MARKUP OF: BUDGET VIEWS AND ESTIMATES
FOR FISCAL YEAR 2017

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WEDNESDAY, MARCH 1, 2017

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

The Committee met, pursuant to call, at 11:00 a.m., in Room 2360, Rayburn House Office Building. Hon. Steve Chabot [chairman of the Committee] presiding.

Present: Representatives Chabot, Luetkemeyer, Brat, Radewagen, Knight, Kelly, Blum, Comer, Bacon, Fitzpatrick, Marshall, Velázquez, Evans, Murphy, Lawson, and Adams.

Chairman CHABOT. Good morning. Right on time. The Small Business Committee will come to order.

And before we get on to any of our important business, we want to congratulate the gentleman from Mississippi. It happens to be his birthday today. He is 26, I think, if I am not mistaken. Something like that. All right. So let’s hear it for him.

Ms. VELAZQUEZ. Where is the cake?

Chairman CHABOT. Yeah, where is the cake? That is right.

So we wish him a great day here today. We wish all of you a great day.

So I will call the Committee on Small Business Budget Views and Estimates meeting to order.

Today’s order of business is to consider the Views and Estimates on the priorities of the Committee on Small Business for fiscal year 2018. And I believe we should be able to get through this relatively quickly, too.

Since its founding, the United States has relied on small businesses. We are a nation of creators and inventors and risk takers. Our economy was structured to be driven by entrepreneurs and, in fact, most net job growth has been from small firms. In the past few years, the growing number in complexity of federal regulations, the healthcare law, and the tax code have made it increasingly difficult for small companies to compete and thrive globally, and to keep people employed locally.

Although the economy is improving, small businesses still face rough waters. As a result, more small businesses are dependent on the programs of the SBA, the Small Business Administration, and it is essential that these programs be tailored to yield the most efficient and effective results.

The Small Business Administration, or SBA, has a vital role to play in helping small business owners to expand our economy. SBA’s core functions make capital available, provide training, and
increase the use of small businesses as Federal Government contractors. However, multiple investigations by the Government Accountability Office, or GAO, and the SBA Inspector General, the IG, have revealed an agency that has misplaced priorities and management deficiencies.

SBA's first responsibility is to complete the task mandated by Congress before it expends funds on its own untested initiatives or entrepreneurial training that duplicates longstanding and proven programs operated by the SBA and its partners, such as the Small Business Development Centers and SCORE. SBA's information technology has long been outdated, and was found by GAO and the SBA IG to be a critical vulnerability.

The Views and Estimates recommend increasing the number of personnel assisting small government contractors to compete in the nearly $500 billion federal procurement marketplace. They recommend establishing a more transparent regulatory process for SBA's lending partners, strengthening enforcement so only eligible small businesses participate in SBA programs, reallocating funds from SBA's own initiatives to the modernization of SBA's loan management system, and reducing agency information technology vulnerabilities. The end result would be a better SBA, one that delivers results for America's small businesses and for taxpayers.

At this point I will yield to the Ranking Member, Ms. Velázquez, for any comments she may have on the Committee's Views and Estimates.

Ms. VELÁZQUEZ. Thank you, Mr. Chairman.

Consideration of this year’s Views and Estimates comes before we have a proposed budget to examine. While submission of this document to the Budget Committee is an important aspect of the Committee's work, doing so without an actual budget to inform us is a questionable exercise. In the absence of a budget, we are making up a broad document that focuses on improving program functions at the Small Business Administration. This is consistent with the Committee’s previous work.

As a result, we agree with the chairman on a number of issues. For example, recommending SBA takes steps to better manage its capital access, procurement, and entrepreneurial development programs is prudent governance. Doing so advances SBA's mission to assist small businesses and better protect taxpayers. But I just want to make clear, we have to provide the resources that will enable the Small Business Administration to do its work. We just cannot come here and criticize the Small Business Administration for not doing their job while cutting their budget. We cannot do more with less.

We also agree with the chairman that SBA has repeatedly failed to properly evaluate its pilot programs. Both the GAO and this Committee have found that many of these are largely ineffective and divert resources from proven programs. The agency's funding of these initiatives, without a specific authorization, is not in the best interest of taxpayers or small businesses.

Additionally, we again concur with the chairman that SBA should strengthen oversight of its lending programs. The agency is guaranteeing record levels of investment in our small business community while also reducing loan defaults, but it is important
that loans in the 7(a) and other programs are targeted to businesses who need it the most, particularly those that have been unable to secure capital through private channels. To this point, we must ensure that those businesses that receive loans truly cannot receive “credit elsewhere” as required under law.

Despite my agreement in so many areas, there is one issue where the chairman and I do not see eye to eye, and this is in the area of the Regulatory Flexibility Act which we share jurisdiction of with the Judiciary Committee. Yes, I am open to investigating ways to better tailor regulations for the small business community and reducing compliance costs. However, I cannot support efforts that will halt broad health, safety, and environment protections. That said, I look forward to finding common ground with the chairman in the area of regulatory policy, as we have done with so many other policy issues.

The success of the American economy depends on small businesses leading the way, and the SBA is a vital part of this formula. I thank the chairman for holding this markup and look forward to continuing our work together to make the SBA an even better resource for America’s small businesses.

With that, I yield back the balance of my time, and I thank you.

Chairman CHABOT. The gentlelady yields back, and I thank her for her remarks.

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 2018?

Okay. Seeing no members, the Committee now moves to consideration of the Views and Estimates. The clerk will read the title of the document.

The CLERK. Views and Estimates of the Committee on Small Business.

Chairman CHABOT. I ask unanimous consent that the Views and Estimates be considered as read and open for amendment in its entirety.

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

Seeing no amendments, we will move on. And the question is on adopting the Views and Estimates on the priorities of the Committee for fiscal year 2018.

All those in favor, say aye.

Those opposed, no.

In the opinion of the chair, the ayes have it. The ayes have it and the Views and Estimates are agreed to.

I will now recognize the ranking member for the purpose of making a motion.

Ms. VELAZQUEZ. Mr. Chairman, pursuant to House rules, I would like to give notice that the Committee Democrats will be submitting additional views to the Committee on the budget.

Chairman CHABOT. Thank you.

Without objection, so ordered.

And the Committee is authorized to make technical and grammatical corrections to the Views and Estimates.

And I believe that concludes the business before the Committee today. So if there is no other business other than to wish everybody
a very, very merry Trent Kelly birthday today, we hope you have a great day. And if there is no further business to come before the Committee, we are adjourned. Thank you.

[Whereupon, at 11:10 a.m., the Committee was]
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 2018

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 is transmitting herein: (1) the views and estimates on the priorities within its jurisdiction or functions to be set forth in the concurrent resolution on the budget for Fiscal Year 2018; and 2) recommendations for improved governmental performance.

The Small Business Administration (SBA) has responsibility for programs that help create jobs and grow the economy of the United States. We respect the role that SBA has in our nation, and believe that it is essential that SBA programs should be efficient, effective and achieve real results for small businesses and America’s taxpayers. Entrepreneurs and taxpayers deserve nothing less.

Traditionally, the SBA has requested funds for its own SBA-created initiatives. Many of these 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, often these SBA-created initiatives are 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 SBA and its programs can operate more efficiently and effectively with this reallocation 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.

1. Introduction

Since its founding, the United States has relied on small businesses. Throughout history, our nation’s economic policies have been structured to foster job growth by entrepreneurs, and most net new job growth has been from small firms. In fact, over 50 percent of America’s non-farm workforce is employed by small businesses. However, in recent years, the growing number and complexity of federal regulations have held back economic expansion and job growth, particularly by small firms, and 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 programs of the SBA, and 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. §§ 631-57p, 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 through three major components: 1) assisting small businesses in obtaining needed capital; 2) helping small businesses to navigate the federal procurement marketplace; and 3) offering managerial counseling and assistance to small businesses. Each component is carried out through Congressionally-mandated programs, sometimes in conjunction with private sector partners. Specifically, the SBA provides loans and loan guarantees to credit-worthy small businesses; entrepreneurial counseling and technical assistance; and disaster services to disaster survivors. The majority of these services are delivered, either by SBA or one of its partner organizations, through SBA’s district offices throughout the United States.

In January of 2016, the Committee received testimony from the Government Accountability Office (GAO) regarding its comprehensive assessment of SBA’s overall management, which was undertaken at the Committee’s request. In its audit, GAO found many long standing SBA management deficiencies, including deficits in strategic planning, human capital organizational structure and information technology. GAO recommended a number of specific steps that SBA should take, such as increased training, procedural guidance, strategic and workforce planning and oversight of information technology investments. Although GAO noted that SBA had “generally agreed” with its recommendations, over the years SBA “had made limited progress” in implementing most of them. In fact, as of January of 2017, 55 of GAO’s recommendations made in prior years had not been implemented.\(^4\) The Committee remains very concerned that SBA has not made these management recommendations a priority, and the Committee will continue its stringent oversight in this area.

II. Capital Access Programs

Although the economy is improving, small businesses continue to have difficulty obtaining needed capital. SBA’s capital access programs provide credit-worthy businesses with capital that they would be unable to obtain elsewhere to grow and create the jobs our economy needs. These programs are a high priority for the Committee.

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\(^1\) The Small Defense Plants Administration was created during the Korean War to help maintain a robust small business industrial base for providing goods to the United States military services. SBA, https://www.sba.gov/about-sba/what-we-do/history.


\(^4\) As of January 2017, 30 of GAO’s recommendations from reports before the GAO’s 2015-2016 comprehensive management review were still open, 8 recommendations from the management review were still open, and 17 recommendations from other recent reports are open, for a total of 55 open recommendations. GAO auditor conversation with House Committee on Small Business staff, January 24, 2017.
SBA’s four major capital access programs are the SBA Advantage Loan Program ("Advantage," formerly the 7(a) Guaranteed Loan Program); the Grow Loans Program ("Grow Loans," formerly the Certified Development Company Loan Program); the Small Business Investment Company Program ("SBIC"); and the Microlend Program. In these programs, SBA does not lend funds directly to small businesses, but rather the SBA guarantees the repayment of issuance of credit and equity by private sector partners.

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 provide sufficient funds to do so.

Two of the SBA’s programs, the Advantage and Grow Loans Programs – are designed to operate without a federal government subsidy. However, if SBA does require a subsidy to operate these programs, the rationale has been that because small businesses create much needed jobs, it would be counterproductive to increase the cost of making loans to them. In 2015, SBA’s Advantage 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 in the future, emergency action will not be needed. The Committee believes that the current authorization level of $28.5 billion should be sufficient for some time. Because so many small firms rely on the Advantage program, the Committee plans to provide aggressive oversight this year and may consider Advantage program reform.

The Committee will partner with federal agencies and officials that provide assistance with oversight and help agencies function more efficiently. For example, in April 2015, the SBA’s Office of Inspector General initiated a High Risk 7(a) Loan Review to improve SBA operations, reduce fraud and unnecessary losses in SBA’s programs. OIG’s review of eight early defaulted loans identified material lender origination and closing deficiencies that justified denial of the guarantee for three loans totaling $3.2 million and suspicious activity on other loans. The OIG is following up on the implementation of its recommendations to SBA, which the Committee will closely follow. Aside from defaulted loans, the OIG is investigating other SBA challenges, such as flawed procurements that have allowed large businesses to obtain small business awards, improper payments and outdated information systems.

The Grow Loans program utilizes both private and government guaranteed financing to provide long-term financing on larger capital projects that provide economic development to local areas. Grow Loans are required to meet certain public policy goals, such as assisting

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3 SBA OFFICE OF INSPECTOR GENERAL, FALL 2016 SEMIANNUAL REPORT TO CONGRESS at 1. Note that at the time the SBA OIG began its review, the program was still called the 7(a) Guaranteed Loan Program.
manufacturing or promoting economic development, and demonstrate that the loans will create jobs. As with the Advantage Loan Program, funds are not lent by SBA but SBA guarantees the loans made by Certified Development Companies. Fees are assessed to borrowers and lenders to cover the cost of the program and keep the government subsidy rate at zero.

The Small Business Jobs Act of 2010, Pub. L. No. 111-240, established a temporary two-year program that authorizes refinancing of existing debt using the Grow Loan Program (when it was known as the 7(a) Guaranteed Loan Program). The authority for the program has lapsed. In previous years, SBA has repeatedly requested annual reauthorization of the program so the Grow Loan program could refinance $7.5 billion in commercial real estate loans, using the rationale that the program would receive sufficient fees to operate at zero subsidy. In previous Views and Estimates, the Committee expressed concerns that despite a 2014 Office of Management and Budget estimate for Fiscal Year 2016 that the loans would have a negative subsidy rate: 1) there is a risk to taxpayers; and 2) refinancing of existing debt may not be the best vehicle to spur economic development. Therefore, the Committee would not support any allocation of funds for commercial refinancing of existing debt until the Grow Loan Program is reformed to protect taxpayers from a downturn in the value of commercial real estate.

The third major SBA loan program is the Microloan Program. It is a microfinancing program in which very small loans are made to high risk customers. SBA makes loans at below market rates to intermediaries, which then lend funds to small businesses. Because the Microloan default rate is close to zero, there is a cost to subsidize the difference between market interest rates and the rates charged to intermediaries. Because of the program’s effectiveness in creating jobs, the Committee believes that the program’s small subsidy is a wise investment.

The Small Business Investment Company Program (“SBIC”) is the fourth major loan program operated by the SBA. With the SBIC Program, the government guarantees an instrument sold by the SBIC to private investors. The SBIC repays the government from payments made to it by the companies in which the SBIC invested. The Debenture SBIC program is designed to provide equity injections to small businesses that have been operating for a number of years and have a track record of cash flow and profits. The program is financially sound; it operates at a zero subsidy given the structure of repayments, the fees charged to licensees, and the value of the collateral of the licensees (investments in ongoing businesses).

The SBA is the primary provider of disaster assistance to small businesses and homeowners following a disaster. Congress permanently authorized the SBA to transfer unused disaster loan funds to administration of the disaster loan program. The Committee believes that funding levels typically requested by the agency — $185 million in FY 2017 — is sufficient to support disaster lending. Going forward, however, funds from prior disasters would be unlikely to cover a serious disaster event in FY 2018, and an emergency supplemental appropriation would be needed.

The primary costs of SBA’s capital access program are: 1) personnel; 2) loan processing technology; and 3) the capability to address loan defaults. In the past, SBA has requested funds

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4 SBA, FY 2017 CONGRESSIONAL BUDGET JUSTIFICATION, at 7.
for a project called LINC, which it touted as improved technology “to better support small business lending.” In fact, this project provides lending information to small businesses, but SBA does not detail why this information is currently unavailable to small businesses on SBA’s website or through its entrepreneurial development partners.

As the Committee has explained in previous years, historically, SBA has not effectively implemented new technology, and any barrier to lender participation in SBA programs is a result of the complex and ad hoc nature of SBA’s loan program management and not the lack of SBA lender outreach. The Committee would not support funding for the LINC program. The Committee has expressed its strong concerns about the SBA’s information technology deficiencies and its failure to provide an adequate system. In fact, the information technology needed to manage SBA’s loan portfolio has long been outdated and was found by the GAO and the SBA Inspector General to be a significant management challenge for SBA.7

Appropriate decision making also requires a robust information technology system; one that can provide the data needed to measure the ongoing efficacy of SBA programs, to ensure that financial assistance is provided only to small businesses, and to protect it from cyberattacks. The Committee expects to continue its rigorous oversight in this area. In allocating funds, the Committee also continues to support a transfer of funds from SBA pilot programs to modernization of SBA’s loan management system.

The SBA must ensure that it can provide proper oversight of its capital access programs so that the underlying public policy goals are met. This means that SBA must develop regulatory standards by which it can measure its compliance with these goals and ensure that its capital access partners are in compliance.

SBA must improve its oversight of lending program participants. The SBA OIG identified the SBA’s failure to provide effective lender oversight as one of the most serious facing the agency.8 In fact, SBA has delegated its lender oversight, and failed to recognize lender weaknesses that could pose risks to the SBA.9 Although the OIG has noted that SBA has made progress in its monitoring, the agency must continue to be vigilant in these efforts. In addition, the Committee believes that SBA’s challenges with Advantage Program oversight may require statutory correction, and it will consider such action. It should be noted that if SBA makes substantial progress in its ongoing oversight and management challenges, it will free additional funds for programs and personnel that the agency may put to use for other purposes.

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7 SBA’s transition from COBOL – a mainframe language developed in 1960 – to a more modern system was more than two years overdue, and other modernization projects are not scheduled. In addition, SBA did not appoint the statutorily mandated Chief Information Officer to oversee technology modernization and implementation until late in 2016. As recently as October 2016, the SBA OIG identified “information technology leadership” to be one of the most serious management challenges that SBA faces. SBA OIG, REPORT ON THE MOST SERIOUS MANAGEMENT AND PERFORMANCE CHALLENGES IN FISCAL YEAR 2017, at 4.

8 SBA OIG, REPORT ON THE MOST SERIOUS MANAGEMENT AND PERFORMANCE CHALLENGES IN FISCAL YEAR 2017, at 5.

9 SBA OIG, REPORT ON THE MOST SERIOUS MANAGEMENT AND PERFORMANCE CHALLENGES IN FISCAL YEAR 2017, at 8.
Finally, the rate of recovery on defaulted Grow loans has ranged from 23 to 25 cents on the dollar. If the rate of recovery on these loan defaults increased, it is likely that the program could be placed on a surer financial footing.

III. Entrepreneurial Development Programs

A significant portion of SBA’s budget is devoted to providing outreach and technical assistance to small businesses. This is done through a number of programs that SBA operates at the express direction of Congress. The major SBA counseling programs authorized by Congress include: the Small Business Development Center (“SBDC”) Program, the SCORE Program and the Women’s Business Center Program.

Importantly, the SBA has also created, using its general authority to aid small businesses, initiatives that duplicate programs that Congress has specifically directed the SBA to implement. In recent years, these SBA-created outreach initiatives have comprised nearly 18% of SBA’s overall entrepreneurial development budget. It is the Committee’s belief that no such funds should be allocated to these duplicative SBA-created initiatives in FY 2018. In addition, to the extent that these SBA-created programs impose new outreach efforts on SBA’s Congressionally-directed entrepreneurial development programs, the Committee suggests that SBA reprogram funds from SBA’s general salaries and expenses account.

The SBDC program is operated through 63 cooperative agreements with either state agencies or institutions of higher education. Most state agency grantees subcontract operations to institutions of higher education in that state. The 63 grantees have established over 1,000 service centers that provide technical assistance to small businesses for business strategy development; technology transfer; government procurement; engineering; and accounting. The SBDC Program is an important time-tested program on which small businesses depend. In past years, the Committee has said it believes SBA undervalues the SBDC Program, and has supported a small increase of funds to be reallocated from SBA-created initiatives to the SBDC Program.

The Committee may undertake legislation in the 115th Congress to make further improvements to the SBDC Program.

The SCORE Program provides face-to-face counseling from over 300 chapters with more than 11,000 SCORE volunteers. SCORE volunteers provide a full range of business consultation services, such as the development of business plans, strategic marketing and financing. SBA’s SCORE database enables small businesses to find a SCORE volunteer that best matches the need of the business. As with the SBDC Program, should SBA-created initiatives require additional

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10 Any change in the subsidy rate for CDC loans has not generally resulted from increased recoveries, but rather an increase in the value of the underlying collateral. Because the value of real estate is rising, the set percentage of recovery on property should be greater now than it was several years ago.

11 Of the $206 million, $37 million are used for SBA-created initiatives. It should be noted that not all of SBA’s efforts are detailed in its annual budget justification document. See Table 6, FY 2017 SBA BUDGET JUSTIFICATION, at 20.
outreach of SCORE volunteers, the Committee recommends that SBA reprogram funds from SBA’s general salaries and expenses account to SCORE.

Women’s Business Centers ("WBC" or "Centers") 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. When initially created, Congress intended federal funding to be only temporary as the Centers obtained private funding. However, the Centers were unable to obtain private funding and were reliant solely on federal funding. Over time, the Centers tended to locate in areas already served by SBDCs rather than underserved areas. In addition, approximately one quarter of WBC clients are men. The Committee believes that WBCs should return to their original mission and work to provide counseling to women in underserved areas rather than duplicating the efforts of SBDCs. During this Congress, the Committee may consider legislation to make improvements to the WBC Program.

As the Committee has stated, federal tax dollars are not used wisely when SBA creates initiatives that duplicate programs already in operation at SBA or other agencies. Nevertheless, SBA programmatic duplication exists and is exacerbated by SBA’s failure to measure the effectiveness of these programs. This is particularly true in the area of entrepreneurial development programs, in which SBA offers technical assistance to small business owners. In fact, §18 of the Small Business Act prohibits any duplication of effort by the SBA if a program is already offered by another federal agency unless Congress expressly authorizes the duplication. Despite this prohibition, SBA created a Regional Innovation Cluster Program that appears to duplicate the one offered by the Department of Commerce. In FY 2016, $6 million was appropriated for this program, and SBA requested $6 million in FY 2017. The Committee believes that funds used for such an initiative should be redirected and reallocated to other SBA programs.

The HUBZone Program was designed to direct federal contracts to small businesses in distressed areas and to promote the economic development of those small businesses. Federal government contracting offices are authorized to set aside contracts for limited competition among HUBZone eligible small businesses, sole source or use bid preferences when HUBZone small businesses and large businesses are in competition. HUBZones are distressed urban and rural areas with chronically high unemployment or low household income or both. Numerous investigations by the GAO over a period of several years found weaknesses and vulnerabilities in the HUBZone Program, including inadequate vetting of participants, fraudulent awards and falsified documents and employee information. SBA was slow to take action on GAO’s recommendations for improving the program. For example, as recently as September 2016, SBA

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17 SBA, FY 2017 BUDGET JUSTIFICATION, Table 6, at 19.
18 See GAO, HUBZONE PROGRAM: FRAUD AND ABUSE IDENTIFIED IN FOUR METROPOLITAN AREAS (2008); GAO, SMALL BUSINESS ADMINISTRATION: UNDERSKIP TERRORISM SHOW HUBZONE PROGRAM REMAINS VULNERABLE TO FRAUD AND ABUSE (2010); GAO, HUBZONE PROGRAM: ACTIONS TAKEN ON FEBRUARY 2015 GAO RECOMMENDATIONS (2016); HUBZONE PROGRAM: OPPORTUNITIES EXIST TO FURTHER IMPROVE OVERSIGHT (2016).
made changes to its certification and recertification processes, but still had not fully addressed GAO’s recommendation on recertification of firms.\footnote{\textit{Ensuring Opportunities: Oversight of the HURZONE Program: Hearing before the H. Comm. on Small Business, 114th Congress, 2 (September 7, 2016) (statement of William B. Shear).}}

For FY 2017, SBA requested $3 million for the HUBZone Program.\footnote{SBA, FY 2017 BUDGET JUSTIFICATION, Table 6, at 19.} The funding for the HUBZone Program is provided from the SBA’s salaries and expenses account, so it is difficult to know exactly what SBA’s plans are and to track this spending. The Committee plans to hold HUBZone Program oversight hearings and may also consider statutory changes to improve the program.

SBA’s Office of International Trade was designed to enhance the ability of small businesses to compete in the global marketplace. The Small Business Jobs Act of 2010 revamped this office and: 1) appropriated $30 million for a three year State Trade and Export Promotion pilot program (“STEP”); 2) increased SBA employees located at the Department of Commerce Export Assistance Centers; and 3) added ten regional development centers in SBA’s regional offices.

SBA’s FY 2017 Budget Justification did not provide a budget request specifically for the Office of International Trade because its budget is subsumed within other accounts, such as general salaries and expenses. Although the STEP Program was envisioned in the Small Business Jobs Act of 2010 as a three year pilot project, Congress has continued to appropriate funds, although at a lower level, for the program ($17 million in FY 2017). Past Budget Views and Estimates provided by the Committee have indicated that eliminating the STEP Program would save taxpayer dollars.\footnote{See VIEWS AND ESTIMATES OF THE COMMITTEE ON SMALL BUSINESS FOR FISCAL YEAR 2014, available at http://smallbusiness.house.gov/uploadedfiles/2-12-2015_views_and_estimates_document.pdf.} In the past, the Committee has not supported the program; however, the Committee has held a number of hearings on international trade and its opportunities for small businesses. In fact, 98 percent of all exporters are small and mid-sized businesses, and they account for one third of U.S. merchandise exports.\footnote{U.S. DEPARTMENT OF COMMERCE, available at https://www.export.gov/about-us.} In addition, the number of small and midsize firms that export has risen almost threefold over the past two decades.\footnote{Id.}

The Committee recognizes the importance of trade to small businesses and believes that they need support and guidance to maximize their ability to import and/or export in today’s global economy. The Committee will provide proper oversight and work with SBA to ensure that its international trade programs are operating effectively.
IV. Federal Procurement Programs

The federal government of the United States is the largest single purchaser of goods and services in the world, and awards approximately $500 billion in contracts annually. 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....” 15 U.S.C. § 644(a).

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.

The Committee has long believed that SBA does not place a sufficiently high priority on implementing the statutory changes that would improve small business participation in the federal marketplace. Specifically, the Committee is concerned that SBA has: 1) failed to implement regulatory changes reenacted by Congress that would enhance small business participation in the marketplace; 2) not devoted sufficient financial resources to the hiring and retention of personnel who are vital to maximizing federal procurement participation by small firms; 3) retained an information technology system that inaccurately reflects federal procurement participation by small businesses; and 4) failed to ensure adequate information technology security to protect small businesses that participate in the federal marketplace.

There are three types of SBA personnel to help ensure that small businesses have the fullest opportunity to contract with the federal government: Procurement Center Representatives (PCRs), Commercial Marketing Representatives (CMRs) and Business Opportunity Specialists. CMRs promote the use of small businesses by prime federal contractors, review compliance and federal subcontracting plans, and perform outreach to match prime federal contractors with small businesses. For several years, SBA has said it does not have the financial resources to pay key procurement personnel – PCRs, CMRs and Business Opportunity Specialists. The committee believes SBA has had sufficient resources for these positions, which would dramatically increase the ability of small businesses to compete in the federal marketplace.

SBA’s outdated inadequate information technology system has had significant negative effects on the agency’s ability to serve small businesses that are engaged in federal contracting.

20 Procurement Center Representatives are highly trained specialists who review government procurement proposals to ascertain whether they can be modified to increase the possibility that small businesses may successfully bid on those proposals.
21 Commercial Marketing Representatives identify appropriate procurement opportunities in which small businesses may act as subcontractors to federal prime contractors.
22 Business Opportunity Specialists assist small businesses in identifying opportunities for contracting with the federal government.
Since 2000, the GAO has performed several assessments of SBA’s technology.23 In its most recent assessment in 2015, GAO found that SBA still had inadequate investments in its computer technology.24 Information technology is important to guard against vulnerabilities in SBA’s contracting programs. SBA must have the personnel and systems to ensure that: 1) a business is actually small and, therefore, qualifies for the contracting program; 2) a business that represents itself as a certain kind of business, such as woman-owned or veteran-owned, actually fits that description; and 3) the business actually performs the necessary measure of work on a contract.

For several years, this Committee has been concerned with the lack of emphasis that SBA has given to fulfilling the statutory standards needed to ensure a robust small business procurement sector. These include: 1) the lack of enforcement of statutory changes to SBA’s contracting programs; 2) failure to allocate sufficient sums to hiring and retention of SBA personnel that are critical to maximizing small business participation; 3) the inadequacy of computer systems to accurately reflect small business participation; and 4) inadequate information technology security to protect small businesses that participate in the federal market.25

The Committee will work with Congressional appropriators to ensure that sufficient priority is given to statutory mandates rather than optional initiatives that SBA has created on its own. The Committee believes that SBA has the necessary resources to accomplish the changes Congress has made, but SBA has misallocated priorities. The Committee will continue to perform rigorous oversight of SBA’s efforts. Greater competition in federal procurement benefits small businesses and results in lower prices for taxpayers on goods and services.

V. Regulatory Reform and Paperwork Reduction

Pursuant to Rule X, Cl. 1(q) of the Rules of the House, the Committee’s legislative jurisdiction includes assistance to and protection of small businesses related to regulatory flexibility and paperwork reduction. This Rule recognizes that federal regulations and paperwork may pose a particular challenge for small businesses, which have less revenue and a smaller employee base over which regulatory compliance and paperwork costs can be spread.

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25 GAO’s testimony on its December 2015 report found that SBA’s lack of cybersecurity was “a very serious issue.” Attention Needed: Mismanagement at the SBA: Hearing before the H. Comm. on Small Business, 113th Cong. (statement of William B. Shear, Director of Financial Markets and Community Investment, GAO) (GAO-16-134T) (2015).
Small businesses are an integral part of local communities, and their owners, like their neighbors, want clean air and water, and safe workplaces, products, and foods. Small businesses want to comply with regulations, but they cannot do so if the regulations are crafted in a way that makes it impossible for entrepreneurs to comply. Recognition that small businesses were disproportionately burdened by one-size-fits-all regulations and underrepresented in the federal rulemaking process spurred Congress to enact the Regulatory Flexibility Act (RFA)\textsuperscript{26} in 1980. The RFA requires agencies to assess the economic impacts on small businesses when they are designing new rules and to evaluate alternative approaches that reduce significant compliance burdens. The law also requires agencies to review existing rules that affect small businesses to determine whether they should be continued, changed, or rescinded. The RFA has been amended twice, in 1996 and 2010, to increase agency compliance with the law.

Even with the amendments Congress has enacted, agency compliance has remained inconsistent. Too often, agencies are exploiting gaps in the law’s current requirements or ignoring their obligations under the law. The Committee has closely examined agency compliance with the RFA over many Congresses and concluded that further strengthening of the law is needed to ensure that federal agencies comply with its requirements and truly consider the effects of regulations on small businesses. The Chairman introduced H.R. 33, the Small Business Regulatory Flexibility Improvements Act, to remedy the weaknesses in the existing law and strengthen its provisions. That legislation was included as Title III in H.R. 5, the Regulatory Accountability Act, which the House has passed. The Committee expects that no additional funds will be required to implement the requirements of the Small Business Regulatory Flexibility Improvements Act because agencies already engage in the kind of outreach and analysis that is required by the legislation.

The legislation simply clarifies the RFA’s existing requirements and codifies certain agency practices, such as conduct outreach to affected small businesses before proposing a rule and memorializing the input those parties provide in a report that is published with the proposed rule. It also requires federal agencies to examine the reasonably foreseeable indirect effects of significant rules, conduct more detailed analyses of the possible economic consequences of significant rules, and evaluate the cumulative economic impact of rules on small businesses. However, the Committee believes there is significant overlap between the regulatory analysis and outreach already done by agencies under executive orders such as Executive Order (E.O.) 12,866, E.O. 13,563, and E.O. 13,610, and statutes such as the National Environmental Policy Act which requires agencies estimate the indirect effects of some regulations. Therefore, the Committee expects that no additional funds will be needed to carry out the requirements of the Small Business Regulatory Flexibility Improvements Act.

Federal paperwork, which may or may not be tied to a specific regulation, also can pose a substantial burden on small businesses. The complexity of certain information collection

\textsuperscript{26} 5 U.S.C. §§ 601-612.
requests can be daunting and minor mistakes can result in significant fines. While the federal government needs accurate information on the economy and other activities to effectively perform their duties, small businesses have fewer resources and less expertise to carry out recordkeeping and reporting requirements. Moreover, time spent on paperwork diverts scarce resources away from growing the business and hiring additional employees. Recognition of these challenges prompted Congress to enact the Paperwork Reduction Act (PRA) in 1980. The PRA was later revised in 1986 and 1995, and in 2002, the Small Business Paperwork Relief Act was enacted. Despite these efforts, the paperwork burden continues to grow, the accuracy of paperwork burden hour estimates have been questioned, and new technologies have not been fully leveraged to reduce the burden of federal paperwork on small businesses. The Committee will develop legislative proposals to improve federal agency compliance with the PRA, reduce duplicative and overlapping paperwork requirements, and mitigate the negative consequences of minor mistakes on federal paperwork for small businesses. The Committee expects that no additional funds will be required for these legislative initiatives.

VI. SBA Mission and Organizational Structure

SBA provides its services to small business owners through 84 district offices which are supervised by an Office of Field Operations at SBA headquarters in Washington, DC. SBA also has ten regional administrators, regional communications officials and support staff. In testimony before the Committee, a former SBA Administrator was unable to articulate the responsibilities of the regional administrators. SBA personnel who should be assisting small business owners with federal government contracting have numerous other responsibilities, and do not report to the SBA headquarters officials whose expertise is in government contracting. The Office of the Chief Counsel for Advocacy, which monitors agency compliance with the RFA, has ten regional representatives. While it is helpful to have input from small businesses regarding RFA compliance, the Office does not need regional representatives to carry out that responsibility.

According to the agency, there are approximately 600 individuals at SBA’s headquarters in Washington, DC, leaving about 1,000 people to interact with small business owners in SBA’s field operations. The Committee has long believed that SBA’s personnel is too heavily concentrated at SBA’s headquarters. As the Committee has mentioned before, this includes an amorphous Office of Policy and a personal Office of the Administrator that includes approximately the same number of personnel as the Secretary of Defense and the Secretary of Agriculture. The Committee believes this is unacceptable, and recommends a ten percent reduction in funds for the Office of the Administrator.

In the past, this Committee has recommended that SBA establish a clear agency structure with defined responsibilities and unimpeded lines of authority. The Committee reiterates this recommendation, and strongly encourages the SBA to better align its organizational structure

and its personnel with the agency’s mission: to provide services to small businesses. Anything less reduces the resources that are available to small businesses that are deserving of assistance.

VII. Conclusion

Today, America’s entrepreneurs face a still challenging economy, a vast and complicated tax code and increasing regulatory burdens. As a result, it is difficult for them to compete in the expanding global economy. We owe it to these innovators to support their vital role in job creation by reducing regulatory burdens, establishing programs that speed access to capital, improving programs to encourage government contracting and reduce trade barriers, and encouraging favorable tax policies.

In the 115th Congress, the Committee plans to continue its rigorous oversight of programs within its jurisdiction. The Committee will closely monitor SBA’s efforts in implementing new technology, strengthening cybersecurity, hiring and training of personnel, carrying out the directives of Congress and utilization of funding and other resources. It will also undertake legislation to improve the essential federal government programs on which entrepreneurs rely. The Committee will continue to work to encourage new business creation and pursue policies that will strengthen economic growth.
March 3, 2017

The Honorable Diane Black
Chairman
Committee on the Budget
207 Cannon House Office Building
Washington, DC 20515

Dear Chairman Black:

I am writing to advise you of the programs and priorities of the Committee on Small Business with regard to the fiscal year (FY) 2018 budget for the Small Business Administration (SBA). These views are in addition to those that will be submitted by the Committee’s majority.

With respect,

Nydia M. Velázquez
Ranking Member
Minority Views

The following represent the views of the Democratic members of the Committee on the following issues

March 3, 2017

Undertaking this exercise at the present moment, as we have been asked to do by your Committee, is curious. Traditionally, views and estimates are meant to provide reaction to a budget submission. As you know, the administration has not yet transmitted its FY 2018 budget to Congress, making it impossible to provide insight into the SBA’s spending proposal for next year. While we would rather submit such comments after a budget for the SBA is submitted to Congress, we are providing the below views reluctantly and only to comply with the long-standing tradition of our Committee to file additional views.

ACCESS TO CAPITAL

SBA administers an array of financing programs that are intended to bridge the gap in the conventional markets that small businesses encounter in trying to secure access to affordable capital. Through the SBA Advantage Loans 7(a) and Grow Loans 504 programs, entrepreneurs are provided with greater access to capital through the extension of federal guarantees on long-term loans.1

SBA Advantage Loans 7(a) Program

SBA’s flagship lending program, the Advantage Loans 7(a) Program, provides small businesses with comprehensive financial assistance including working capital, fixed and intangible asset financing, as well as refinance and export support through term and revolving loans. During FY 2016, the Advantage 7(a) program supported a record number of loans nationally, more than $24.12 billion across over 64,000 loans. Both the total number and dollar amount of Advantage loans increased from the previous year.

In its annual reports, the SBA OIG has repeatedly pointed to lender oversight and loan agent fraud as management challenges that the agency has faced.2 Relatedly, questions have been raised about whether the loans being made are reaching the small business borrowers the program is intended to serve, and whether participating lenders are taking on appropriate levels of risk. SBA should focus on improving oversight of its Advantage Loans 7(a) program, though the Committee recognizes that the challenges presented may be best addressed through legislation.

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1The SBA Advantage Loan 7(a) Program is formerly the 7(a) Guaranteed Loan Program. The SBA Grow Loans (504) is formerly the Certified Development Company Loan Program.

2According to the SBA OIG, with limited resources, SBA’s Office of Credit Risk Management manages credit risk for a nearly $120 billion loan portfolio originated by over 2,400 active lenders and Certified Development Companies that have various degrees of expertise regarding SBA loan program requirements. See SBA OIG, Report on the Most Serious Management and Performance Challenges in Fiscal Year 2017.
In addition, notwithstanding the additional lending authorization in recent years, SBA’s management of the cap must be a priority. Though lending remained under the $26.5 billion cap in FY 2016, in previous Congressional Budget Justifications, SBA has underestimated the level of Advantage 7(a) lending. For example, actual lending volume exceeded SBA’s estimates by 23 percent in FY 2013, 30 percent in FY 2014, and 55 percent in FY 2015. While the Committee recommends providing the agency with sufficient lending authority to keep the program operational for the full fiscal year, SBA must closely monitor loan volume and provide Congress with regular reports in FY 2018.

Access to Capital in Underserved Markets

SBA-guaranteed lending in underserved communities, including minority and women-owned businesses must be improved. In FY 2016, 26 percent of 7(a) loans went to minorities, and only 18 percent to women-owned firms. While the overall number of loans has increased, the percentage going to minority and women-owned firms has remained fairly consistent since 2010, and is lower than before or during the recession (2006-2009). Women-owned business used to account for about 40 percent of 7(a) lending activity while the average loan size going to a woman-owned business is roughly 30 percent less than SBA loans going to businesses owned by men. Similarly, minority owned firms used to receive 35 percent of all 7(a) loans. SBA must improve outreach to borrowers and lenders in underserved communities and funds should be made available to the agency to boost access to capital for these firms in FY 2018.

7(m) 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. The intermediaries in turn help the smallest of small businesses and startups 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 the Microloan Program, entrepreneurs receive SBA subsidized small dollar loans in conjunction with basic managerial and technical assistance in operating their business, thus increasing an entrepreneur’s chances of success. In FY 2016, SBA approved $60.6 million, representing a 14 percent growth in dollar amount and more than 18 percent increase in loan approvals. As a result, SBA should take steps to increase intermediary participation and funding should be made available to operate the program at or above its FY 2017 level.

Grow Loans (504) Program

The Grow Loans (504) 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. During FY 2016, the program grew nearly 7 percent with $4.74 billion in loans approved. In FY 2016 and FY 2017, SBA requested no subsidy appropriation. Regardless of fluctuations in the overall economy, SBA must administer the program such that it remains zero-

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*A woman-owned firm is defined as a one that is more than 50 percent female-owned.*
subsidy in FY 2018, with any fee increases being borne by CDCs and lenders participating in the program.

504 Refinance Program

In FY 2016, the 504 Refi loan program was permanently reauthorized with common sense reforms to address the shortcomings of the original program. First, the Refi loan program can only operate in years that the normal 504 Loan program operates at zero-subsidy. This provision will ensure the costs of the program are covered by those that use it, not taxpayers. Second, additional lender oversight will prevent over-concentration of CDC portfolios in refinanced loans. Most importantly, the omnibus language has a non-waivable requirement that refinanced loans contribute to economic development, restoring the original intent of Congress and preventing loans from merely allowing businesses to “cash out” equity. SBA must exercise adequate lender oversight to fulfill congressional intent. As such, funds should be made available to operate and provide intensive oversight of the 504 Refinance program in FY 2018.

Disaster Assistance Program

The SBA’s Disaster Assistance program was implemented for the purpose of providing timely financial assistance in the form of low interest loans and working capital for businesses and homeowners devastated by a disaster. During FY 2016, for example, the SBA Office of Disaster Assistance responded to 289 declared disasters across the country, including processing more than 59,000 home and 8,500 business applications and approved 25,235 loans for more than $1.4 billion. SBA’s disaster loans have become the primary form of federal assistance for the repair and rebuilding of non-farm, private sector disaster losses.

In 2008, in response to the federal government’s handling of Hurricane Katrina, Congress enacted the Small Business Disaster Response and Loan Improvements Act of 2008, designed to reform SBA’s disaster program. The law created new disaster loan programs to provide more timely assistance to homeowners and businesses impacted by natural disasters including the Immediate Disaster Assistance (IDA) program, and the Private Disaster Loan (PDL) program.

However, after nearly eight years, SBA has yet to authorize lending under the IDA and PDL programs. In FY 2018, SBA must work to fully implement these programs or request the assistance of Congress to make legislative changes needed for implementation. Additionally, SBA should fully implement the provisions of Public Law No: 114-88, the RISE After Disaster Act of 2015, which provide additional improvements to the Disaster Assistance program.

In light of the critical need for funding to help home-owners and small businesses following devastating natural disasters, the Committee supports appropriating amounts necessary for FY 2018 to support the SBA’s disaster loan-making functions, but urges appropriators to consider any funds the agency is carrying over into FY 2018.

*The 504 Refi loan program allows borrowers to refinance certain debt and lock in the cost of a portion of their existing debt without a business expansion component, often for substantially less than their current monthly payments.
Small Business Investment Company Program

The Small Business Investment Company (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. Over the past five years, the program has channeled over $21 billion of capital to more than 6,400 small businesses in a variety of sectors across the country. In 2016 the program provided $6 billion in financing to 1,200 small businesses. SBA has established initiatives to fill gaps in the current market. As such, it should prioritize expanding outreach to increase minority-led and women-led funds in the program.

Entrepreneurial Development Programs

SBA’s entrepreneurial development programs provide the foundation for the agency’s small business development efforts. In the past, the SBA has repeatedly funded unproven pilot programs that lack a specific authorization at the expense of proven core programs. As a result of Committee oversight and GAO investigations, there are concerns that these initiatives are not in the best interest of taxpayers or small businesses. Concerns have been raised repeatedly include a lack of demonstrated need and the absence of robust controls. In addition, given the deficiency of performance data SBA should establish metrics for its pilot programs to understand if these initiatives are successful or not. More importantly, the agency should focus on strengthening its existing network of entrepreneurial development service providers, rather than continuing to establish and operate untested and unproven initiatives.

Each year, more than one million entrepreneurs come through SBA’s resource partner network of small business development centers (SBDC), women’s business centers (WBC), SCORE chapters, and veterans business outreach centers. Business advisors provide valuable advice and mentoring for every stage of business growth and development. These providers deliver vital services to small businesses and, as more entrepreneurs seek their counseling, SBA should ensure that these partners, specifically those highlighted below, are provided sufficient funding to serve small businesses.

Women’s Business Centers

The WBC program provides grants to nearly 100 non-profit organizations that provide quality advising and training services primarily to women entrepreneurs, many of whom are socially and

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4 Small business development centers provide technical assistance to small businesses and aspiring entrepreneurs. Women’s business centers assist women in starting and growing small businesses. The SCORE Association is a nonprofit association comprised of over 15,000 volunteer business counselors located in 348 chapters throughout the U.S. and its territories. SCORE members are trained to serve as counselors, advisors, and mentors to aspiring entrepreneurs and business owners. Veterans business outreach centers provide entrepreneurial development services for eligible veterans.
economically disadvantaged. Participating organizations must match the federal funding with one non-federal dollar for every two federal dollars during the first two years and on a one-to-one basis thereafter. In FY 2015, the WBC program reached more than 140,000 small business owners and helped more than 760 entrepreneurs start businesses. For FY 2016, the SBA received $17 million for WBCs with the goals of advising and training more than 142,000 clients, helping 730 of them open new businesses, and opening six new centers in order to cover more areas of the country. The Committee advocates for raising the authorization and the cap to expand the reach of the program and to increase opportunities for women-owned small businesses.

Small Business Development Centers

The SBDC program provides SBA grants to small business development centers and leverages a unique mix of federal, state, and private sector financial resources. This funding model enables SBDCs across the country to foster the economic growth of small businesses that generates business revenue, creates and retains jobs, and enhances local and regional economies. SBDCs deliver management and technical assistance to small businesses through an extensive business education network comprised of 63 lead centers managing more than 900 outreach locations throughout the country. SBDCs deliver professional business advising and training focused on strategic planning, business development, financial planning, and cash flow management to hundreds of thousands of business clients annually. In FY 2015, SBDC professional business advisors helped clients start more than 13,000 new businesses; provided training and advising to more than 450,000 entrepreneurs including 61,000 long-term clients; helped clients obtain $4.7 billion in capital for their businesses; and helped clients secure $1.1 billion in federal government contracts.

Despite these efforts, 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 115th Congress to improve the program.

Government Contracting Programs

The primary purpose of the SBA’s Government Contracting and Business Development programs is to assist small businesses increase their access to the federal marketplace. Through federal contracts, small businesses are able to increase their capabilities and capacity thereby improving their competitiveness. However, the creation of these programs has not expanded the number of contracts awarded each year. Rather, many agencies are awarding fewer contracts worth higher values. Thus, while some agencies and the government have been able to meet their small business goals, the participation of small firms has declined. This trend coupled with a system that has become complex and countless management problems continues to raise concern as to whether the SBA is effectively and efficiently advocating for small businesses in the marketplace.

Procurement Staffing Levels

Currently, there are less than sixty Procurement Center Representatives (PCRs) responsible for overseeing over $440 billion in federal contracting. However, the shortage of personnel is not
limited to PCRs. To date, there are approximately 27 Commercial Market Representatives assisting small businesses with subcontracting opportunities. Similarly, staffing for the Service-Disabled Veteran-Owned Small Business Program, one of the set-asides discussed below, has decreased. The lack of resources available to review contracting actions has prevented small businesses from receiving the maximum practicable opportunities available to them and as a result fewer of these firms have been able to participate in the marketplace. To reverse this, funding should be made available to increase the overall number of small business advocates.

Small Business Set-Aside Programs

Government contracts can be set-aside for classes of small businesses, such as socially and economically disadvantaged firms, whose members might not otherwise be considered for award in full and open competition. There are government-wide statutory contracting goals for small businesses as well as sub-goals for small business categories. SBA has several set-aside programs including the 8(a) Business Development, Historically Underutilized Business Zone (HUBZone), Service-Disabled Veteran-Owned, and the Women-Owned Small Business (WOSB) programs designed to promote small business participation in federal contracting. Given that the SBA OIG has identified small business contracting as a serious management challenge since FY 2005, SBA should have adequate resources to improve these programs.

8(a) Business Development Program

The 8(a) program was created to provide business development assistant to eligible small disadvantaged businesses seeking to participate in federal contracting. A major benefit of the program is that 8(a) firms can receive sole source, as well as set-aside competitive federal contracts so that small businesses do not need to compete with large businesses that may have an industry advantage. However, the number of participants has continually declined from about 7,000 in 2010 to about 4,900 as of August 2016, and this trend has been seen in the number of new applications to the program as well. Conversely, the number of businesses that have sought assistance through the 7(j) program, which supports 8(a) firms, has continually increased and in FY 2015, there were 5,360 small businesses that received support through this program. If the number of businesses seeking assistance continues to grow at a similar rate or higher, small firms may see a reduction in the amount of funds spent per business.

SBA must begin to plan for higher numbers of firms to ensure the current level of service continues. As a result, funding for the 8(a) and 7(j) programs should be increased to accommodate not only the rise of businesses seeking technical assistance but also to escalate the levels of outreach to reverse the decline of program participants.

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*The federal government has the following statutory goals for small business procurement: 23 percent of prime contracts for small businesses; 5 percent of prime and subcontracts for women-owned small businesses; 5 percent of prime and subcontracts for small disadvantaged businesses; 3 percent of prime and subcontracts for service-disabled veteran-owned small businesses; and 3 percent of prime and subcontracts for HUBZone-certified small businesses. These goals are tracked based on the dollar amount of contracts awarded. A business may qualify for more than one socioeconomic category.*
HUBZone Program

The HUBZone program aids urban and rural small businesses that are located in designated distressed areas in accessing federal procurement opportunities. There have been many reports detailing fraud and abuse that has resulted from lack of eligibility verification by SBA of program participants. While the required information was requested to support the applications, SBA failed to verify that the firms had legitimate principle places of business in HUBZones. While the administration has made efforts to combat fraud by increasing site visits and reviewing firms that had previously been certified under the new review guidelines, doubts still remain as to whether enough has been done to ensure that only eligible firms receive contracting dollars from this program.

In addition, SBA has yet to provide metrics that would show whether or not the program is meeting its mission of increasing employment opportunities and stimulating capital investment in designated HUBZones. Therefore, SBA must formulate metrics to answer these questions so that Congress can determine what reforms are necessary to make this program useful for small businesses.

Furthermore, although the HUBZone program continues to recruit new small businesses, over the years, the program has not met its target contracting goal, with only 1.82 percent of contracts awarded to HUBZones in FY 2015. Considering the challenges that SBA has faced in carrying out this program, it should focus more oversight in how resources for the program are spent.

Women-Owned Small Business Contracting Program

An issue of great importance to women-owned businesses is their lack of access to federal contracting. After taking more than ten years to implement the Women-Owned Small Business (WOSB) Federal Contracting program, SBA continues to devote few resources to the program. As a result, few contracts have been awarded using the program with only 1,914 set-aside contracts worth $180.48 million awarded in FY 2014. Congress has made several changes over the past two years to the program including: the removal of caps on award size for set-aside contracts; allowing contracting officers to award contracts through a sole-source contract; the removal of self-certification to participate in the program; and reiterating the original mandate that SBA create its own certification process.

While SBA has implemented the cap removal and sole-source changes, they have been slow to remove self-certification from the program and implement their own certification process. The SBA OIG and GAO have both reported weaknesses in SBA’s controls that would ensure only eligible firms receive the woman-owned small business set-aside. Thus, SBA must dedicate funding to this program to maintain its integrity as well as participants.

Service-Disabled Veteran-Owned Small Business Program

The Service-Disabled Veteran-Owned Small Business (SDVOSB) Program provides procuring agencies with the authority to set aside contracts for exclusive competition among eligible participants as well as the authority to make sole source awards. Although the goals for SDVOSB contracting have been met in recent years, the program faces many challenges that
SBA should address, including the need for adequate staffing levels and providing contracting education for participating firms.

**CONCLUSION**

This year's views and estimates are peculiar in that they are not based on any budget submission. As such, the Committee has provided priorities for how the SBA should operate in FY 2018. 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 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 pilot 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 on 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.

With respect,

[Signatures]

Rep. Nydia Velázquez, Ranking Member

Rep. Alma Adams, Vice Ranking Member

Rep. Stephanie Murphy

Rep. Dwight Evans

Rep. Yvette Clarke

Rep. Al Lawson

Rep. Judy Chu