Impact of a 2018 Government Shutdown on the Small Business Community

In the event of a federal government shutdown, the Small Business Administration (SBA) would cease operating its core lending and investment programs. In addition, the federal government would be unable to enter into new contracts, leaving many small businesses without access to the federal procurement marketplace.

SBA's Lending Programs

According to the SBA, a shutdown would cause the agency to stop making 7(a) and 504 loans, which provide small businesses with debt financing for a wide range of purposes. These loans require agency action regarding loan approval, processing, and/or disbursement. Without personnel to provide these services, the Small Business Committee projects a substantial impact to the small business sector:

- **7(a) loan program**: The 7(a) program is the flagship lending product offered by SBA. A shutdown would reduce capital availability to small businesses by $110 million per day at current run rates.[1] This translates to approximately 245 small business loans per day that can't get access to the capital they need to grow and create new jobs.

- **The Community Advantage Program**: This program is an initiative to increase the number of loans to underserved communities. It provides mission-based lenders access to 7(a) loan guaranties for loans up to $250,000. A shutdown will prevent SBA from processing these vital loans.

- **504 loan program**: The 504 program helps small businesses acquire commercial real estate and new equipment. A shutdown could prevent the disbursement of over 100 loans totaling $85 million each week.[2]

- **Microloan program**: The microloan program predominately helps businesses in traditionally underserved areas access affordable capital and technical assistance. A shutdown will prevent SBA from processing disbursements to intermediaries for loan-making and providing technical assistance.

[1] Based on projections using SBA weekly lending data as of Dec. 30, 2017.
[2] *Id.*

SBA’s Investment Programs

The SBA also operates the Small Business Investment Company (SBIC) program, which provides equity and near-equity financing to small businesses. Due to a shutdown, an SBIC will be unable to make new or follow-on investments in their portfolio companies because those takedowns on leverage have to be processed and disbursed by the SBA.

- **Lost investments**: It is projected that a shutdown would prevent $122 million in SBIC financings from being made on a weekly basis.[3]

- **Delays and Lost Licenses**: Since 2013, SBA has averaged over 25 new licenses each year and a shutdown would result in license approvals for new SBICs to be halted. Therefore, even a brief shutdown would cost small businesses $175 million in capital leverage from just one lost SBIC license approval.[4]

SBA’s Disaster Loan Program

Although the SBA Disaster Loan program will continue making loans during a shutdown, SBA has indicated that funding to make loans will run out the first week of February. Without additional appropriations due to a shutdown, SBA will be forced to cease making disaster loans to homeowners and businesses in Puerto Rico, Texas, Florida (hurricanes), California (wildfires), and other disasters across the country.

SBA’s Entrepreneurial Development Programs

The SBA operates a wide-range of programs designed to assist would-be and existing entrepreneurs. This includes the Small Business Development Center (SBDC) initiative, Women’s Business Centers (WBC), Service Corps of Retired Executives (SCORE), Veterans’ Business Outreach Center (VBOC) program, and Procurement Technical Assistance Centers (PTAC), among other smaller initiatives. A shutdown would negatively impact all of these programs through the uncertainty created by furloughed government workers and stalled approval paperwork. Entrepreneurial resource partners rely heavily on government employees to provide the needed programmatic information to small businesses.

- **SBDC**s are hosted by lead organizations that coordinate program services offered to small businesses through a network of sub-centers and satellite locations in each state, and funded in part through a partnership with SBA. A shutdown hurts SBDCs ability to plan events such as matchmaking forums with contracting agencies, critically delays processing of loan packages, and reduces consulting hours as many

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[3] Based on projections using FY 2017 SBIC data as of 6/30/17

[4] *Id.*

employees are part-time and host organizations cannot take the risk of absorbing their pay.

- **SCORE** utilizes an expansive network of volunteers to provide business assistance to entrepreneurs. SCORE members are trained to serve as counselors, advisors, and mentors to aspiring entrepreneurs and business owners. In the event of a shutdown, 120 of SCORE's 300 chapters would be shuttered and they would not be able to perform these tasks.

- **WBC**s represent a national network of nearly 100 educational centers throughout the United States and its territories, which provide outcome-oriented counseling such as business plan development, training, and mentoring resulting in substantial economic impact as measured by successful business start-ups, job creation and retention, and increased company revenues for women business owners. A shutdown results in WBCs facing many of the same planning issues as other resource partners when coordinating events with government agencies under furloughs.

- **VBOC**s provide entrepreneurial development services such as business training, counseling and mentoring, and referrals for eligible veterans owning or considering starting a small business. Because VBOCS are funded by the government through grants and in many cases hosted on government sites such as bases, a shutdown would cause their delivery of services to come to a complete halt. Civilian employees at bases with trainings scheduled would get furloughed and fiscal agents of host sites halt activity because they risk having to absorb any costs ineligible for retroactive reimbursements, if Congress approves such reimbursement.

- **PTAC**s provide local, in-person, highly technical counseling and training services for businesses that want to sell products and services to federal, state, and/or local governments. PTACs are known as the "foot soldiers" for small business contractors in their contracting endeavors, and they have difficulties maintaining their services when faced with reductions in budget due to a shutdown. The Defense Logistics Agency (DLA) has the responsibility of providing funding for the PTACs and must sustain funding the PTACs out of their own agency budget in case of a shutdown. However, during a shutdown, DLA is unable to provide funding to PTACs that have not received an award for their next fiscal year because federal employees tasked with disbursing the funds are furloughed. This effectively closes that PTAC location.

Federal Small Business Contract Awards

A shutdown prevents federal agencies from entering into any new contracts, including those with small businesses. Small firms can win awards through regular competition, restricted competition, or small business set-asides. On a daily basis, a shutdown could cause small firms to forgo approximately 6,875 contract actions worth $301,656,083.[5] A shutdown will also cost federal taxpayers as stop-work orders must be issued, resulting in higher costs paid to contractors. For instance, the 2013 shutdown forced agencies to pay more to contractors on roughly 10,000 stop-work orders.[6]

The threat of Federal Government shutdowns cost money – to both the government and to businesses. Small businesses, which may be fairly inexperienced or new to government contracting, bear the burden of contract interruptions, and they have to fund payroll and other expenses out of pocket until they can prepare claims (requests for equitable adjustments [REAs]) in an attempt to recoup their expenses. Even if successful in obtaining REAs, they suffer months in waiting for decisions on their claims and, in the meantime, experience disruptions in their workforce. Experienced contractors – small and large – understand the potential liability associated with shutdowns, and they build these added costs into their proposals and bids. Inexperienced contractors, on the other hand, risk closing their doors permanently if they did not build in such costs, which often happens due to a strategic decision to lower their bid or a lack of knowledge of such risk.

There are many contracting resources to help businesses prepare proposals once they are registered and searching for business opportunities from different federal agencies listed at the Federal Business Opportunities website, known as **FedBizOpps,** and in the Federal Procurement Data System (**FPDS**). Yet, all of these systems are subject to employee furlough, which will slow down the bid process and not allow businesses to apply appropriately or the government to fulfill its needs in a timely manner. Some of the federal contracting assistance programs run by agencies that will be affected by employee furloughs include:

- SBA Procurement Center Representatives (**PCR**) that assist small businesses in obtaining federal contracts through six area offices across the US and its territories. There are also Commercial Market Representatives (**CMR**) who are government contracting staff at the SBA stationed in area offices.

- Many federal agencies have an Office of Small and Disadvantaged Business Utilization (**OSDBU**) or an Office of Small Business Programs (OSBP). These offices work within their agencies to identify opportunities to incorporate small businesses as vendors to their agencies and will not be able to do this advocacy work or correctly plan solicitations in such an uncertain environment.

- If a small business is engaged in scientific research and development (**R&D**), they may be working under federal grants through the Small

[5] Based on projections using FY 2017 data from the Federal Procurement Data System- Next Generation (FPDS-NG).
[6] Executive Office of the President of the United States, Impacts and Costs of the October 2013 Federal Government Shutdown, Nov. 2013.

Business Innovation Research (**SBIR**) and the Small Business Technology Transfer (**STTR**) programs. These grants may not be given under a shutdown or may experience delays in disbursements due to agency limitations, causing the businesses to front the expense of continuing the research and development.

Conclusion

A government shutdown does not allow federal agencies, small business contractors, service providers, or lenders to properly plan for present or future funding capacity. It has ripple effects to the perception of taxpayer reliance on government functions that ultimately cripple our economic structure of private and public interdependency.

The halting of government services affects not only small businesses but the consumers they rely on to buy their products and services. With over 850,000 potentially furloughed employees all over the country, small firms will lose business and most importantly, confidence in the economy. A shutdown has indirect effects on the Gross Domestic Product (GDP) specific to small entities. Through a multiplier effect, the shutdown can result in dislocations for individuals and markets that has a broader impact on the economy as a whole. By delaying or withholding pay to federal employees and contractors, businesses can shutter and creditworthiness declines. Such consequences were experienced after the most recent shutdown.

Following the October 2013 shutdown, small business and consumer confidence fell in addition to small business hiring. Small business contracting with the Department of Defense dropped by one-third and spending dropped by 40 percent.[7] The Internal Revenue Service was unable to assist with loan applications and assist in taxpayer assistance, which will be particularly harmful as small firms attempt to learn about the new tax law. Most significant to the shutdown was the harm to the economy of between $2 and $6 billion in lost output from disrupted government spending.[8]

A shutdown, if it comes to fruition, will have dramatic impacts to the economy, hardworking Americans, and the small business community.

[7] *Id.*
[8] *Id.*