

Congress of the United States
U.S. House of Representatives
Committee on Small Business
2361 Rayburn House Office Building
Washington, DC 20515-6515

MEMORANDUM

TO: Members, House Committee on Small Business
FROM: Nydia M. Velázquez, Chairwoman
DATE: April 27, 2022
RE: Full Committee Hybrid Hearing: Small Business Administration’s FY 2023 Budget

The Committee on Small Business will meet for a hybrid hearing titled “Small Business Administration’s FY 2023 Budget.” The hearing is scheduled to begin at **10:00 A.M. on Wednesday April 27, 2022, in person in 2360 Rayburn House Office Building and via the Zoom platform.** The Administration’s Fiscal Year 2023 (FY 2023) budget request for the Small Business Administration (SBA) is \$1.06 billion for the agency, an increase of \$26 million from FY 2022 enacted levels. Members will have an opportunity to hear directly from Administrator Guzman about the priorities for the agency and discuss specific funding requests for FY 2023. Additionally, the Committee will discuss ongoing agency efforts related to the pandemic programs.

Panel

- The Honorable Isabella Casillas Guzman, Administrator, United States Small Business Administration

Background

The Administration’s FY 2023 budget articulates the SBA’s mission to strengthen the nation’s economy through the establishment of small businesses and assist in the economic recovery of communities after disasters. To achieve its mission the agency establishes three goals: (1) ensure equitable and customer centric design and delivery of programs to support small businesses and innovative startups; (2) build resilient businesses and sustainable economy; and (3) implement strong stewardship of resources.



Access to Capital

When testifying before the Committee, small business owners consistently cite the lack of available capital as a significant problem, which is essential for starting a business, hiring employees, and expanding operations. Without access to financing, small firms too often fail to realize their full potential, which in turn can inhibit economic growth in local communities. Unfortunately, small business owners do not have the same access to credit as larger firms that can take out a conventional loan from a bank, and underrepresented entrepreneurs are more likely to be denied credit, even with good credit scores.¹ As part of the agency's first goal to ensure equitable and customer centric design and delivery of programs to support small businesses and innovative startups, the Administration's budget will ensure all entrepreneurs have access to capital, and the agency will focus on providing reasonable credit terms and access to credit for minority-, women-and veteran -owned small businesses. The SBA also plans to improve technology, streamline loan processes, and increase outreach.²

7(a) Program

In FY 2021, the 7(a) program supported a substantial volume of lending nationally, with over \$36.5 billion across 51,856 loans, a 62% increase from the previous year.³ Twenty-seven percent of 7(a) loans went to minority-owned firms, a return to the FY 2019 level.⁴ However, only 18% of 7(a) loans went to women-owned firms, a decrease of 2% over the prior fiscal year,⁵ and only 21% went to small firms in rural areas.⁶ The Administration requests a program level of \$35 billion for the 7(a) program.

¹ FEDERAL RESERVE SYSTEM, *Small Business Credit Survey: 2021 Report on Firms Owned by People of Color*, (Apr. 15, 2021), <https://www.fedsmallbusiness.org/medialibrary/FedSmallBusiness/files/2021/sbcs-report-on-firms-owned-by-people-of-color>.

² U.S. SMALL BUS. ADMIN., *FY 2023 Cong. Justification/FY 2021 Annual Performance Report (2022)* [hereinafter, *FY 23 SBA Budget Justification*], at 28.

³ U.S. SMALL BUS. ADMIN., *Weekly Approvals Report with data as of 09/30 for each FY*, (last visited Apr. 13, 2022), https://www.sba.gov/sites/default/files/2021-10/WebsiteReport_asof_20210930.pdf [hereinafter, *FY 21 SBA Lending Report*].

⁴ *Id.*

⁵ *Id.* (a woman-owned firm is defined as one that is more than 50% female-owned).

⁶ *Id.*

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 2021, Microloan intermediaries approved more than 4,500 Microloans to borrowers totaling approximately \$74.7 million.⁷ The program's combination of capital access and technical assistance is targeted to first-time entrepreneurs and is especially important to women and minorities. In FY 2021, 79% of Microloans were made to underserved small businesses.⁸ The Administration's requests \$6 million subsidy to support a program level of \$110 million, and \$41 million for Microloan Technical Assistance, a \$4 million increase from the FY 2022 enacted level.

504/CDC Loan Program

The 504/CDC program provides permanent, fixed rate financing for businesses to acquire industrial or commercial buildings or heavy equipment and machinery. The program is delivered by local Certified Development Companies (CDCs) working in partnership with private lenders and the SBA. In FY 2021, the 504/CDC program experienced record-high demand that exceeded the Congressionally authorized level of \$7.5 billion.⁹ This forced the SBA to pause lending in the 504/CDC program in early September when the program reached the \$7.5 billion limit. The program is on pace to exceed its lending authority prior to the end of the current fiscal year, and the Consolidated Appropriations Act of 2022 increased the cap on the program level to \$11 billion for FY 2022. The Administration requests \$9 billion for the program level for the regular 504/CDC program and \$7.5 billion for the 504/CDC Debt Refinance program.

Small Business Investment Company Program

The SBIC program is an investment program that increases access to capital for high-growth start-up businesses. 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. As of 2020, 70% of private equity and private credit investments to small businesses were made in five metropolitan areas in California, Massachusetts, and New York.¹⁰ The agency participates in outreach events to increase awareness of the program and reach under-licensed states, and funds that focus on underserved businesses.¹¹ In FY 2021, SBICs provided approximately \$7.1 billion in financing to 1,080 small businesses, and SBA provided SBICs the full \$4 billion in leverage commitments.¹² Only 6.9% of the companies receiving SBIC financing were women-, minority-, or veteran-owned.¹³ In an effort to build a thriving national innovation

⁷ FY 23 SBA Budget Justification, *supra* note 2, at 36.

⁸ *Id.*

⁹ FY 21 SBA Lending Report, *supra* note 3.

¹⁰ FY 23 SBA Budget Justification, *supra* note 2, at 44.

¹¹ *Id.*, at 46.

¹² U.S. SMALL BUS. ADMIN., *Small Business Investment Company (SBIC) Program Overview Report as of September 30, 2021*, (Oct. 15. 2021), <https://www.sba.gov/document/report-small-business-investment-company-sbic-program-overview-report-september-30-2021>.

¹³ *Id.*

ecosystem that provides investments in small business communities, the Administration's requests \$5 billion program level for the SBIC program.¹⁴

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. In FY 2021, the SBA approved over 139,000 non-Covid related direct loans for natural disasters totaling over \$2 billion.¹⁵

As part of strategic objective 2.1, to prepare small businesses and rebuild communities affected by natural disasters, the SBA plans to enhance its outreach and strategic engagement efforts to promote mitigation, and requests \$5 million to support these efforts. The SBA also requests authority to permanently increase the unsecured threshold on physical damage loans in Agency declarations from \$14,000 to \$25,000. The unsecured threshold for physical damage loans in Agency declarations will revert to \$14,000 for disasters declared on or after November 24, 2022.

In addition to traditional SBA disaster assistance programs, the SBA Office of Disaster Assistance continued to experience a massive and unprecedented increase in lending due to the Covid-19 pandemic.¹⁶ As of April 14, 2022, the SBA approved 3.9 million Covid EIDLs totaling more than \$369 billion.¹⁷ Additionally, the SBA was provided authority to make EIDL Advance Grants. In FY 2020 SBA made 5.8 million EIDL Advance Grants for \$20 billion.¹⁸ In FY 2021, the SBA also made approximately 500,000 Targeted Advance Grants, and another 500,000 Supplemental Advance Grants, totaling \$7.2 billion.¹⁹ The amount of SBA disaster funds provided through the Covid EIDL program is more than three times the amount of disaster loan funds approved for all disasters combined since the SBA was created in 1953.²⁰

While the SBA is no longer accepting new Covid EIDL applications, they will continue to process modifications, reconsiderations, and appeals for up to two years after the loan origination date. Additionally, these are 30-year loans, and the SBA will need the resources and capacity to monitor and service Covid EIDL loans in the years to come. The Administration's budget requests authority to transfer \$320 million from the Targeted Covid EIDL Advance account to support Covid EIDL loan servicing and other Covid-related programs.

¹⁴ FY 23 SBA Budget Justification, *supra* note 2, at 44.

¹⁵ U.S. SMALL BUS. ADMIN., *Agency Financial Report: Fiscal Year 2021*, (last visited Apr. 13, 2022), https://www.sba.gov/sites/default/files/2021-12/SBA_FY2021_AFR-508.pdf.

¹⁶ Coronavirus Preparedness and Response Supplemental Appropriations Act, 2020, Pub. L. No. 116-123, tit. II, 134 Stat. 147 (2020).

¹⁷ U.S. SMALL BUS. ADMIN., *COVID-19 EIDL Reports 2022*, <https://www.sba.gov/document/report-covid-19-eidl-reports-2022>.

¹⁸ *Id.*

¹⁹ U.S. SMALL BUS. ADMIN., *Disaster Assistance Update Nationwide COVID EIDL, Targeted EIDL Advances, Supplemental Targeted Advances*, (Jan. 6, 2022), https://www.sba.gov/sites/default/files/2022-01/COVID-19%20EIDL%20TA%20STA_01062022_Public-508.pdf.

²⁰ *Id.*

Entrepreneurial Development Programs

Each year, more than one million entrepreneurs come through the SBA’s Resource Partner network of Small Business Development Centers (SBDCs), Women’s Business Centers (WBCs), SCORE Chapters, and Veterans Business Outreach Centers (VBOCs). They provide free and low-cost counseling and training services to entrepreneurs at every stage of business growth and development. Research has shown a direct correlation between counseling and the profitability, longevity, and growth of small businesses.

As part of strategic objective 1.5, the Administration requests \$318 million for the SBA’s Entrepreneurial Development programs, approximately \$28 million more than the FY 2022 enacted level. The increase in funding will enable the SBA’s Resource Partners to provide more free counseling and training, as those who receive it increase sales, create more jobs, and have a greater impact on their communities. In an effort to build an equitable entrepreneurial ecosystem through tailored training and counseling, the agency introduced a new metric to measure the number of engagements in underserved communities to assess how the Resource Partners are meeting the needs of the entire small business communities.

Entrepreneurial Development Comparison

	FY 2021 Actuals	FY 2022 Full Year CR	FY 2022 Enacted	FY 2023 Request	FY 2023 Incr/Decr
7(j) Technical Assistance Program	3,300	2,800	3,500	9,800	6,300
Cybersecurity	-	3,000	3,000	-	(3,000)
Entrepreneurship Education	1,816	2,500	2,750	4,500	1,750
Federal And State Technology Partnerships	4,000	4,000	6,000	10,000	4,000
Growth Accelerators	3,750	2,000	3,000	10,000	7,000
HUBZone Program	3,016	3,000	3,000	3,000	-
Microloan Technical Assistance	44,770	35,000	37,000	41,000	4,000
National Women's Business Council	1,047	1,500	1,500	1,500	-
Native American Outreach	1,960	2,000	3,000	3,000	-
PRIME Technical Assistance	5,220	5,500	7,000	12,500	5,500
Regional Innovation Clusters	4,819	6,000	8,000	10,000	2,000
SCORE	12,200	12,200	14,000	12,200	(1,800)
Small Business Development Centers (SBDC)	136,894	136,000	138,000	136,000	(2,000)
State Trade Expansion Program (STEP)	16,014	19,500	20,000	19,500	(500)
Veterans Outreach ¹	13,832	14,000	16,000	19,000	3,000
Women's Business Centers (WBC)	26,357	23,000	24,400	26,000	1,600
Total, Entrepreneurial Development Programs	278,995	272,000	290,150	318,000	27,850

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. SBA administers several government-wide small business prime contracting programs. These 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 government-wide 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; and 3% to both HUBZone businesses and service-disabled veteran-owned small businesses.²¹

In FY 2020, the Federal Government was successful in meeting the 23% goal, the 5% goal to SDBs and the 3% to SDVOSBs. However, it failed to meet the HUBZone and WOSB goal. 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 the 8(a) program is underscored as it constitutes the primary way in which agencies contract with SDBs. In addition, the Administration is committed to strengthening the HUBZone and WOSB programs, particularly the certification processes of the latter for which SBA started providing formal certification in October of 2020. Consequently, the Administration requests an additional \$5 million to be divided between the 8(a), HUBZone and WOSB program for staffing resources.

Regarding the SDVOSB program, Congress enacted legislation in the FY 2021 NDAA to institute a formal certification process.²² 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 starting January 2023. Because the SBA will be the sole provider of formal certifications for both programs and needs to stand up these processes in a short period of time, it will need additional and substantial resources, mainly for IT and staffing. Thus, the Administration requests \$20 million for this consolidated certification program.

Staffing Levels and Human Resource Investments

As part of the Agency's third goal to implement strong stewardship of resources for greater impact, the SBA is striving to build an inclusive and high performing workforce, (strategic objective 3.2). Hiring and retaining a sufficient number of well-trained employees is critical to the proper operation of the agency and ensuring the SBA achieves its mission to assist small businesses across the country. As the country begins to move on from the pandemic, it is vitally important that SBA maintain a high-quality workforce to ensure that small businesses will grow and thrive. To that end, the Administration is working with the Office of Personnel and Management (OPM) to implement government-wide best practices for hiring an inclusive workforce and requests a 4.6% cost-of-living increase for SBA employees.

²¹Section 2(g) of the Small Business Act, 15 U.S.C. § 644(g).

²² William M. (Mac) Thornberry National Defense Authorization Act for Fiscal Year 2021, Pub. L. No. 116-283, §862, 134 Stat. 3388 (2021).

Technology

Strategic objective 3.3 is to develop and deploy technology driven solutions to enhance mission delivery. Significant progress has been made over the years in developing reliable, secure, and high performing technology at SBA. However, unprecedented demand for SBA economic relief programs challenged their Information Technology (IT) systems. IT issues that plagued the rollout of Covid pandemic relief programs further highlighted the need for the SBA to invest in IT upgrades to improve portal interfaces and establish IT security control baselines that are essential to protect against cybersecurity threats. To that end, the SBA is engaged in a modernization effort to replace outdated IT systems with customer-centric and streamlined platforms in an effort to offer more equitable access to services.²³

With regard to Certify.gov, the OIG's June 2020 report found that the objectives of the Certify.gov initiative had not been accomplished.²⁴ Certify.gov is the online platform created to support the SBA's contracting programs. It was envisioned as the "one-stop" portal where small businesses could obtain their contracting certifications. It was also intended to streamline the application process and offer a multiplicity of functionalities to SBA officials, including analytical tools and reporting capabilities. However, many of the applications were never developed or lacked basic functionalities and the platform was deemed unsustainable in the long term due to the costs of maintaining it.²⁵ In October 2020, the SBA informed the Committee that it would perform a "strategic review of the overall Certify.gov project to determine the most effective oversight, contract delivery, and technical approach for continued development."²⁶

Conclusion

America's 32.5 million small businesses are the engines that drive economic growth, employing 61 million Americans. Not only do they fuel the economic growth, but they also support local communities and towns through innovation, trade, and business reinvestment. When they are successful, our country is successful. The SBA has a vital role to play in helping small businesses to start, grow, and succeed. This hearing will give the Administrator an opportunity to discuss the budget request and agency's priorities for FY 2023. In sum, the agency should be provided with the resources necessary to administer and oversee its core lending, entrepreneurial development, and contracting programs, while also servicing the C-19 programs that have ongoing Congressional mandates. The SBA will continue to play an outsized and unprecedented role in our nation's recovery.

Moreover, while the pandemic has caused significant disruption and hardship for small businesses all throughout the country, minority- and women-owned have been disproportionately hard hit. The agency plans to focus its efforts on programs that increase outreach, access to capital, and contracting opportunities for all communities, including minority-, women-owned, and veteran-owned small businesses. With the assistance of these tools, small firms will grow financially stronger and continue to create new and sustainable jobs in diverse industries and locations.

²³ FY 23 SBA Budget Justification, *supra* note 2.

²⁴ U.S. SMALL BUS. ADMIN., OFFICE OF INSPECTOR GEN., *Evaluation of Certify.SBA.gov* (2020).

²⁵ *Id.*

²⁶ Letter from Francis Spampinato, Associate Administrator for the Office of Government Contracting and Business Development, U.S. Small Bus. Admin, to Representative Jared Golden, Chairman of the Subcommittee on Contracting and Infrastructure (Oct. 19, 2020) (on file with the Committee on Small Business).