

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 2024

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

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

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

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

I. Introduction—SBA's Mission and Management

Since its founding, America has relied on small businesses to shape and grow the economy. Our nation's economic policies have been tailored to assist small firms. As of December 2022, the 33.2 million small businesses in America employ 61.7 million workers—46.4 percent of all U.S. employees. Over the last 25 years, small businesses have added nearly 13 million jobs to the economy, making up two-thirds of all jobs added during that time. However, in recent years, inflation and the growing number and complexity of federal regulations have held back economic expansion and job growth, particularly by small firms, and have made it increasingly difficult for them to thrive and compete in the global economy. As a result, even more small businesses are dependent on the SBA programs, so it is critical that those programs are tailored to yield the most beneficial results.

The SBA was created in 1953 by President Eisenhower to replace the Small Defense Plants Administration¹ and the Reconstruction Finance Corporation.² According to the Small Business Act, 15 U.S.C. §§ 631-57s, the SBA’s mission is to “aid, counsel, assist, and protect, insofar as is possible, the interests of small business concerns....”³ The SBA meets its statutory mission by performing three major functions: 1) assisting small businesses in obtaining needed capital; 2) helping small businesses in navigating the federal procurement marketplace; and 3) offering managerial counseling and assistance to small businesses. Each function is carried out through Congressionally mandated programs, sometimes in conjunction with private sector partners. Specifically, the SBA provides loans and loan guarantees to creditworthy small businesses; entrepreneurial counseling and technical assistance to build startups; and disaster services to disaster survivors. Most of these services are delivered, either by SBA or one of its partner organizations, through SBA’s district offices throughout the U.S.

In June of 2022, the SBA received a letter from the Government Accountability Office (GAO) regarding GAO’s comprehensive assessment of SBA’s overall management, which was undertaken at the Committee’s request.⁴ In its audit, which was requested by the Committee, GAO found many long-standing SBA management deficiencies, including deficits in strategic planning, human capital, organizational structure, and information technology (IT). GAO recommended a number of specific steps to the SBA, such as increased training, procedural guidance, strategic and workforce planning, and oversight of IT investments. As of May 2022, SBA had 44 incomplete recommendations.⁵ 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.

On October 14, 2022, SBA’s Office of the Inspector General (IG) released a report outlining SBA’s most significant challenges in FY2023.⁶ The report noted that inaccurate procurement data and eligibility concerns in the contracting programs and significant challenges in IT investment, among other things, are contributing to the SBA’s failure to fulfill its mission effectively.⁷ The report also noted that the SBA’s economic relief programs are susceptible to significant fraud, the disaster assistance program needs to better balance efficiency with accuracy, better identify improper payments in the 7(a) program, and better manage and monitor the 8(a) business development program.⁸ Finally, the report found that the SBA needs robust

¹ *Organization, SBA History*, U.S. SMALL BUS. ADMIN. (last visited Feb. 23, 2022) <https://www.sba.gov/about-sba/what-we-do/history> (The Small Defense Plants Administration was created during the Korean War to help maintain a robust small business industrial base for providing goods to U.S. military services.)

² *Organization, SBA History*, U.S. SMALL BUS. ADMIN. (last visited Feb. 23, 2022) <https://www.sba.gov/about-sba/what-we-do/history> (The Reconstruction Finance Corporation began in 1932 as a federal lender to businesses).

³ 15 U.S.C. § 631(a).

⁴ U.S. GOVT. ACCOUNTABILITY OFFICE (GAO), LEADERSHIP ATTENTION NEEDED TO OVERCOME MGMT. CHALLENGES (GAO-15-347) (2015) (hereinafter “GAO SBA Management Report”).

⁵ Letter from Gene L. Dodaro, Comptroller General, Gov. Accountability Office, to Isabella Casillas Guzman, Administrator, Small Bus. Assoc. (Jun. 3, 2022).

⁶ U.S. SMALL BUS. ADMIN., OFFICE OF INSPECTOR GENERAL, TOP MGMT. & PERFORMANCE CHALLENGES FACING THE SMALL BUS. ADMIN. IN FISCAL YEAR 2023, vi-vii (Oct. 14, 2022).

⁷ *Id.*

⁸ *Id.*

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

SBA released its draft FY 2022-2026 Strategic Plan on March 28, 2022.¹⁰ The plan, which SBA called the principal document within the agency's comprehensive management framework, summarizes the strategies that SBA intends to use to accomplish its three strategic goals.¹¹ The primary goals, to be completed by September 30, 2023, are: 1) expand the number of Community Financial Institutions enrolled in Lender Match by 20 percent; 2) increase federal contracting awards to small disadvantaged businesses to 12 percent; and 3) increase the number of loans that include mitigation measures by 20 percent from the FY2022 baseline.¹² The Committee will closely follow SBA's efforts to accomplish its goals during the upcoming four-year period.

II. Capital Access Programs

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

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

Many of the SBA's programs are designed to operate without a federal government subsidy. However, if SBA does require a subsidy to operate these programs, the rationale has been that, because small businesses create much needed jobs, it would be counterproductive to increase the cost of making loans to them. In 2015, SBA's 7(a) Program experienced unprecedented demand and reached its \$18.75 billion authorized loan limit. Unfortunately, SBA did not inform Congress until the lending ceiling was reached, and lending was temporarily delayed until Congress took emergency action. In legislation to raise the lending level to \$23.5 billion, Congress required SBA to regularly report on loan levels so future emergency action will not be needed. For FY23, the authorized lending limit reached a record level of \$35 billion dollars.¹³ The Committee will continue to monitor the authorized lending limit.

⁹ *Id.*

¹⁰ U.S. SMALL BUS. ADMIN., STRATEGIC PLAN FISCAL YEARS 2022–2026, 10 (Mar. 28, 2022).

¹¹ *Id.*

¹² *Id.*

¹³ Consolidated Appropriations Act, 2023, Pub. L. No. 117-328.

The Committee will conduct vigorous oversight of the SBA’s proposed “*Small Business Lending Company (SBLC) Moratorium Recission and Removal of the Requirement for a Loan Authorization,*” and the proposed “*Affiliation and Lending Criteria for the SBA Business Loan Programs*” rules. The Committee will examine if the rules have an effect on the integrity of the 7(a) lending program and if they will pose any additional risk to the taxpayer. The Committee will scrutinize the SBA’s abilities to prudently manage risk within the program.

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

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

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

III. Entrepreneurial Development Programs

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

Over time, the SBA has also created, using its general authority to “aid small businesses,” initiatives that duplicate the services of programs that Congress has specifically directed the SBA

¹⁴ U.S. SMALL BUS. ADMIN., OFFICE OF INSPECTOR GENERAL, TOP MANAGEMENT AND PERFORMANCE CHALLENGES FACING THE SMALL BUS. ADMIN. IN FISCAL YEAR 2023, vi-vii (Oct. 14, 2022).

¹⁵ Pub. L. No. 116-136 (2020).

¹⁶ *Id.*

to implement. In recent years, these SBA-created initiatives have comprised a significant portion of the SBA's entrepreneurial development budget, and the Committee believes that no such funds should be allocated to these often-duplicative efforts in FY 2024. In addition, to the extent that these SBA-created programs impose new outreach duties on SBA's Congressionally mandated entrepreneurial development programs, the Committee suggests that SBA reprogram funds from SBA's general salaries and expenses account to cover incurred costs. SBA's programmatic duplication has been exacerbated by its failure to measure the effectiveness of its programs. This has been particularly true in the area of entrepreneurial development programs in which SBA offers technical assistance to small business owners. In fact, §18 of the Small Business Act expressly prohibits duplication of effort by SBA if a program is already offered by another federal agency, unless Congress expressly authorizes the duplication. The Committee will continue to work with SBA to ensure priority is given to Congressionally mandated initiatives.

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

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

Women's Business Centers (WBC) provide training, counseling, and mentoring to women entrepreneurs. WBCs are public/private partnerships in which the federal government provides funds that are matched by private donors. There are currently over 100 Centers across the country. Many WBCs seek to provide their clients with flexible training opportunities, offering courses at night or on weekends and often in more than one language. The Committee believes that WBCs could further increase their impact by locating in areas not already served by SBDCs and tailoring their training to women. Again, this goal could be achieved by reprogramming funds and focus from SBA-created initiatives to the WBC program.

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

IV. Cyber Security Programs for Small Businesses

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

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

V. Federal Procurement Programs

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

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

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

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

¹⁹ 15 U.S.C. § 644(a)

Accountability Office (GAO) audits have revealed a widespread problem of misreporting by agencies that award contracts to small firms with provisions or other contract language that allows larger companies to do most of the work.²⁰

Unfortunately, a new report shows that just under 60,000 small businesses received federal contracts in FY2022—less than half of the total number of small businesses that received federal contracts in 2010.²¹ The Committee will conduct oversight over the federal procurement process as it relates to small business and pursue options for increasing transparency and fairness in the process.

The Historically Underutilized Business Zone (HUBZone) Program was designed to direct federal contracts to small businesses in distressed areas and promote the economic development of those businesses. Federal contracting officers are permitted to set aside contracts for limited competition among HUBZone eligible small businesses. HUBZones are distressed urban and rural areas with chronically high unemployment, low household income, or both. Numerous investigations over several years by the Government Accountability Office (GAO) found weaknesses and vulnerabilities in the HUBZone Program, including inadequate vetting of participants, fraudulent awards, and falsified documents and employee information.²²

According to the October 2022 OIG report, in 2018 and 2019, the SBA did not properly enforce HUBZone eligibility requirements. In 2020, SBA changed a HUBZone requirement to allow the business to continue to meet the residency requirement as long as the business has employees who lived in a HUBZone for at least 180 days after the business was first certified.²³ The Committee is concerned that the SBA is deviating from the intent of the program and will conduct oversight and work to ensure that the program is properly utilized.

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

VI. Regulatory Reform and Paperwork Reduction

Under Rule X, Cl. 1(q) of the Rules of the House,²⁴ the Committee’s legislative jurisdiction includes the protection of small businesses related to regulatory flexibility. This rule recognizes that federal regulations may pose significant challenges for small businesses, which

²⁰ U.S. SMALL BUS. ADMIN., OFFICE OF INSPECTOR GENERAL, TOP MANAGEMENT AND PERFORMANCE CHALLENGES FACING THE SMALL BUS. ADMIN. IN FISCAL YEAR 2023 (Oct. 14, 2022).

²¹ *Small Businesses Awarded Record \$159 Billion from Federal Government in 2022*, HIGHERGOV (Feb. 13, 2022).

²² See U.S. GOVT. ACCOUNTABILITY OFFICE (GAO), HUBZONE PROGRAM: FRAUD AND ABUSE IDENTIFIED IN FOUR METROPOLITAN AREAS (GAO-9-440) (2009); GAO, SMALL BUS. ADMIN.: UNDERCOVER TESTS SHOW HUBZONE PROGRAM REMAINS VULNERABLE TO FRAUD AND ABUSE (GAO-10-759) (2010); GAO, HUBZONE PROGRAM: ACTIONS TAKEN ON FEBRUARY 2015 GAO RECOMMENDATIONS (GAO-16-423R) (2016); and HUBZONE PROGRAM: OPPORTUNITIES EXIST TO FURTHER IMPROVE OVERSIGHT (GAO-16-866T) (2016).

²³ U.S. SMALL BUS. ADMIN., OFFICE OF INSPECTOR GENERAL, TOP MGMT. AND PERFORMANCE CHALLENGES FACING THE SMALL BUS. ADMIN. IN FISCAL YEAR 2023, vi-vii (Oct. 14, 2022).

²⁴ Rules of the U.S. House of Representatives, 118th Congress (2023).

have less revenue and a smaller employee base over which regulatory and paperwork compliance costs can be spread.

America's small business owners want to comply with regulations, but they cannot do so if the regulations are crafted in a way that makes it impossible for them to comply. Recognition that small businesses are disproportionately burdened by one-size-fits-all regulations and underrepresented in the federal rulemaking process encouraged Congress to enact the Regulatory Flexibility Act (RFA) in 1980.²⁵ The RFA requires federal agencies to assess the economic impacts of regulations and to consider alternatives to reduce burdens on small businesses. The RFA has been amended twice, in 1996 and 2010, to improve agency compliance with the statute's analytical requirements. Those amendments made marginal changes, but agency compliance has remained inconsistent. 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 has 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 Committee has been at the forefront of efforts to strengthen the RFA so that the nation's regulatory process will work better for entrepreneurs. The Committee anticipates conducting a series of oversight actions that will show that many agencies are failing to comply with the RFA. SBA's Office of Advocacy has already documented nearly 30 instances of agencies' failures to properly comply with the RFA in the last two years alone. The Committee will propose substantive legislative solutions to strengthen the RFA and ensure that agencies are considering small entities when writing regulations and fully complying with the RFA. The Committee expects that no additional funds will be needed to implement the Act because federal agencies already engage in the type of outreach and analysis that is required by the legislation.

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

Recognition of these challenges led Congress to enact the Paperwork Reduction Act (PRA)²⁶ in 1980. The PRA was revised in 1986 and 1995, and in 2002, the Small Business Paperwork Relief Act (SBPRA) was enacted.²⁷ Despite those efforts, the paperwork burden for small businesses continues to grow. The Committee held two hearings on the Paperwork Reduction Act, on March 29, 2017 and October 11, 2017, to evaluate the Paperwork Reduction Act and learn how paperwork burdens on small firms may be reduced.²⁸ The Committee will

²⁵ 5 U.S.C. §§ 601-612.

²⁶ 44 U.S.C. §§ 3501-3521.

²⁷ 5 U.S.C. § 601.

²⁸ *Evaluating the Paperwork Reduction Act: Are Burdens Being Reduced? Hearing Before the House Comm. On Small Business*, 115th Cong. (Mar. 29, 2017) and *Evaluating the Paperwork Reduction Act Part II: Are Burdens Being Reduced? Hearing Before the House Comm. On Small Business*, 115th Cong. (Oct. 11, 2017).

continue to build upon these efforts in the 118th Congress to ensure that these statutes are still fulfilling the original Congressional intent of reducing the burden on small businesses.

VII. Conclusion

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