MEMORANDUM

TO: Members, Committee on Small Business
FROM: Chairwoman Nydia M. Velázquez
RE: Full Committee Hearing: "A Discussion with SBA Administrator Jovita Carranza: Current Issues and the FY2021 Budget"
DATE: February 26, 2020

On Wednesday, February 26, 2020, at 11:30 a.m. in Room 2360 of the Rayburn House Office Building, the Committee on Small Business will convene for a hearing titled, “A Discussion with SBA Administrator Jovita Carranza: Current Issues and the FY2021 Budget.” The Honorable Jovita Carranza was sworn in on January 7, 2020, as the 26th Administrator of the United States Small Business Administration (SBA). Members will hear Administrator Carranza’s vision for the agency, explore the Administration’s FY2021 budget request, and have an opportunity to discuss the opportunities and challenges that exist for small businesses participating in the SBA’s programs. The sole witness for the hearing is:

- The Honorable Jovita Carranza, Administrator, United States Small Business Administration, Washington, DC

Biography
On January 7, 2020, The Honorable Jovita Carranza was confirmed as the 26th Administrator of the Small Business Administration by a vote of 88-5. Administrator Carranza replaced Administrator McMahon who stepped down from her Cabinet role on April 12, 2019.

Administrator Carranza was born in Illinois to an immigrant family from Mexico and began her career at the United Parcel Service (UPS) as a part-time, night-shift box handler. After serving over 30 years with the company, Administrator Carranza rose to the ranks of President of Latin American and Caribbean operations making her the highest-ranking Latina in the history of the company. Following a career at UPS, Administrator Carranza founded the supply-chain management company JCR Group.

In 2006, President George W. Bush nominated Administrator Carranza for the Deputy Administrator for the Small Business Administration. In her role at SBA, she was responsible for managing a portfolio of business loans, disaster loans, and venture capital investments totaling to $80 billion as well as overseeing 80 field offices across the country. She also served as the U.S. Treasurer and the advisor to Treasury Secretary Steve Mnuchin since 2017.¹

Background
Since 1953, the U.S. Small Business Administration (SBA) has empowered small business owners by giving them the tools and resources they need to launch and grow their small businesses. The SBA meets its statutory mission through three major components: 1) assisting small businesses obtain capital; 2) helping small businesses navigate the federal procurement marketplace; and 3) offering managerial counseling and assistance. Each component is carried out through Congressionally mandated programs, sometimes in conjunction with private sector partners. The majority of these services are delivered, either by SBA through one of its resource partners or through SBA’s district offices throughout the United States.

Access to Capital
Entrepreneurs and small businesses consistently report access to affordable capital is essential for starting a small business, hiring employees, and expanding operations. Without adequate access to funding, small firms often fail to realize their full potential, which inhibits growth in local communities and local economies. With that said, small business owners do not have the same access to credit as larger businesses that can take out a conventional loan from a bank. Moreover, women, minorities, and veterans are more likely to be denied credit and rely on personal savings or credit cards to launch and grow their small businesses. To help fill this void in the capital markets, Congress created several programs within the SBA, including the 7(a) loan program, 504 program, and the Small Business Investment Company (SBIC) program. Through public-private partnerships that share the lending risk, small businesses can tap into capital that is affordable, non-predatory, and accessible.

Increase Access to Capital in Underserved Areas
The first strategic objective in SBA’s Strategic Plan (FY18-FY22) is to increase the number of loans by 5 percent to small businesses in socially and economically disadvantaged urban and rural areas. In FY19, 20,527 SBA backed loans were made to small businesses in socially and economically disadvantaged urban communities and rural areas. The agency fell short of its projected goal of 26,749 loans by 23 percent. Administrator Carranza has stated publicly that creating more opportunities for women-, minority-, and veteran-owned small businesses will be a top priority for her.

7(a) Subsidy Rate
In the Administration’s FY21 budget, SBA projects a positive subsidy of 5 basis points for the 7(a) program, meaning the program will be forced to shut down if Congress does not either 1) provide funding in the amount of $15 million to cover the 5 basis point subsidy, or 2) raise fees in the program to offset the cost. SBA is also requesting authority to institute a new administrative fee. The new fee would shift the burden of paying more than $80 million in non-risk related administrative costs associated with running the 7(a) program on to borrowers and lenders.

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2 Id.
3 Id.
4 SMALL BUSINESS ADMINISTRATION, FY21 CONGRESSIONAL BUDGET JUSTIFICATION AND FY2019 ANNUAL PERFORMANCE REPORT at 29.
Small Business Investment Company

On September 26, 2019, the Committee held a hearing to examine the administrative challenges facing the SBIC program. Concerns were raised over the delays in licensing approvals and staffing vacancies at the Office of Investment and Innovation (OII). Industry stakeholders testified that approvals that used to take six months were now taking a year or more. In FY19, SBA licensed 18 SBICs, compared to 25 in FY18. However, it should be noted that the agency’s Congressional Budget Justification for FY2020 and FY2018 Annual Performance Report do not distinguish whether approved licenses were for first-time SBIC applicants or repeat SBIC applicants, which require much less time to approve. This lack of clarity as to whether the approved licenses were first-time or repeat licenses makes it difficult to compare the OII’s performance in efficiently and expeditiously approving licenses.

Microloan Program

The Microloan Program makes funds available to nonprofit, community-based lenders who in turn make very small loans to eligible borrowers—mainly higher-risk, fledgling entrepreneurs, whose businesses generally serve their local communities. These borrowers may not be able to get a traditional loan due to poor credit, no credit history, or a lack of business experience. This program reaches various demographic groups that would otherwise not be served by the private sector or even the SBA’s 7(a) program. For example, Microloans have been a source of capital for women business owners (who in FY 2018 received about 47 percent of Microloans issued) and minority borrowers (who in FY 2018 received over 48 percent of Microloans issued). The Administration’s FY21 Budget proposal would cut the subsidy amount for the Microloan program from $5 million to $4 million, which in turn would reduce the amount of money that Microloan intermediaries can borrow from SBA and re-lend to small business borrowers.

Through the Microloan Technical Assistance program, intermediary lenders receive grants to provide technical assistance to and coaching to borrowers. The combination of capital, technical assistance, and coaching helps small business borrowers. The Administration’s FY21 budget proposes to $25 million for the Microloan Technical Assistance program, reducing funding by 9.5 million.

Disaster Assistance Program

The SBA’s Disaster Assistance Program was created 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. In FY19, SBA processed 95,626 loan applications, of which 81,676 were homeowner loan applications and 13,950 were business disaster loan applications. The average processing time was 8 days for home-owner loans and 12 days for business loans. SBA closed 99 percent of loans with initial disbursements within 5 days of SBA receiving the signed loan closing documents, and 93 percent of the loans were processed within standard in FY2019. SBA approved 42,375 disaster loans for over $2.2 billion following the hurricane season. Administrator Carranza

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7 Id.
8 FY21 CONGRESSIONAL BUDGET, supra note 6.
9 Id.
has pledged to ensure that SBA is prepared to assist displaced homeowners and small businesses impacted by disaster.

SBA’s OIG reported that although SBA hired staff, it did not fully anticipate the unprecedented need for Spanish interpretation services in Puerto Rico following Hurricane Maria. As a result, some survivors experienced longer wait times or dropped calls. SBA regularly used language translation services to assist non-English speaking disaster survivors, but SBA changed contractors and a new contract for this service was issued September 5, 2017 – 15 days before Hurricane Maria made landfall in Puerto Rico. The contractor began translation service for disaster survivors on September 29, 2017, and the new translation service contractor could not handle the call volume from disaster survivors, which contributed to the long wait times and dropped calls.

**Entrepreneurial Development Programs**

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

**FY21 Budget Proposal**

Another objective of SBA’s Strategic Plan (FY18-FY22) is to increase the number of entrepreneurs assisted through its partnerships, virtual resources, and outreach. To accomplish this goal, SBA plans to utilize the Small Business Development Centers, Women’s Business Centers, Veterans Business Outreach Centers, and SCORE to deliver valuable counseling and training services to entrepreneurs throughout the country. Yet, the Administration’s FY21 Budget Proposal reduced funding for Entrepreneurial Development programs by 36.5%, or nearly $97 million from the FY20 enacted level. Steep cuts were made to Small Business Development Centers, reducing funding by $47.1 million (35%), and Women’s Business Centers, reducing funding by $5 million (22%). The Administration’s FY21 Budget Proposal also eliminated for four ED programs: Growth Accelerators, FAST, PRIME Technical Assistance, and Regional Innovation Clusters.

**Historically Black Colleges and Universities**

The White House Initiative on Historically Black Colleges and Universities (HBCUs) requires certain agencies, with one being the Small Business Administration (SBA), to develop annual plans to strengthen HBCUs. The Office of Entrepreneurial Development (OED), which helps small businesses through management and technical assistance, is responsible for fulfilling the objectives of SBA’s 2018 annual plan. At the Committee’s April 2019 hearing on HBCUs, the Associate Administrator for the Office of Entrepreneurial Development promised to strengthen

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11 FY21 CONGRESSIONAL BUDGET, supra note 6.
HBCU outreach by creating an interagency working group to improve accountability, improve data collection, and expand the SBIR tour to include HBCUs. Since then, OED has required the resource partners to coordinate with their respective SBA Regional and District Offices and HBCU leadership to develop small business outreach plans. In addition, SBA Regional and District Offices conducted 17 Entrepreneurial Summits at HBCUs to expand outreach and educate the schools about the resources SBA provides entrepreneurs and small business owners.13

Small Business Development Centers Budget Proposal Issue
Prior to the beginning of the fiscal year, SBA requires SBDCs to submit budget proposals for the upcoming fiscal year based on the level of funding proposed in the President’s budget request for the current fiscal year. This requirement is different from the practices of the prior two administrations, which required the SBDCs to provide budget proposals based on the enacted level of funding for the current year. Concerns have been raised that the budgeting process is detrimental to the operation of the SBDC program and the counseling services it provides to small businesses.

State Trade Expansion Program
The second strategic objective in SBA’s Strategic Plan (FY18-FY22) is to increase the value of small business export sales.14 The State Trade Expansion Program (STEP) awards grants to states to support small business export development through trade missions, foreign market trips, export trade shows, and other international marketing activities. The Administration’s budget cut funding for STEP by $8 million, or 57%.15

Small Business Contracting and Challenges
The Federal Government is the largest purchaser of goods and services in the world, purchasing over $550 billion in goods and services in Fiscal Year 2018. The primary purpose of the SBA’s Government Contracting and Business Development programs is to help small businesses increase their access to the federal marketplace. Through federal contracts, small businesses can increase their capabilities and capacity, thereby improving their competitiveness. To assist small businesses that want to contract with the federal government, Congress created several programs designed to increase their contracting opportunities. An objective in SBA’s Strategic Plan (FY18-FY22) is to maximize the percent of federal contract dollars by awarding at least 23 percent to small businesses.16 Unfortunately, the number of contracts awarded to small businesses each year has not necessarily increased. Generally, agencies are awarding fewer contracts worth higher values. While some agencies and the government have been able to meet their statutory small business goals, the overall participation of small firms in federal contracting programs has declined. This trend, coupled with a system that has become complex and has countless management problems, continues to raise concerns as to whether the SBA is effectively and efficiently advocating for small businesses in the marketplace.

15 FY21 CONGRESSIONAL BUDGET, supra note 6.
Certify-Gov
As of August 2019, SBA spent $27 million on certify.SBA.gov, an IT system intended to provide unified certification process across multiple SBA contracting programs, including: 8(a), HUBZone, WOSB and Mentor-Protégé participants. However, to date, SBA has implemented limited functionalities for the different programs and there are complaints of significant latent defects in the system. Moreover, in FY 2019, SBA decided to change its strategy and plans to abandon Certify and develop a separate system to monitor 8(a) participants’ business development.

Women-Owned Small Businesses
In 2015, Congress removed small businesses’ ability to self-certify eligibility and required SBA to create a formal certification process for the Women-Owned Small Business (WOSB) Program. To date, the certification process has not been implemented and SBA has not provided the blueprint that is guiding the implementation of the certification process despite a request by the Small Business Committee following a hearing on the matter. While the estimated date for completing the formal certification process is summer 2020, SBA has made no progress in enhancing certify.SBA.gov, which will be used to implement part of the certification process.

Other Programs
Office of Field Operations
The Small Business Administration assists small businesses through business loans, loan guarantees, counseling, and contracting preferences. To deliver these programs and services throughout the country, SBA relies largely on a network of 68 district offices located across the United States and its territories, with at least one district office based in every state. The Committee recently held a management review hearing on the Office of Field Operations and learned the aggregate number of Full Time Equivalents (FTE) employees in district and regional offices decreased from 813 in FY14 to 687 in FY19. Another objective of SBA’s Strategic Plan (FY18-FY22) is to build a high-performing workforce, and to accomplish this goal SBA plans to recruit and retain an inclusive workforce. In the Administration’s FY21 budget, SBA proposes to fund the Salaries and Expenses account at $287.9 million, an increase of nearly $18 million, however SBA has not indicated this additional funding would be used to increase FTEs to historic level in OFO.

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17 SMALL BUS. ADMIN. OFF. OF INSPECTOR GEN., REPORT 20-01, REPORT ON THE MOST SERIOUS MANAGEMENT AND PERFORMANCE CHALLENGES FACING THE SMALL BUSINESS ADMINISTRATION IN FISCAL YEAR 2020 (OCT. 2019) [hereinafter SBA OIG 20-01].
18 Id. at p. 4 and 11. See also SMALL BUS. ADMIN. OFF. OF INSPECTOR GEN., REPORT 19-07, EVALUATION OF SBA’S ALL SMALL MENTOR-PROTÉGÉ PROGRAM (SEPT. 2019).
19 SBA OIG 20-01, supra note 19.
22 SBA OIG 20-01, supra note 19.
23 FY21 CONGRESSIONAL BUDGET, supra note 6.
Technology
Another strategic objective in SBA’s Strategic Plan (FY18-FY22) is to implement enterprise wide information system modernization and cost-effective technology. 24 Significant progress has been made over the years in developing reliable, secure, and high performing technology at SBA. As a result, its Federal Information Technology and Acquisition Reform Act (FITARA) score increased from a D+ in May 2018 to a B+ in December 2019. The improvements the Office of the Chief Information Officer (OCIO) are making are not only vital to the success of the agency and its programs but will also provide for a better user experience for the agency’s small business clients. With that said, in its annual management report, the (IG) acknowledged that improvements were being made in SBA’s deployment of IT controls and in several security areas, but it also reported that significant deficiencies remain.25

Office of Rural Affairs
For decades, rural communities have been the backbone of the American economy. But many rural businesses face challenges that can put them at a competitive economic disadvantage, and they often struggle to utilize traditional small business support systems. Recognizing this, Congress directed the SBA to establish an Office of Rural Affairs as part of the Small Business Reauthorization and Amendments Act of 1990 (P.L. 101-574), yet by 1995 this office was no longer being staffed at SBA. In 2019, the SBA named a National Director for the Office of Rural Affairs to assist in connecting rural communities and entrepreneurs with SBA’s resources.

Conclusion
America’s 30.7 million small businesses are the engines that drive economic growth, employing 59.9 million Americans and creating 1.8 million new jobs in 2019 alone. 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. SBA has a vital role to play in helping small businesses to start, grow, and succeed. This hearing will provide members an opportunity to learn more about the new Administrator’s priorities for the SBA and the impact the Administration’s FY21 budget will have on its programs and services.