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# The SBA's Historically Underutilized Business Zone (HUBZone) Program

## Program Overview

The Small Business Administration's (SBA) HUBZone program provides federal contracting preferences to small businesses located in areas designated by the SBA. Known as HUBZones, SBA designates these areas based on Census data that indicate levels of high poverty, high unemployment, or low income, or if they are located in qualified disaster areas, on Indian reservations, at some closed military installations, or in governor-designated places that meet certain criteria. The program was authorized by P.L. 105-135, the HUBZone Act of 1997.

The HUBZone program is the only federal contracting program that assists firms based on their geographic location rather than their characteristics or those of their owners (e.g., contracting programs for small businesses, disabled-veteran owned small businesses). Congress has established in statute an annual HUBZone procurement goal of 3% of prime contract awards and 3% of subcontract awards, as measured in dollars. This goal is codified at 15 U.S.C. §644(g)(1)(A). The government awarded 2.53% of prime contract dollars and 1.6% of subcontract dollars in FY2021, the most current fiscal year for which the SBA has published data. The 3% goal has not yet been achieved by the government as a whole, although a few individual agencies have met the goal in certain fiscal years.

## Program Benefits for Eligible Firms

HUBZone contracting preferences include contract set-asides, sole-source awards, and price-evaluation preferences. While a set-aside restricts competition for a contract to specified contractors (HUBZone firms), a sole-source award is a contract awarded to a firm without competition. Set-asides may be exclusive, if an entire procurement is set-aside, or partial, if part of it is restricted to HUBZone firms.

As described at 13 C.F.R. §126.613(a)(1), a price evaluation preference is granted where a contracting officer will award a contract in full and open competition. In these situations, the officer will "deem the price offered by a certified HUBZone small business concern to be lower than the price offered by another [non-small business] offeror." The contracting officer may not grant the preference, however, if that price is more than 10% higher than the price offered by the "otherwise lowest, responsive, and responsible offeror." Regulations provide examples of how this preference is applied. In one example, "a certified HUBZone small business concern submits an offer of \$103" and "a large business submits an offer of \$93." Because the HUBZone firm's offer is more than 10% higher than the large firm's offer (the lowest offer), there is

no preference applied and the large firm is not displaced by the HUBZone firm. If a certified HUBZone small business concern were to submit an offer of \$98 and the large business were to submit an offer of \$93, the HUBZone firm would displace the large firm as the lowest offeror because the HUBZone firm's offer is within 10% of the large firm's offer. For agricultural commodities purchased by the Department of Agriculture, regulations limit the use of the price evaluation preference to certain purchase volumes.

## Eligibility Criteria

A firm must be certified by the SBA before it can participate in the HUBZone program and receive contracting preferences. Firms attain certification by submitting an application to the SBA. According to SBA regulations available at 13 C.F.R. §126.200, a certifiable firm must:

- meet the SBA's small business size standards;
- be at least 51% owned and controlled by U.S. citizens, a community development corporation, an agricultural cooperative, or an Indian tribe (including Alaska Native Corporations and Native Hawaiian Organizations);
- maintain a principal office in a HUBZone, where principal office is defined as the location where the greatest number of the firm's employees at any one location perform their work;
- have at least 35% of its employees reside in a HUBZone; and
- certify that it will "attempt to maintain" having at least 35% of its employees reside in a HUBZone during the performance of any HUBZone contract; "attempt to maintain" is defined at 13 C.F.R. §126.103, which describes the requirements for firms to document their maintenance efforts and specifies that firms with "less than 20% of [their] total employees residing in a HUBZone during the performance of a HUBZone contract [have] failed to attempt to maintain the HUBZone residency requirement."

In December 2019, the SBA issued new regulations intended, in part, to make the HUBZone program more attractive to procuring agencies. The "long-term investment provision" in these regulations allows HUBZone firms to maintain HUBZone status for up to 10 years by owning or making a long-term investment (such as a long-term lease) in a principal office in an area that qualifies as a HUBZone at the time of the firm's initial certification. With a

qualified long-term investment in a HUBZone, a firm can continue to be considered to meet the principal office program requirement and participate in the HUBZone program, even if the area loses its HUBZone designation.

## Types of HUBZones

The six types of HUBZone designations are described below, including: qualified census tracts, qualified nonmetropolitan counties, qualified Indian lands, certain closed military installations, qualified disaster areas, and governor-designated areas.

### Qualified Census Tract

A qualified census tract is any census tract (1) that is designated by the Secretary of Housing and Urban Development (HUD) for the low-income housing tax credit program, and (2) in which either of the following is true: 50% or more of the households have an income of less than 60% of the area median gross income, or the federal poverty rate is at least 25%.

### Qualified Nonmetropolitan County

A qualified nonmetropolitan county is any county that is not located in a metropolitan statistical area and in which one of the following is true: (1) the median household income is less than 80% of the state median household income, (2) the unemployment rate is not less than 140% of the average unemployment rate for the United States or for the state in which such county is located, whichever is less, or (3) the county has been designated by the Secretary of HUD as a “difficult development area” within Alaska, Hawaii, or any territory or possession of the United States outside the 48 contiguous states.

### Qualified Indian Lands

P.L. 105-135 provided HUBZone eligibility to lands within the external boundaries of an Indian reservation.

### BRAC Areas

P.L. 108-447, the Consolidated Appropriations Act, 2005, provided HUBZone eligibility for five years to lands within the external boundaries of a military installation closed through a privatization process under the Department of Defense’s Base Realignment and Closure (BRAC) process.

### Disaster Areas

P.L. 114-92, the National Defense Authorization Act for Fiscal Year 2016, provided HUBZone eligibility to qualified disaster areas. These areas are defined as “any census tract or nonmetropolitan county for which the President has declared a major disaster ... or located in an area in which a catastrophic incident has occurred ... if such census tract or nonmetropolitan county ceased to be qualified [as a HUBZone] ... during the period beginning five years before the date on which the President declared the major disaster or the catastrophic incident occurred and ending two years after such date.”

### Governor-Designated Areas

P.L. 115-91, the National Defense Authorization Act for Fiscal Year 2018, authorized governors to petition the SBA annually to grant HUBZone eligibility to areas that (1) are located outside of an urbanized area, (2) have a population

of 50,000 or fewer, and (3) have an unemployment rate that is at least 120% of the unemployment rate for the nation or state in which it is located, whichever is less.

## HUBZone Updates and Revisions

The locations of HUBZones are shown in an online HUBZone map available at <https://preview-maps.certify.sba.gov/hubzone/map/help>. The map has most recently been updated to reflect 2020 Census data. These updates will become effective as of July 1, 2023. The map’s qualified census tracts and nonmetropolitan counties will be updated again in July 2028, according to a five-year revision cycle that is required by the National Defense Authorization Act for Fiscal Year 2018. Throughout any given year, the SBA makes governor-designated and disaster area updates.

Expired HUBZones are granted a three-year grace period, starting from the date on which the area ceased to be a qualified census tract or a qualified non-metropolitan county. During the grace period, the areas are known as redesignated areas. SBA is to revise the map’s redesignated areas in 2026. According to the SBA, most currently redesignated areas have exhausted their three-year grace period and will not appear on the map on July 1, 2023.

## Issues for Congress

### HUBZone Procurement Goal Attainment

A 2018 program evaluation report prepared for the SBA found that major “barriers and challenges preventing some federal agencies from reaching the 3 percent [HUBZone procurement] goal” included a “combination of perceptions of HUBZone small businesses’ capabilities and skills and untargeted marketing strategies.” Congress may wish to explore how the SBA and purchasing agencies are working to improve program utilization.

### Economic Development Impacts

The SBA stated in its FY2024 Congressional Budget Justification that the program “promotes job growth, capital investment, and economic development in economically distressed areas designated as HUBZones.” Although the Budget Justification statement did not include supporting data, a 2021 evaluation of the program’s impact commissioned by the SBA “estimated the total employment, earnings, value added, as well as gross output impacts” of HUBZone firm contracts. Using an input-output model for its analysis, the study found that the HUBZone program had “a moderate impact on all 30 counties [studied] in terms of value added and employment supported by contract awards to HUBZone firms.” Recommendations included further analysis, such as case studies, and a “monitoring tool” for the HUBZone program. Congress may be interested in further impact assessments and/or regular updates to previous analyses.

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