committee remains concerned that SBA is not operating at its most efficient or effective level and will continue its stringent oversight over these issues.

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

II. Capital Access Programs

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

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

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

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[9] *Id.*
[10] U.S. SMALL BUS. ADMIN., STRATEGIC PLAN FISCAL YEARS 2022–2026, 10 (Mar. 28, 2022).
[11] *Id.*
[12] *Id.*
[13] Consolidated Appropriations Act, 2023, Pub. L. No. 117-328.

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

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

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

The SBA decided to keep and service the entire COVID EIDL portfolio. The IG has raised concerns over the SBA's ability to continue to manage this large portfolio. This decision could significantly increase the agency's loan servicing operation, which the Committee will continuing tracking closely.

III. Entrepreneurial Development Programs

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

Over time, the SBA has also created, using its general authority to "aid small businesses," initiatives that duplicate the services of programs that Congress has specifically directed the SBA to implement. In recent years, these SBA-created initiatives have comprised a significant portion of the SBA's entrepreneurial development budget, and the Committee believes that no such funds should be allocated to these often-duplicative efforts in FY 2024. In addition, to the extent that these SBA-created programs impose new outreach duties on the SBA's Congressionally

[14] U.S. SMALL BUS. ADMIN., OFFICE OF INSPECTOR GENERAL, TOP MANAGEMENT AND PERFORMANCE CHALLENGES FACING THE SMALL BUS. ADMIN. IN FISCAL YEAR 2024 (Oct. 16, 2023).
[15] Pub. L. No. 116-136 (2020).
[16] *Id.*

mandated entrepreneurial development programs, the Committee suggests that the SBA reprogram funds from the SBA's general salaries and expenses account to cover incurred costs. The SBA's programmatic duplication has been exacerbated by its failure to measure the effectiveness of its programs. This has been particularly true in the area of entrepreneurial development programs in which the SBA offers technical assistance to small business owners. In fact, §18 of the Small Business Act expressly prohibits duplication of effort by the SBA if a program is already offered by another federal agency, unless Congress expressly authorizes the duplication. The Committee will continue to work with SBA to ensure priority is given to Congressionally mandated programs.

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

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

WBCs provide training, counseling, and mentoring to women entrepreneurs. WBCs are public/private partnerships in which the federal government provides funds that are matched by private donors. There are currently over 140 Centers across the country. Many WBCs seek to provide their clients with flexible training opportunities, offering courses at night or on weekends and often in more than one language. The Committee believes that WBCs could further increase their impact by locating in areas not already served by SBDCs and tailoring their training to women. Again, this goal could be achieved by reprogramming funds and focus from SBA-created initiatives to the WBC program.

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

IV. Cyber Security Programs for Small Businesses

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

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

V. Federal Procurement Programs

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

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

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

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

[19] 15 U.S.C. § 644(a)

have revealed a widespread problem of misreporting by agencies that award contracts to small firms with provisions or other contract language that allows larger companies to do most of the work.[20]

Unfortunately, while the total value of contracts issued to small businesses has generally increased over time, since 2010 the number of small businesses receiving prime contracts from the federal government decreased by more than 50 percent.[21] In the same period, the number of small businesses entering the federal contracting system also decreased by nearly 60 percent.[22] The Committee will continue to conduct oversight over the federal procurement process as it relates to small business and continue to pursue options for increasing transparency and fairness in the process. In fact, the Committee has already moved nine contracting related bills out of Committee, to better assist America's small businesses access these contracts.

The Historically Underutilized Business Zone (HUBZone) Program was designed to direct federal contracts to small businesses in distressed areas and promote the economic development of those businesses. Federal contracting officers are permitted to set aside contracts for limited competition among HUBZone eligible small businesses. HUBZones are distressed urban and rural areas with chronically high unemployment, low household income, or both. Numerous investigations over several years by the GAO found weaknesses and vulnerabilities in the HUBZone Program, including inadequate vetting of participants, fraudulent awards, and falsified documents and employee information.[23]

According to the October 2023 IG report, in 2018 and 2019, the SBA did not properly enforce HUBZone eligibility requirements. The SBA changed HUBZone requirements to allow the business to continue to meet the residency requirement as long as the business has employees who lived in a HUBZone for at least 180 days after the business was first certified.[24] The Committee and the OIG remain concerned that the SBA deviated from the intent of the program and the SBA does not consistently detect ineligible firms in the certification program. The Committee will continue to conduct oversight and work to ensure that the program is properly utilized.

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

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[20] U.S. SMALL BUS. ADMIN., OFFICE OF INSPECTOR GENERAL, TOP MANAGEMENT AND PERFORMANCE CHALLENGES FACING THE SMALL BUS. ADMIN. IN FISCAL YEAR 2023 (Oct. 14, 2022).
[21] SBA Government-Wide FY2022 Small Business Procurement Scorecard, U.S. SMALL BUS. ADMIN. (last visited Feb. 1, 2024).
[22] Jory Heckman, *SBA Seeks to Grow Shrinking Poll of Small Businesses Getting Federal Contracts*, FED. NEWS NETWORK (May 8, 2023).
[23] *See* U.S. GOVT. ACCOUNTABILITY OFFICE (GAO), HUBZONE PROGRAM: FRAUD AND ABUSE IDENTIFIED IN FOUR METROPOLITAN AREAS (GAO-9-440) (2009); GAO, SMALL BUS. ADMIN.: UNDERCOVER TESTS SHOW HUBZONE PROGRAM REMAINS VULNERABLE TO FRAUD AND ABUSE (GAO-10-759) (2010); GAO, HUBZONE PROGRAM: ACTIONS TAKEN ON FEBRUARY 2015 GAO RECOMMENDATIONS (GAO-16-423R) (2016); and HUBZONE PROGRAM: OPPORTUNITIES EXIST TO FURTHER IMPROVE OVERSIGHT (GAO-16-866T) (2016).
[24] U.S. SMALL BUS. ADMIN., OFFICE OF INSPECTOR GENERAL, TOP MGMT. AND PERFORMANCE CHALLENGES FACING THE SMALL BUS. ADMIN. IN FISCAL YEAR 2024 (Oct. 16, 2023).

VI. Regulatory Reform and Paperwork Reduction

Under Rule X, Cl. 1(q) of the Rules of the House, the Committee's legislative jurisdiction includes the protection of small businesses related to regulatory flexibility.[25] This rule recognizes that federal regulations may pose significant challenges for small businesses, which have less revenue and a smaller employee base over which regulatory and paperwork compliance costs can be spread.

America's small business owners want to comply with regulations, but they cannot do so if the regulations are crafted in a way that makes it excessively burdensome or impossible for them to comply. Recognition that small businesses are disproportionately burdened by one-size-fits-all regulations and underrepresented in the federal rulemaking process encouraged Congress to enact the Regulatory Flexibility Act (RFA) in 1980.[26] The RFA requires federal agencies to assess the economic impacts of regulations and to consider alternatives to reduce burdens on small businesses. The RFA has been amended twice, in 1996 and 2010, to improve agency compliance with the statute's analytical requirements. Those amendments made marginal changes, but agency compliance has remained inconsistent. The Committee has closely examined agency compliance with the RFA over many Congresses and oversight is needed to ensure that federal agencies comply with its requirements and truly consider the effects of regulations on small businesses.

The Committee has been at the forefront of efforts to strengthen the RFA so that the nation's regulatory process will work better for entrepreneurs. In the last year, the Committee has sent more than 30 letters and held three hearings on agencies' compliance with the RFA. The SBA's Office of Advocacy sent 37 letters to agencies' expressing concerns with the agencies' compliance with the RFA in FY 2022 alone. The Committee will propose substantive legislative solutions to strengthen the RFA and ensure that agencies are considering small entities when writing regulations and fully complying with the RFA. The Committee expects that no additional funds will be needed to implement the Act because federal agencies already engage in the type of outreach and analysis that is required by the legislation.

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

Recognition of these challenges led Congress to enact the Paperwork Reduction Act (PRA)[27] in 1980. The PRA was revised in 1986 and 1995, and in 2002, the Small Business Paperwork Relief Act (SBPRA) was enacted.[28] Despite those efforts, the paperwork burden for small businesses continues to grow.

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[25] Rules of the U.S. House of Representatives, 118th Congress (2023).
[26] 5 U.S.C. §§ 601-612.
[27] 44 U.S.C. §§ 3501-3521.
[28] 5 U.S.C. § 601.

VII. Conclusion

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

Minority Views

The following represent the views of the Democratic members of the Committee on Small Business on the Budget for Fiscal Year 2025

Pursuant to clause 4(f) of Rule X of the Rules of the House and section 301(d) of the Congressional Budget Act of 1974, I am writing to advise you of the additional views and estimates of the Committee on Small Business with regard to the fiscal year 2025(FY25) budget. These views and estimates are in addition to those that will be submitted by the Committee's majority. While we concur in several areas, there are some areas of disagreement, which are discussed in greater detail below.

The Committee on Small Business has legislative jurisdiction over the Small Business Administration (SBA) and this letter accordingly focuses on the Fiscal Year 2025 (FY 2025) budget request for this agency and the programs it operates under the authorizations contained in the Small Business Act (15 U.S.C. § 631 *et seq.*) and the Small Business Investment Act of 1958 (15 U.S.C. § 661 *et seq.*).

OVERVIEW

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

ACCESS TO CAPITAL

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

SBA 7(a) Program

The SBA's flagship lending program, the 7(a) program, provides small firms with financial assistance, including working capital, fixed and intangible asset financing, as well as refinance and export support through term and revolving loans. The mission of the 7(a) program is to provide entrepreneurs who cannot access traditional capital markets with an affordable source of loans. During FY 2022, the 7(a) program supported a substantial volume of lending nationally, with over $25.7 billion across 47,678 loans.[1] In FY 2025, the Committee supports robust funding for this

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

program to ensure capital access needs are met for the nation's small business community. Additionally, it is recommended that the Community Advantage pilot program be codified into law and made permanent because it is an effective tool in reaching underserved entrepreneurs often left out under the traditional 7(a) program.

Microloan Program

The SBA Microloan Program provides loans to intermediaries, which are nonprofit community-based organizations with experience in lending as well as management and technical assistance. Intermediaries in turn help the smallest of small businesses access capital to help new businesses get off the ground. The program plays a critical role in the small business economy, providing credit to those unable to secure traditional bank-based financing. In FY 2022, $82.6 million in Microloan funding went to 5,055 small businesses, with 76 percent of loans going to small firms located in underserved communities.[2] This is approximately a 10% increase in the amount of loans approved by Microloan intermediaries from FY 2021. Although, the program's combination of capital access and technical assistance is targeted to first-time entrepreneurs and is especially important to women and minorities as the loans made to underserved businesses decreased by 3% in FY 2022 when compared to FY 2021. The Committee supports robust funding for the program and the accompanying Microloan Technical Assistance.

504/CDC Loan Program

The 504/CDC program provides permanent, fixed rate financing for businesses to acquire industrial or commercial buildings or heavy equipment and machinery. The program is delivered by local Certified Development Companies (CDCs) working in partnership with private lenders and the SBA. For FY 2025, it is recommended to provide adequate funding for the combined level for both accounts.

Small Business Investment Company Program

The SBIC program is an investment program that increases access to capital for high-growth start-up businesses. Specifically, with a $4 billion authorization per year, the SBIC program provides long-term loans and equity capital to small businesses with potential for substantial job growth and economic impact. SBICs are privately owned and managed investment funds, licensed and regulated by SBA, that use their own capital plus funds borrowed with an SBA guarantee to make equity and debt investments in qualifying small businesses. SBA provides funding to qualified investment management firms with expertise in certain industries. In FY 2022, SBICs provided approximately $7.9 billion in financing to 1,217 small businesses, which is a 13% increase from FY 2021.[3] However, only 6.7% of the companies receiving SBIC financing were women-, minority-, or veteran-owned.[4] Therefore, it is recommended the SBA prioritize expanding outreach to increase minority- and women-led funds, and to increase the number of women-, minority-, and veteran- owned businesses that benefit from the program. The Committee supports robust funding for the SBIC program.

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

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

[4] *Id.*

DISASTER ASSISTANCE

The SBA Disaster Loan program includes home disaster loans, business physical disaster loans, and Economic Injury Disaster Loans (EIDL). Disaster assistance through the SBA is the primary form of federal assistance for the repair and rebuilding of private sector disaster losses. The SBA's disaster assistance is unique as it is provided in the form of loans that go directly to the ultimate borrower, and there are circumstances where the loans are not limited to small businesses. In FY 2022, the SBA approved more than 36,500 direct loans natural disasters totaling $1.96.[5] In FY 2025, the SBA will continue to encourage disaster preparedness to mitigate and minimize disaster damage for small businesses and communities.

The SBA recently issues updated thresholds for disaster programs as it relates to loan limits for primary residences, personal property, and limits for collateral requirements, payment deferral periods, and mitigation disaster loans. The Committee supports increasing these limits and thresholds to make it easier for borrowers after disasters to gain the assistance needed to recover.

In addition to traditional SBA Disaster Assistance programs, the SBA experienced a massive and unprecedented increase in lending due to the COVID-19 pandemic and the broadened authority to provide EIDL disaster relief to every state and territory during the pandemic, which was provided in the first emergency supplemental.[6] While the SBA is no longer accepting new COVID EIDL applications, these are 30-year loans, and the SBA will need the resources and capacity to monitor and service these loans in the years to come. The Committee remains supportive of providing sufficient resources needed by the agency to service these loans. This includes fully funding the agency's new COVID-19 servicing unit that is located within the SBA's Processing and Disbursement Center.

ENTREPRENEURIAL DEVELOPMENT PROGRAMS

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

Small Business Development Centers

SBA provides grants to SBDCs to leverage a unique mix of federal, state, and private sector financial resources. This funding model enables SBDCs across the country to deliver management and technical assistance to small businesses through an extensive network comprised of 62 lead

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

[6] Coronavirus Preparedness and Response Supplemental Appropriations Act, 2020, Pub. L. No. 116-123, tit. II, 134 Stat. 147 (2020).

centers managing nearly 1,000 outreach locations throughout the country.[7] SBDCs deliver professional business advice and training focused on strategic planning, business development, financial planning, and cash flow management to hundreds of thousands of business clients annually. In FY 2022, SBDCs provided training and advising to 306,141 entrepreneurs and small business owners, helped start 20,288 new small businesses and supported nearly 1.3 million jobs. SBDCs also helped small businesses access nearly $8 billion in capital for FY 2022.[8]

In FY 2023, SBDCs received $140 million in federal funding.[9] Yet, funding for a number of individual SBDC centers has decreased due to an expansion of the SBDC program to the Commonwealth of the Northern Mariana Islands and shifts in the population from the 2020 Census. As a result, many SBDC networks have been forced to cut programs and services while demand remains high. There have been concerns that SBA has undervalued the SBDC program. As such, in past years the Committee has supported an increase in funding to be reallocated from SBA-created initiatives to the SBDC program and the minority expects to lead legislation in the 118th Congress to improve the program. The Committee requests $175 million in funding, which is consistent with the amount authorized in H.R. 6445 Small Business Development Centers Improvement Act of 2022, which passed the House in the 117th Congress.

Women's Business Centers

The SBA provides grants to 145 non-profit organizations that provide quality advising and training services primarily to women entrepreneurs, many of whom are socially and economically disadvantaged. In FY 2022, the WBC program served more than 84,000 unique clients, and helped launch 2,821 small businesses and recorded 8,363 transactions to support capital infusion.[10] In FY 2023, the WBCs received $27 million in federal funding.[11] To ensure that women entrepreneurs across the country have access to the vital counseling and technical training services to take them from startup to success, $31.5 million for the WBC program in FY 2025 is recommended. This increase will allow the WBCs to maintain day-to-day operations, accommodate the increase in demand for services as more individuals turn to entrepreneurship, support newly established centers, and expand outreach to underserved women entrepreneurs. The request is consistent with the amount authorized in H.R. 6441, the Women's Business Centers Improvement Act of 2022, which passed the House in the 117th Congress.

SCORE

SCORE provides face-to-face counseling at over 250 chapters with 10,000 SCORE volunteers.[12] SCORE volunteers provide a full range of business consultation services, such as business plan development, strategic marketing, and financing ideas. The SBA's SCORE database enables small businesses to find SCORE volunteers that best match the needs of their business. In FY 2022, SCORE served 322,881 unique clients and helped start more than 3,900 new businesses.[13] In FY

[7] U.S. SMALL BUS. ADMIN., FY 2023 CONG. JUSTIFICATION/FY 2021 ANNUAL PERFORMANCE REPORT (2022). [hereinafter, FY 23 SBA Budget Justification].
[8] E-mail from the U.S. Small Bus. Admin. to the Committee on Small Business (Feb 23, 2023,) (on file with the Committee).
[9] Consolidated Appropriations Act, 2023, P.L. No. 117-328.
[10] *Supra* note 24.
[11] Consolidated Appropriations Act, 2023, *Supra* note 25.
[12] FY 23 SBA Budget Justification, *Supra* note 23 at 84.
[13] *Supra* note 24.

2023, the enacted level of funding for SCORE was $17 million,[14] and level funding for FY 2025 is recommended.

Veteran's Business Outreach Centers

The Veterans Business Outreach Center program provides entrepreneurial development services such as business training, counseling and mentoring, and referrals for eligible veterans and military spouses who own or are considering starting a small business. There are currently 22 VBOCs across the country that deliver these services and the Boots to Business program at 180 military installations worldwide. In testimony before the Committee, witnesses have stated that the Boots to Business program is a good resource that helps veterans see what they learned in military service and apply that to business ownership and operations.[15] In FY 2022, VBOCs served more than 42,000 veteran small business owners, holding 1,912 training events, including 827 Boots to Business classes and 5,546 modules.[16] In FY 2023, VBOCs received $17.5 million in funding,[17] and it is recommended that at least level funding for the program be instituted.

Native American Outreach

The SBA aids Native American communities in starting, growing, and expanding their small businesses through the Office of Native American Affairs (ONAA). The Office is critical to traditionally underserved often geographically isolated American Indian, Alaska Natives, and Native Hawaiian communities. The mission of the Office of Native American Affairs is to ensure American Indians, Alaska Natives, and Native Hawaiians seeking to start and grow small businesses have access to SBA's entrepreneurial development, lending, and procurement programs. Entrepreneurship can provide a pathway out of poverty for American Indians and Alaska Natives, which have the highest poverty rate among all racial and ethnic groups. Native American-owned businesses contribute over $33 billion to the U.S. economy every year and employ 200,000 people.

Sufficient funding is needed to ensure the Office of Native American Affairs at SBA can increase access to federal programs and services that support Native American entrepreneurs and promote economic development in tribal communities. In FY 2023, the Native American Outreach Program received $4 million in funding.[18] The Committee remains committed to supporting Native American-owned small businesses and supports robust funding to expand the programs' outreach capabilities and statutorily authorizing the Office of Native American Affairs at SBA, specifically the Native American Entrepreneurial Opportunity Act.

GOVERNMENT CONTRACTING PROGRAMS

The primary purpose of the SBA's Government Contracting and Business Development (GCBD) programs is to assist small businesses by increasing their access to the federal marketplace.

[14] Consolidated Appropriations Act, 2023, *Supra* note 25.
[15] Military to Main Street: Hearing Before the H. Comm. on Small Business, 117th Cong. (2022).
[16] E-mail from the U.S. Small Bus. Admin. to the Committee on Small Business (Feb 24, 2023) (on file with the Committee).
[17] Consolidated Appropriations Act, 2023, S*upra* note 25.
[18] *Id.*

Through federal contracts, small businesses can expand their capabilities and capacity, thereby improving their competitiveness. In turn, the Federal Government benefits from the innovation, agility, and the quality goods and services small businesses offer.

While these programs are essential to opening doors for small businesses and diversifying the small business base, unfortunately, the creation of these programs has not necessarily augmented the number of small businesses awarded Federal contracts each year. In fact, the overall participation of small firms in the federal procurement space has declined in recent years. From 2005 to 2019, the number of small businesses entering the federal marketplace decreased by 79%.[19] Equally concerning, the number of small businesses providing common goods and services decreased by 38% from 2010 to 2019.[20]

Small Business Set-Aside Programs

The SBA administers several governmentwide small business contracting programs. These programs reserve contracting opportunities at the prime level for small businesses in the form of sole-source opportunities (where the contract is awarded without competition) or set asides (where they compete with similar situated firms for federal awards). The four procurement programs are the 8(a) Business Development Program, the HUBZone Program, the Service-Disabled Veteran-Owned Small Business Program (SDVOSB), and the Women-Owned Small Business (WOSB) Federal Contracting Program. To further incentivize small business contracting, the Small Business Act establishes the governmentwide goal of awarding at least 23% of all federal prime contracting dollars to small businesses. Additionally, the Act sets the goal of awarding 5% of all prime contracting and subcontracting dollars to both small disadvantaged businesses (SDBs) and women-owned businesses (WOSBs); and 3% to both HUBZone businesses and service-disabled veteran-owned small businesses (SDVOSBs).[21]

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

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

The 8(a) program is a nine-year program that helps small businesses owned by socially and economically disadvantaged individuals participate in federal contracting. The program offers business development assistance through a network of Business Opportunity Specialists (BOSs) in 68 District Offices across the nation. A major benefit of the program is that 8(a) certified firms can generally be awarded contracts on a sole-source basis when the anticipated value of the contract is $4.5 million or less ($7 million or less in the case of manufacturing contracts). Above these thresholds, participants are eligible for set-aside opportunities in which competition is restricted to 8(a) firms, thereby precluding firms from having to compete with large businesses that may have an industry advantage. In addition to these contracting incentives, 8(a) certified

[19] Bipartisan Policy Center, *Supporting Small Businesses and Strengthening the Economy through Procurement Reform* (Jun. 22, 2021).
[20] *Id.*
[21] Section 15(g)(1) of the Small Business Act, 15 U.S.C. §644(g)(1).

firms are eligible for management and technical assistance training through SBA's 7(j) program. However, participation in the 7(j) program is not limited to 8(a) firms. Other businesses eligible for the 7(j) program include SDBs that are not participating in the 8(a) program, businesses operating in areas of high unemployment or low income, small businesses owned by low-income individuals, HUBZone small businesses, and economically disadvantaged women-owned small businesses.

As of February 15, 2023, there were 4,932 firms in the 8(a) program and 154 applications were being reviewed.[22] With respect to the 7(j) program, the number of businesses that have sought technical assistance through it is expected to triple since FY 2017.

According to SBA's OIG, one of the main concerns in the 8(a) program is that SBA continues to face challenges in providing effective business development assistance, as well as measuring and reporting the outcomes of the program.[23] This is partly driven by the fact that SBA still does not count with an IT system capable of performing regular monitoring and reporting of 8(a) participants to ensure they are progressing in their business plans.[24] However, there are more factors involved including that SBA has not established performance metrics for the program to help measure it success and that SBA was not ensuring BOSs regularly monitored a participant's business goals, assessed their development needs, and followed up with actions for training and accountability.[25] While SBA has made some progress in correcting this situation – for example, by implementing a standard process to ensure business plans are monitored and any updates are captured – there is still significant work to be done to guarantee the program is meeting its intent.

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

The Committee is supportive of the Administration's efforts to increase the SDB goal. However, it is cautioned that tripling the goal, in and of itself, will not achieve the desired outcome of expanding small business participation in federal procurement. Moreover, OIG audits continue to raise concerns regarding agencies receiving credit toward the SDB goal based on firms that are no longer eligible for the 8(a) program or for firms that falsely self-certify as SDBs.[26] Thus, this goal should be accompanied by modifications in contracting policies to achieve meaningful change.

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[22] E-mail from the U.S. Small Bus. Admin. to the Committee on Small Business (Feb. 15, 2023, 10:08 EST) (on file with the Committee).
[23] U.S. SMALL BUS. ADMIN., OFFICE OF INSPECTOR GEN., TOP MGMT. AND PERFORMANCE CHALLENGES FACING THE SMALL BUS. ADMIN.IN FISCAL YEAR 2023 (2022).
[24] *Id.*
[25] *Id.*
[26] *Id.*

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

HUBZone Program

The HUBZone program aids urban and rural small businesses located in designated distressed areas to access federal procurement opportunities. There have been many reports from GAO and the SBA OIG detailing fraud and abuse in the program. However, SBA has come a long way in addressing those concerns. For example, from 2008 to 2015, GAO issued 11 recommendations to address weaknesses in the program, all of which have been closed.[27] According to the SBA OIG, the agency has made substantial progress in adding controls to the program to detect ineligible firms. Specifically, SBA updated its HUBZone policy directives and trained staff to standardize analysis and oversight. In addition, SBA required HUBZone firms to annually recertify that they meet program eligibility requirements and to complete a program examination every 3 years.[28] Based on these changes, SBA has taken action to decertify firms that are no longer eligible for the program. In September 2023, the SBA was also pursuing debarment where appropriate and taking additional steps to safeguard the integrity of the program.

Despite the interest in the program, the goal of awarding 3% of prime Federal contracts to HUBZones has never been met. The SBA needs to dedicate funding and staffing resources to this program to ensure its proper performance, therefore additional funding is supported.

Women-Owned Small Business Contracting Program

An issue of great importance to women-owned small businesses is their lack of access to federal contracting. The WOSB Program was enacted by Congress in 2000. However, it took more than ten years for the SBA to implement the program. Currently, the program counts with 8,039 participants,[29] almost twice the number of participants in the 8(a) program or the HUBZone Program. Despite its size, the WOSB statutory goal has only been met twice. In FY 2021, agencies failed to meet the goal with only 4.63% of prime contracting dollars going to WOSBs.

In 2020, the SBA finally implemented a formal certification process for the program, which was required by the 2015 National Defense Authorization Act (NDAA).[30] While the SBA is implementing the formal certification process, there is still a substantial backlog of applications despite the SBA's best efforts. In fact, as of February 15, 2023, there were 2,741 applications

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

[28] FY 2023 Management Report, *supra* note 45.

[29] *Id.*

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

undergoing the WOSB review process.[31] Thus, the Committee is concerned that SBA lacks the necessary funding to support the program's administrative functions which ensure eligible applicants obtain the required initial certification and the continued certification to meet the government's goal of supporting women owned businesses. The Committee recommends the SBA dedicate funding and staffing resources to the program to adequately serve its high number of participants, to eliminate the backlog of applications currently pending, and to work on the processes needed to achieve efficiencies.

Service-Disabled Veteran-Owned Small Business Program

The SDVOSB program provides procuring agencies with the authority to set aside contracts for exclusive competition among service-disabled veteran-owned small businesses, as well as the authority to make sole-source awards. The goals for SDVOSB contracting have been met in recent years with 4.41% of the total value of prime federal contracts going to SDVOSBs in FY 2021. Congress enacted legislation in the FY 2021 NDAA eliminating small businesses' ability to self-certify, which was the main fraud concern in the SDVOSB program, and instituting a formal certification process.[32] Moreover, the statute abolished the verification program used by the Department of Veterans Affairs (VA) for its own veteran-owned small business program and vested the SBA with the authority to provide formal certifications for that program. In January 2023, a certification process was stood up as scheduled. However, in the next few years it will be facing a high number of applications as companies seek to get certified in one or both programs. This will demand substantial efforts in terms of resources and staff and the Committee will continue monitoring the transfer and effectiveness.

OTHER PRIORITIES

Office of Rural Affairs

For decades, rural communities have been the backbone of the American economy. But many rural businesses face challenges that can put them at a competitive economic disadvantage, and they often struggle to utilize traditional small business support systems. Recognizing this, Congress directed the SBA to establish an Office of Rural Affairs as part of the Small Business Reauthorization and Amendments Act of 1990[33] yet, by 1995 this office was no longer being staffed at SBA. In 2019, the SBA named a National Director for the Office of Rural Affairs to assist in connecting rural communities and entrepreneurs with SBA resources. The CARES Act provided additional funding to SBA for salaries and expenses, some of which were used to hire staff for the Office of Rural Affairs.[34] The Committee supports enhancing the Office in addition to requesting adequate levels of funding in the FY 2025 budget to ensure that the Office of Rural Affairs has the staff necessary to support rural small businesses and entrepreneurs in attaining equitable access to the wide range of programs supported by the SBA.

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[31] E-mail from the U.S. Small Bus. Admin. to the Committee on Small Business (Feb. 15, 2023, 10:08 EST) (on file with the Committee).

[32] William M. (Mac) Thornberry National Defense Authorization Act for Fiscal Year 2021, Pub. L. No. 116-283, §862, 134 Stat. 3388 (2021).

[33] Small Business Reauthorization and Amendments Act of 1990, Pub. L. No. 101-574, § 302, 104 Stat. 2815 (1990).

[34] CARES Act.

Office of Inspector General

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

The economic relief laws provided the OIG with an additional $70 million to carry out its work to prevent waste, fraud, and abuse, which are projected to remain available for several years. These supplemental funds allowed the office to hire 186 new employees, of which 165 are full-time positions. However, the Infrastructure and Investment and Jobs Act[35] rescinded $20 million of the supplemental funds provided to the office. In order to right-size the OIG's budget and to support the hiring of additional full-time employees needed for oversight over the SBA's pandemic relief funds, the Committee supported the Administration's recommended increase in OIG's budget for FY 2023.

A significant amount of the supplemental funding expired at the end of FY 2024. At a minimum, the Committee supports another increase to OIG's budget in FY 2025 to allow the office to maintain funding for FTEs. We also support increasing the OIG's budget to allow the office to hire more investigators and auditors and to fund COLA increases to help ensure the OIG continues to conduct rigorous oversight of the economic relief programs for years to come.

Whistleblower

On January 31, 2024, the Small Business Committee passed H.R. 7129, the Put America on Commission Act, sponsored by Chairman Roger Williams (R-TX) and Rep. Kweisi Mfume (D-MD). The legislation would establish a Whistleblower Office at SBA in the Office of Performance, Planning, and Chief Financial Officer. The Office will manage the whistleblower tips, which include collecting information, referring the information to the Office of Inspector General, tracking the status of the cases, and paying the awards to the whistleblower. While the legislation specifies that recoveries from fraudulent claims from SBA's pandemic programs will be used to operate the office, it may take years before those funds from the original tips begin to flow to the Office. Therefore, discretionary funding will be necessary to stand up and maintain the Office, hire staff, and issue regulations, until there is a consistent source of revenue. The discretionary funds should be provided in addition to the funding needed to operate the current level of services, and the discretionary funding should not be taken from other programs and services at SBA.

CONCLUSION

The Committee has provided priorities for how the SBA should operate in FY 2025. SBA should put the appropriate level of resources to its programs and should focus its efforts on increasing outreach and access to both capital and contracting opportunities for traditionally underserved

[35] Pub. L. No. 117-58, 135 Stat. 429 (2021).

communities, including minority- and women-owned businesses. The agency should also be provided with the resources necessary to administer and oversee its core lending, entrepreneurial development, and contracting programs. In addition, the Committee remains concerned with SBA's reliance on programs that have not been objectively evaluated and divert scarce funding from proven, congressionally authorized programs. Going forward, the SBA should recommit itself to its proven programs, rather than diverting funds to untested programs. Doing so would help ensure that taxpayer dollars are being well spent, while small businesses have the resources that they need to grow and expand. Thank you for your consideration of our views on this important matter.

Respectfully,

Nydia M. Velázquez
Ranking Member
Committee on Small Business

Jared F. Golden
Member of Congress

Kweisi Mfume
Ranking Member
Subcommittee on Oversight, Investigations, and Regulations

Dean Phillips
Vice Ranking Member
Committee on Small Business

Greg Landsman
Ranking Member
Subcommittee on Economic Growth, Tax, and Capital Access

Morgan McGarvey
Ranking Member
Subcommittee on Innovation, Entrepreneurship, and Workforce Development

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