



Testimony
of
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The Government Shutdown:
Impact On Small Business

Chairwoman Velazquez, Ranking Member Chabot,

Thank you for inviting me to testify today on behalf of America's SBDCs. I am the President and CEO of America's SBDC, the Association that represents the nationwide small business development center (SBDC) system of 63 networks with over 975 locations and over 4,500 dedicated professional counselors, advisors, specialists and support staff.

For 40 years the SBDCs have been providing services to small business owners and aspiring entrepreneurs. Over the years our member networks have developed a wide variety of services for small businesses of all sizes that are customized to meet the needs of regional businesses throughout the nation.

How and Where SBDCs work

SBDCs operate out of host institutions, primarily colleges and universities, and they operate (with some exceptions) statewide. California and Texas are the exceptions having six and four regional networks respectively. The host institution manages the operations of its SBDC network through its centers and many of those are at other colleges, community colleges and chambers of commerce. Those host institutions and their partners contribute matching funds that exceed the federal funding. Federal funding for SBDCs is allocated based on population census figures with a minimum funding level for smaller states (VT, NH, SD, etc.)

Many SBDCs are based at the business schools of their respective colleges providing the ability to leverage the skills and knowledge of the professors and students with the practical experience of our advisers.

SBDCs provide services to small businesses at all stages of development. The mix of businesses usually varies depending on the region and their unique characteristics. A good rule of thumb is that we have a range of about a 60/40 mix of existing and nascent (start-up) entrepreneurs. Annually, these ratios vary due to economic conditions and external factors such as disasters or market conditions. About 45% of our clients are women, and roughly 10% of our clients are veterans. Every year we provide over one and a half million hours of counseling and training to over 500,000 small business owners and their employees.

The Effect of the Shutdown

Luckily, most SBDC services were able to carry on during the shutdown. We are fortunate that our host institutions and partners have the flexibility to support our efforts for a short period. That is not to say that there were no effects. A number of our networks were forced to suspend advisers and reduce their time and hours available to assist small business owners, our clients. Also, the timing of the shutdown was such that it will create problems for some of our networks going forward. However, it was our clients – the thousands of small businesses across the country that bore the brunt of the shutdown’s impact.

Government Contracting

SBDCs host 29 of the Nation’s 94 Procurement Technical Assistance Centers. With the advent of the shutdown we started fielding numerous calls and getting questions from our clients about the impact upon their businesses. In total there were over 41,000 small business contractors and there were roughly 2.3 billion dollars in small business contracts affected.

Small contractors are often the least informed and most affected by a shutdown. When an agency faces a shutdown, procedures go into place and notices are sent out, but honestly there are more questions than answers from a small business owner’s point of view. They’re told to stop work, unless told otherwise, but no one answers the big questions – “Will my contract come back? Will I be paid and when? What about my employees? A large contractor can shift employees to other work, disruptions can be sorted out and overhead absorbed to handle the lapses. For a small business, everyone is out of luck. The owner and the employees are hanging out there together, and very often key employees can be lost a better opportunity, particularly in the current competitive job market.

Here in DC, one of our clients employs 75 people and predominantly supports the FAA. As of January 16th, approximately 70% of their employees had been furloughed. They were working on task orders and calls would come in stopping work on the task orders. No fixed schedule or answers, just a call or email. In a shutdown the contracting officers and administrators are furloughed so only a few supervisory personnel are available to respond to questions. By the last week, 90% of their employees ended up furloughed. While there has been very little reporting on the impact to small contractors they are often affected far more, and they employ a lot of people. The DC firm’s contract is back for the moment but, they are uncertain what will occur come February 15th.

When a small business contractor gets furloughed there is no recouping of lost revenue, and their employees can't expect back pay. In addition, their hiring and marketing suffers. The contractor in question lost a new hire who balked at leaving his current job to work for a small firm. They weathered this shutdown, but they are uncertain what will happen if another occurs.

And it isn't just existing contracts. In South Carolina, an SBDC client was waiting for the finalization of their 8(a) certification. When the shutdown occurred, his certification was in limbo. Without that certification and letters of support from the local Department of Energy lab (closed) they couldn't go to an Air Force "pitch day" event, (DoD was still operating). He lost time and opportunities that he'll never get back.

Small Business Borrowers

When SBA shuts down 7(a) and 504 lending stops dead. Loans in the pipeline sit and small businesses are stuck, often in difficult positions.

In Lynchburg, VA a borrower was expecting an SBA loan approval. His restaurant operates in a building on a month to month lease. He had given up his long-term lease expecting to get his funding and move to a new permanent location. He waited with the fear that his landlord might evict him as soon as he found a long-term lessee. The shutdown resulted in missed payments, and construction delays.

Let me offer a larger example for you. Our center in Twin Falls, Idaho (like many SBDCs) works closely with the local 504 lender, a Certified Development Company (CDC). They had over 11 million dollars of CDC financing halted. That may not seem like much, but in Twin Falls that's a lot of money and a lot of hard work put on hold. Throughout the shutdown, lenders were accurately sharing with commercial customers that the SBA is shut down and to expect delays. That's discouraging to a small business at work on financing that can only be presented with an SBA guarantee. SBA has reopened but 504 loans have a longer approval process and the backlog is significant.

There was another \$800,000 in Twin Falls affected by the shutdown. A lender asked if they could provide funds to an SBA borrower to complete a remodel on their existing building. They did not ask to pay SBA off, but instead, to have a 1st lien position on their existing money and the new money (for the remodel) all of which requires SBA approval. Due to the shutdown that simple request couldn't be processed and the additional \$800,000 for the remodel was on hold for the small business.

Another client did not receive final approval on an SBA 504 during the shutdown. Due to the timing, the borrower made the decision to start construction and take the personal risk (\$1.5 million) until the SBA opened back up. Had the government been closed longer or the borrower did not have a direct relationship with the contractor, the construction would have been delayed creating problems for his growing business.

Until SBA opened back up, our Idaho clients couldn't do simple things like servicing actions on existing and new approved loans. So, lack of a name change held up the closing of an approved 504 loan, and life insurance was not able to be processed by a widow as her spouse was a business partner. On top of her grieving process, she was not able to collect on the policy until SBA serviced all the changes that are a part of the loss of a business partner.

Idaho is not alone. In rural North Carolina a loan for a child care center remains on hold for a decision from the SBA on the business's eligibility. The business needs 504 financing to purchase the building it leases, which will lower its monthly expenses and allow the business to build equity. The lender was ready to submit all the supporting documents during the shutdown but could not. After this first round of approvals, it will still need the SBA to approve the full loan package.

Depending on how quickly the SBA can move through the backlog, the business could lose its building since its purchase contract will expire and may not be extended. The business was also supposed to receive grant funding from the state to assist with the building's renovations, however, to qualify the business must own the building and spend the funds by February 2019. Since this will no longer be possible, the grant funding is no longer a possibility. Beyond this, due to the building contract expiration, the shutdown has risked the survival of the entire business.

In Illinois, Joliet Pattern, an 80-year-old advertising, design, and engineering company may have to close after getting caught in the government shutdown. In 2015, the company entered a rough patch and the owner Andy Wood worked hard to recruit new clients and in 2018 the company became profitable once again. However, their bank informed Wood he needed to relocate his business lending relationship before December 31, 2018 or Joliet Pattern would be fined \$10,000 monthly, an unmanageable amount for the recovering business.

A Certified Development Company in Valparaiso, IN was positioned to step in and the loan could be funded in time for Joliet Pattern to avoid its first fine. Unfortunately, the loan couldn't be funded by the closing date of December 27, 2018 due to the shutdown. They incurred a second \$10,000 fine on January 31 as SBA moved through its backlog. As of February 4, the SBA still had not decided. Joliet Pattern faces a third fine if it remains unapproved and may not survive.

SBDCs have a partnership with IFA, the International Franchising Association, to help deliver assistance to their members. A lot of SBDC clients are franchisees, it's an excellent business model but it is capital intensive. IFA informed us that, during the shutdown, roughly 12 million dollars a day, over 380 million dollars in total, in SBA backed franchise loans were delayed affecting over 500 businesses. That potential impact only grows if the shutdown were to return as we head into the spring.

SBA is working hard right now to catch up, but all this takes time. In the meanwhile, our small business clients are forced to try and find bridge loans and alternative financing. Hopefully, they'll come to us to work it out. Otherwise, desperation can lead to poor business choices.

Certifications and Inspections

As I mentioned above 8(a) certifications were suspended at SBA. Mentor-Protégé agreements weren't processed either. If you are a small business trying to get a mentor-protégé agreement approved so you can team with a large defense contractor, you were on hold. The defense contractor was still working but you couldn't.

As Port City will tell you ATF wasn't issuing label approvals. SBDCs are work with small businesses in the craft brewing, micro-distilling and food industries all around the country. Most of our clients dodged a bullet because they got their label approvals before the shutdown, but not everyone is that lucky. What do you do with a seasonal product that you can't get labelled in time for the season?

SBDCs have over 500 trained, certified export assistance counselors, and while they were still working with their clients, business was on hold at the Department of Commerce. The website **export.gov** was down. Our clients were lucky, we could provide some support but anyone looking for help on export regulations on their own was stymied or paying information that should've been free.

What are SBDCs doing now?

How are SBDCs helping with all of this - any way we can. Providing all the help we can to keep our clients in the black. Arranging alternate financing, helping sort out contracting issues, getting people's businesses back on track.

Here in DC one of our partners, Intuit, is co-sponsoring an event with the DC SBDC on Friday. We'll be bringing in advisers and hosting a meet and greet lunch at a local restaurant that's feeling the pinch from the lack of customers. That event is an opportunity to help those businesses cope with the disruption, and plan for potential future disruptions.

It's as much a morale boost as anything else and it's a good way to support our clients. Like SBDCs many of them are wondering what will happen come February 15th. SBDCs are doing what they can to make sure their operations aren't interrupted, and their clients will have help if they need it.

Our mission is to help small business get past this and prepare for the future. It's not pleasant and it's not easy. Small business owners are always affected negatively by uncertainty, and that is exactly what a shutdown causes.

Thank you for listening, I look forward to answering any of your questions.