

**LOCAL OWNERSHIP, NATIONAL BRANDS: HOW
FRANCHISING IS A PATHWAY TO
ENTREPRENEURSHIP**

HEARING
BEFORE THE
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CONTENTS

OPENING STATEMENTS

Hon. Roger Williams	Page 1
Hon. Nydia Velázquez	2

WITNESSES

Ms. Angie Katsanevas, Owner and Founder, Lunatic Fringe, Salt Lake City, UT	5
Ms. Tina Patel, Co-Principal, Chief Financial Officer, Promise Hotels, Tulsa, OK	7
Mr. Clement Troutman, Franchise Owner, Troutman Management LLC, Odenton, MD	9
Mr. Rico Macaraeg, Chief Executive Officer and Co-Founder, StriveWell, Garwood, NJ	10

APPENDIX

Prepared Statements:	
Ms. Angie Katsanevas, Owner and Founder, Lunatic Fringe, Salt Lake City, UT	38
Ms. Tina Patel, Co-Principal, Chief Financial Officer, Promise Hotels, Tulsa, OK	45
Mr. Clement Troutman, Franchise Owner, Troutman Management LLC, Odenton, MD	51
Mr. Rico Macaraeg, Chief Executive Officer and Co-Founder, StriveWell, Garwood, NJ	59
Questions for the Record:	
None.	
Answers for the Record:	
None.	
Additional Material for the Record:	
NFIB Letter	62

LOCAL OWNERSHIP, NATIONAL BRANDS: HOW FRANCHISING IS A PATHWAY TO ENTREPRENEURSHIP

THURSDAY, JANUARY 22, 2026

HOUSE OF REPRESENTATIVES,
COMMITTEE ON SMALL BUSINESS,
Washington, DC.

The Committee met, pursuant to call, at 2:04 p.m., in Room 2360, Rayburn House Office Building, Hon. Roger Williams [chairman of the Committee] presiding.

Present: Representatives Williams, Meuser, Van Duyne, LaLota, Wied, Downing, Velázquez, McGarvey, Scholten, McIver, Cisneros, Tran, Olszewski, and Conaway.

Chairman WILLIAMS. Before we get started, I want to recognize Congressman Cisneros from the great State of California that will lead us in our prayer and our pledge. Will you please stand?

Mr. CISNEROS. We will do the prayer first.

Lord, thank you for gathering us here today and bringing us together. Please watch over our nation, please watch over the people of the United States, and this great country, and the entire world.

And as this winter storm crosses our country, please keep everybody safe, whether they are in the air or on the roads or traveling by rail. Make sure everybody can get to their destination safely, and watch over us and guide us.

In Your name we pray, amen.

Chairman WILLIAMS. Amen.

Mr. CISNEROS. Repeat after me.

ALL. I pledge allegiance to the Flag of the United States of America, and to the Republic for which it stands, one nation, under God, indivisible, with liberty and justice for all.

Chairman WILLIAMS. Good afternoon, everyone. I will now call the Committee on Small Business to order.

Without objection, the Chair is authorized to declare a recess of the Committee at any time.

I now recognize myself for my opening statement.

I want to say welcome to today's hearing, "Local Ownership, National Brands: How Franchising is a Pathway to Entrepreneurship."

Today's hearing will be the Committee's second hearing in the 119th Congress regarding the franchise business model.

Our first hearing largely focused on the importance of extending President Trump's Tax Cuts and Jobs Act and on the impacts of

burdensome regulations imposed by the Biden-Harris administration, such as the disastrous joint employer rule.

Fortunately, the Congress delivered in a critical moment and President Trump signed the Working Families Tax Cuts, the largest tax cut in American history, into law on July 4 of last year.

Now, this legislation not only prevented a tax hike on America's small businesses but also made the 20 percent 199A small business deduction permanent. That means main street will have more cash on hand to invest and grow their businesses.

President Trump's tax bill also cuts taxes on tips and overtime, helping small businesses retain employees and reward them for their hard work.

Now, today we expect to hear from franchisees and franchisors about how President Trump's tax cuts will help their businesses and employees. We will highlight the continued importance of codifying a deregulatory agenda for small businesses, including a clear and reasonable definition of the joint employer standard.

This clarity will give small businesses, including franchises, that operate in every corner of America the certainty they need to grow and succeed.

There are an estimated 831,000 franchise business owners operating in this country. Franchises employed nearly nine million people, or roughly 5.5 percent of U.S. employment, and contributed \$550 billion to the U.S. GDP.

My family has been part of the franchise model—and still is—in the car business for over 80 years. I have seen firsthand the benefits to consumers, manufacturers, and most importantly, our local communities.

The franchise business model offers aspiring entrepreneurs access to resources and tools to assist with the many challenges of business ownership.

By lowering taxes, reducing regulations, and promoting access to capital we can empower these entrepreneurs to thrive, invest in their employees, and continue building stronger communities across our nation.

I want to thank our panel of witnesses for taking time today to come here and bring their small business story with them and to participate in this important hearing. We look forward to your testimony today.

And with that, I want to yield to my distinguished Ranking Member and friend from New York, Ms. Velázquez, for her opening remarks.

Ms. VELÁZQUEZ. Thank you, Mr. Chairman.

Good afternoon, everyone.

Franchising is an important aspect of the small business economy, supporting an estimated nine million jobs and contributing nearly \$1 trillion to annual economic output.

Across key sectors, including restaurants, hospitality, and personal services, franchises offer entrepreneurs the opportunity to participate in an established brand and proven business model.

For families, immigrants, and first-time business owners franchising can provide a meaningful pathway to entrepreneurship, high-earning careers, and financial independence while creating jobs and opportunities for local communities.

At its best, franchising is a mutually beneficial agreement. Franchisees gain access to branding, systems, and national marketing, while franchisors expand their footprint and share the success of local operators. In many cases this structure can lower the barrier to entry for entrepreneurs.

Unfortunately, that is not always how this system functions. In exchange for the franchisor's brand and services, small business owners can give up a significant amount of freedom.

To maintain certain brand standards, franchisors can place restrictions on small business owners, limiting their ability to set prices, source imports, or respond to local market conditions in ways that improve profitability.

While a disclosure process exists, some have contained incomplete or misleading financial information. More complete disclosures could deter small business owners and lenders from making such a large capital investment, including with loans backed by the Small Business Administration.

In fact, the FTC found that franchise and non-franchise loans defaulted at similar rates, but defaults associated with some brands were as high as 20 percent, indicating issues with the business model.

The brands noted in that brief for their high default rates remain in the Franchise Directory today.

As we discuss the benefits of franchising, it is important to recognize the real risks and seek ways to strengthen the process and protect small business owners.

No matter the model, nobody is being spared from the economy being created by the President and congressional Republicans. Over the past year, small business growth has stagnated and hiring has basically ground to a halt.

Since the President unveiled his Liberation Day tariffs, the growth plan of many small firms has been crushed as they face higher prices on their imports and more uncertainty about the business environment.

Nervous about the impact of tariffs on prices, the Federal Reserve paused interest rate cuts, delaying access to affordable capital for small business owners.

Now the President is threatening criminal charges against the Federal Reserve Chairman because he refuses to cut rates based on anything other than data.

As my Republican colleagues do a victory lap on their egregious tax cut for the rich, small business owners are seeing their healthcare costs skyrocket, some by much more than any benefit they receive from the pass-through deduction.

I hope this hearing sheds more light on steps we can take to protect small business owners engaged in the franchising ecosystem and the issues emerging from the absurd and chaotic economic policies of the President.

I yield back.

Chairman WILLIAMS. The gentlelady yields back.

We will now move to witnesses introductions.

Our first witness today is Ms. Angie Katsanevas. She is the owner and founder of Lunatic Fringe in Salt Lake City, Utah. She has co-founded Lunatic Fringe, a hair salon business, in 1999,

growing the company into a multilocation operation that includes salons, a beauty school, and a beauty supply store.

In 2010, Ms. Katsanevas had received the North American Hair-styling Awards MBAA Award, and Lunatic Fringe later earned the NAHA Salon Team of the Year Award in recognition of its leadership and business performance.

So thank you for being here today, and we appreciate your story.

Our next witness is Ms. Tina Patel. Ms. Patel is the co-principal and chief financial officer of Promise Hotels in Tulsa, Oklahoma. In her role, Ms. Patel oversees the company's financial and accounting operations while providing strategic and operational leadership to strengthen performance.

Ms. Patel previously served as an ambassador for the Central Midwest Region of the Asian American Hotel Owners Association and is a Member of the Board of Directors of the Federal Reserve Bank of Kansas City.

Ms. Patel is a graduate of the University of Missouri, Kansas City—that covers both sides, doesn't it?—where she earned a bachelor's of science in biology.

I am looking forward to your testimony, and thank you for being here.

Our next witness today is Mr. Clement Troutman. Mr. Troutman is a franchise owner who operates Troutman Management LLC in Capitol Heights, Maryland.

Mr. Troutman began his career in the United States Navy before transitioning to defense contracting and cybersecurity consulting.

Mr. Troutman, thank you for your service to this country, too, by the way. We appreciate that.

In 2017, Mr. Troutman opened his first Tropical Smoothie Cafe with no prior food experience, and has since built a high-performing operation through a strong focus on leadership, service, and execution.

Mr. Troutman is actively expanding his business with two additional locations in development and remains committed to community engagement through job creation and local charitable events.

I am looking forward to hearing your testimony, too, Mr. Troutman.

I now recognize Representative McIver from the great State of New Jersey to briefly introduce her constituent and the last witness appearing before us today.

Mrs. MCIVER. Thank you, Chairman and Ranking Member, for convening this hearing today.

I am pleased to introduce our witness, Rico Macaraeg, executive officer of StriveWell, to the Committee today. Rico is a franchise small business owner and operator who runs wellness and fitness businesses across the region, including SweatHouz in Garwood, New Jersey, located in my amazing Tenth Congressional District.

I had the pleasure of visiting this SweatHouz location personally and meeting the hardworking staff there.

Franchise businesses like SweatHouz play a crucial role in stimulating the growing economy in my district, employing families and increasing GDP.

As CEO of StriveWell, Rico manages physical locations, employs teams, meets payroll, connects with customers, and navigates regu-

latory requirements, all while responding to rising labor costs, inflation, real estate pressures, and changing consumer behavior. His perspective comes directly from operating businesses on the ground, not from theory.

In addition to his role as an operator, Rico brings experience as an investor and an employer who understands how policy translates into real outcomes for workers and communities.

Decisions made in Congress affect whether small franchise owners can hire, expand, offer benefits, and keep their doors open. His testimony reflects the practical consequences of those decisions at the local level.

Prior to founding StriveWell, Rico held senior leadership roles across retail, healthcare, education, and technology. He is also a U.S. Navy veteran—thank you for your service—and he completed multiple deployments and earned three Navy and Marine Corps Commendation Medals.

Rico brings a practical, operator-focused perspective on what franchise small businesses need to remain viable, support their workers, and continue serving their communities.

I appreciate his willingness to testify before the Committee and look forward to his insight, especially right before a snowstorm.

Welcome, Rico.

Chairman WILLIAMS. The gentlelady yields back.

I want to thank all of you again for being here.

We have a few rules here, very few rules. But, before recognizing all of you, I would like to remind you that your oral testimony is restricted to 5 minutes in length.

If you see the light turn on red in front of you, it means your 5 minutes has concluded, and you should wrap it up with your testimony.

If you keep talking, you will hear this [Chairman Williams taps gavel], and it will get louder, and then we are going to have to ask you to stop. Okay? But I know you all will do it right on time.

So, I want to thank all of you again.

I now recognize Ms. Katsanevas for her 5-minute opening remarks.

STATEMENTS OF MS. ANGIE KATSANEVAS, FOUNDER AND OWNER, LUNATIC FRINGE; MS. TINA PATEL, CO-PRINCIPAL, CHIEF FINANCIAL OFFICER, PROMISE HOTELS; MR. CLEMENT TROUTMAN, FRANCHISE OWNER, TROUTMAN MANAGEMENT LLC; AND MR. RICO MACARAEG, CO-FOUNDER AND CEO, STRIVEWELL

STATEMENT OF ANGIE KATSANEVAS

Ms. KATSANEVAS. Mr. Chairman, Ranking Member Velázquez, and distinguished Members of the Committee, thank you for having me, for the invitation to be here today with my fellow franchise business friends.

My name is Angie Katsanevas. I am here with my husband Shawn and my daughter Elektra.

Some of you may know me as Angie K from “The Real Housewives of Salt Lake City.” But long before I was on television, I was

a hairdresser, and I went on to start a hair salon and business with my husband, Shawn, called Lunatic Fringe.

Before I knew it, we had an opportunity to grow our business and provide the same opportunity for other stylists to own their own business.

We grew our business using the franchise model. So while the world may know me as Angie K, I am first a small business owner, and more than even a small business owner, I am a franchise brand founder.

I am passionate about franchising, and you may have seen that passion come through on camera a few months ago when a fellow housewife who partners with a fast food brand questioned whether I was a real business owner because I franchise. In that moment, I responded with, "You do French fries; I do franchise," and the clip blew up online.

But what struck me about that moment and the comments on social media, they weren't just about the usual response to drama, they were overwhelmingly in support of my business and supportive of the franchise model, because when I told my co-star on the show I do franchise, it meant I didn't open my own business, I opened a franchise business that allowed other entrepreneurs to also thrive in the system that we started.

And so I am here today in partnership with the International Franchise Association to share what franchising has meant to me, my family, and the people that I have had the privilege of working alongside.

Mr. Chairman, we started out with humble beginnings. I am the daughter of a Greek immigrant. My father came to this country with nothing but the clothes on his back. He taught me that if I wanted something, I had to work for it, and he taught me that there is dignity in every job.

And that is taking care of your people. That is what business is really about. That is the philosophy we brought to Lunatic Fringe. We had a vision to create a salon where stylists could grow their careers. We sought to build business and a culture where someone could walk in as an assistant or a hairdresser, and if they worked hard and learned the craft, they could eventually own their business.

Let me tell you about Kati Torres. Kati lived in Salt Lake City, Utah, and she is an incredible hairstylist. Over 25 years in the industry, Kati trained stylists across the country, and she knows the craft inside and out.

Kati joined our team in 2017. She learned our systems, our culture, and how we do things. And last year, she and her husband, Reuban, opened a salon of their own, a Lunatic Fringe location in Draper, Utah.

Kati is a franchisee now. She owns her own business. She employs local stylists and serves her community. And it is only possible because of franchising.

Because Shawn and I learned the hard lessons, reduced the risks, and took the hits, now Kati and our future franchisees are able to open businesses with proven systems, with the support and infrastructure that Lunatic Fringe is proud to provide.

From that first 700-square-foot space, my husband and I have now built a network of salons across Utah, Idaho, and Ohio, we own and operate three salons, and we have franchised six salons to local entrepreneurs who run them as their own business.

Look, I know some people hear the word “franchise” and they think of a big corporation, but it is not true. Franchises are small businesses. My business is a small business, and it is franchise model that has allowed me to grow my small business. And that is why I am here today to tell you about how much the franchise model has meant to so many.

Moving forward, when you hear “franchise,” I hope you think about our franchisees, about Kati, who spent decades perfecting her craft and through franchising came to her own business, and now she is passing along that success to others.

That is what the franchise model does. It lets people who wouldn’t otherwise start a business from scratch become entrepreneurs in their own communities. It lets people achieve the American Dream of business ownership. And those American Dreams are worth protecting.

This Committee has the rare opportunity to protect my business and the businesses of fellow witnesses today. Congress can pass the bipartisan American Franchise Act to protect the franchise business model for the next generation of new entrepreneurs.

This is perhaps the most important thing Congress can do for 830,000 franchise businesses in the United States and their nine million employees that are the fabric of neighborhoods across America.

Mr. Chairman, I am proud to be here today, proud to represent this business model, and proud to work alongside organizations like IFA that fight every day for the small business owners who make franchising what it is.

Thank you again for the invitation. It really is the honor of a lifetime to be with you all today.

Chairman WILLIAMS. Thank you very much.

I now recognize Ms. Patel for her 5-minute opening remarks.

STATEMENT OF TINA PATEL

Ms. PATEL. Good afternoon, Chairman and Ranking Member and distinguished Members of the Committee. Thank you for your invitation to testify today on the importance of the franchise business model and the entrepreneurial opportunity it creates for small business owners in America.

This is especially timely as you can consider policies that will impact small business owners who fuel this nation’s economy.

My name is Tina Patel. I am the co-principal and chief financial officer of Promise Hotels, a hotel development and management company based in Tulsa, Oklahoma.

I am honored to be here on behalf of the American Hotel and Lodging Association, the national voice of the lodging industry. AHLA represents thousands of hotel owners, franchisees, iconic global brands, property managers, and all parts of the hotel ecosystem.

I am a proud first-generation American small business owner and hotelier from eastern Oklahoma. We own and operate seven

hotels representing 713 guest rooms and employing more than 165 associates.

Throughout the decades, we had been franchisees of several leading hotel companies and operated properties under nationally trusted brands, including Best Western, Choice Hotels, IHG, Hyatt, Hilton, and Wyndham.

In 1979, my family and I immigrated to the United States from England seeking better opportunities. We found the American Dream in Sedalia, Missouri.

For 15 years the small roadside motel my parents owned was our business, and as a family we did every job. We were the front desk clerks, the housekeepers, maintenance, and accountants. We did everything we needed to do to make our business work.

In 1997, my husband Pete and I began our life together by operating a 54-room Best Western hotel in Sand Springs, Oklahoma. This partnership with a national trusted brand gave us the confidence to launch our first adventure.

We lived inside this hotel and operated it 24 hours a day, 7 days a week. We determined that hotel franchising provided the most viable path for long-term success, allowing us to build a future for our two sons, Jaden and Talen.

For thousands of hoteliers and millions of other entrepreneurs like me, franchising is the most accessible pathway to building a business. In the lodging sector alone, franchise hotels support more than 2.8 million jobs, account for nearly 60 percent all U.S. hotels, and generate nearly a hundred billion in economic impact annually.

The franchise model has provided the foundation to expand our business across different brands, support hundreds of careers, and reinvest into our communities. A predictable and pro-growth federal tax environment is a central pillar of economic stability for the hotel and lodging sector.

I want to thank you for passing the Working Families Tax Cuts Act last year. This legislation prevented a massive tax hike on small businesses like mine.

A key provision for my company was the reauthorized Opportunity Zone program, which allowed us to develop a hotel in Tulsa's historic Greenwood District that now employs over 30 staff members.

On behalf of America's lodging industry, I recommend three key actions Congress can take to support small business.

First, pass the bipartisan American Franchise Act which was introduced by my hometown Congressman Kevin Hern.

Franchisees like me need a permanent, commonsense joint employer definition. For decades, this rule has shifted with each administration, creating significant risk and uncertainty.

I want to ask you to pass the American Franchise Act so owners can focus on running their business operations with confidence no matter which administration is in office.

Second, increase access to capital. I have seen firsthand how critical SBA financing is to starting a business. Today, capital has been increasingly expensive, stifling new development and reinvestment.

I call on Congress to raise the 7(a) and 504 SBA loan limits. This will enable more entrepreneurs to grow their businesses, support

job creation, and drive tourism and economic activity in the communities we live in.

Finally, continue to incentivize entrepreneurship. As outlined in the Working Families Tax Cut Act, we must ensure more Americans can create small businesses, employ our neighbors, and create jobs in our communities to keep them thriving.

Chairman, Ranking Member, and Members of the Committee, thank you for your leadership and the opportunity to share my story. I am proud to represent the hotel owners who share this American Dream, and I look forward to working with you to expand entrepreneurship, strengthen access to capital, and support the continued growth of small businesses nationwide.

Thank you.

Chairman WILLIAMS. I now recognize Mr. Troutman for his 5-minute opening remarks.

STATEMENT OF CLEMENT TROUTMAN

Mr. TROUTMAN. Thank you, Chairman Williams, Ranking Member Velázquez, and distinguished Members of the Committee. Thank you for asking me to appear today. It is so good to meet all of you, including my fellow witnesses.

My name is Clement Troutman, and I am a franchise owner, along with my wife Jackie who is here with me today. I have two Tropical Smoothie Cafe locations in Capitol Heights and Bowie, Maryland. Later this year, I am also opening a PJ's Coffee of New Orleans location. So, we are a growing Maryland business.

I am a true franchise business owner. I am here today on behalf of the International Franchise Association. And next month, I will be pleased to be joining IFA's board of directors.

I stand before you today as a man defined by service. But my journey began long before I donned a uniform or opened a storefront. I come from humble beginnings rooted in the belief that demanding work is the only currency that never devalues.

My story includes service in the United States Navy for 23 years where I learned that leadership is not about rank; it is about the person standing to your left and to the right.

Today, I am deeply humbled to be here. To go from the deck of a ship to testifying before the leaders of our nation is a testament to the American Dream; a dream I now live every day as a small business owner.

Just as my life has been about service and small business, I am grateful to each Member of this Committee for your service and for your support of small business.

After my Naval career and years as a defense contractor supporting our warfighters, I thought I had fulfilled my mission. But in 2015, a simple research project by my daughter, Jocelyn, then a student at Howard University, reignited a fire in me that I did not know was still burning.

I remember that first game change, that lunch at a Tropical Smoothie Cafe. As a Baby Boomer, the smoothie industry was a new industry to me. However, shortly thereafter, I was returning from a meeting and was asked by a colleague as to whether I had ever been to a Tropical Smoothie Cafe. My answer was no; I was

not familiar with it. Yet, we stopped. It was not the food. I saw the spirit of the enterprise and team. I just really wanted to lead.

Despite just having zero background in food service, my wife Jackie and I took a leap of faith. We did not just open a business; we opened a family legacy.

Franchising is not a model for big corporations, it is a model for veterans like me, and people like Angie, Tina, and Rico. Especially for veterans like me, franchising is a mission.

My first hire at my Tropical Smoothie Cafe was my daughter after she graduated from Howard University. Today, we are a nine-year family business. We have employed eighty people across two locations in Maryland.

These are not just staff. We are a team. And they are tomorrow's leaders.

As a local franchise owner, I have had the unique opportunity to partner with Mission of Love Charities as well, which I sit on the board of directors of, to provide services like food and support items to the community of Capitol Heights and the surrounding area.

It is no surprise that veterans possess a leadership toolkit, emotional intelligence, and resilience forged in the heat of service. We do not just want to make a profit; we want to make a difference.

I am here to ask you to protect this engine of upward mobility. And I am grateful for the tax law that provides critical tax refunds that allow small business to have enough capital to invest in our employees and to grow, like a new PJ's Coffee location, so a family-run business like mine can create more possibilities for our people.

We are grateful for the certainty on taxes. Now franchise small businesses are asking for business model security as well.

My message to you is this: Thank you for highlighting the contributions of the franchise community today. And will you please pass the bipartisan American Franchise Act to protect the franchise business model for the next generation of small business owners?

Thank you, Mr. Chairman and all the Members of the Committee who already cosponsored the AFA, including our very own from Maryland, Congressman Johnny O.

I hope all Members of the House Small Business Committee can support franchises, small businesses, and cosponsor the AFA. It is the best chance for a bipartisan win for small businesses.

Mr. Chairman, thank you for allowing a veteran from humble roots to share his story. Franchising gave me a second chance to serve, to lead, and to build something that will outlast me. Please help us protect that dream for the millions of Americans who wake up every day ready to work for it.

I look forward to your questions.

Chairman WILLIAMS. I now recognize Mr. Macaraeg for his 5-minute opening remarks.

STATEMENT OF RICO MACARAEG

Mr. MACARAEG. Chairman Williams, Ranking Member Velázquez, and distinguished Members of the Committee, including New Jersey's own Congresswoman McIver, thank you for the opportunity to testify before you today.

My name is Rico Macaraeg. I am a veteran, a franchise owner, and a small business operator with the distinguished pleasure of operating StriveWell, both SweatHouz and Strong Pilates franchise brands.

I am here to speak to you about how franchising can be a powerful pathway to entrepreneurship and how the systems surrounding it are creating unnecessary barriers.

I believe context matters. We all have origin stories and mine helps explain why this work matters so deeply to me.

Not dissimilar to my fellow panel members, I grew up poor. My mother was a superwoman, single mother, raising three rambunctious boys, working three jobs just to make ends meet. My father was an immigrant from the Philippines who later became an American citizen and worked at our local shipyard for the Department of the Navy for 30 honorable years. There was no generational wealth, there was no safety net, only hard work and resilience.

I served honorably in the United States Navy for 8 years, from 2003 until 2011, with deployments across the Middle East, South America, Africa, and Europe. When I left, I transitioned directly into the workforce with no clear plan, just grit and strong military work ethic.

At the same time, I studied nights and weekends full-time, earning my bachelor's degree from National University and going on to earn my MBA from Georgetown University's McDonough School of Business.

I have had the honor of holding senior corporate leadership roles at Lamborghini North America and Lord & Taylor.

By many measures, I had a very successful corporate career.

My co-founder and husband, Steven, also chose a path of service. He served our nation as a Peace Corps volunteer in Morocco for nearly 3 years, working directly with local communities and women to help build small businesses from the products it created.

Service to our country and others has always been part of our DNA. Together, we wanted to build an organization that would create jobs, support healthier lives, and ultimately provide the foundation for a lasting family legacy. And that is why we chose franchising.

Franchising often presents a structured and supported entry into entrepreneurship, particularly for veterans and mission-driven founders, one that allows local owners, like myself and others here, to succeed with the backing of national brands. And in many ways, it works.

But what is often overlooked is how shifts in the macroeconomic environment and policy decisions that are happening today impact us as local franchisees and business owners.

First, tariffs.

Tariffs matter because they directly affect the cost of building and equipping our businesses, long before a single dollar of revenue is ever earned. Most fixtures and furniture come from overseas.

As a result, I personally have seen cost increases of 25 to 50 percent in the cost of our equipment in the last six months.

Our most recent project, I received a \$30,000 tariff bill three months after our studio had opened. That cost was never forecasted and could have never been planned or anticipated for.

For a newly open small business, that kind of surprise immediately drains our working capital, and it forces us to charge prices higher to the consumer.

Second, economic instability and inflation.

For small business owners, predictability is essential. When costs change rapidly, it becomes extremely difficult to budget, hire, and grow responsibly.

Earlier this year, we opened our second location, and within six months of the other one that we had previously opened, our costs had increased 25 percent, just for the cost of material.

Those increases reduce our capital available for staffing, training, marketing, and employee benefits. We as local business owners end up absorbing these costs.

The franchise disclosure documents.

For first-time entrepreneurs, the FDD is often treated as a trusted and reliable source of information, but in reality, it is not meaningfully regulated. Franchisors get to choose what financial data and how they decide to present information in the financial disclosure documents.

When we purchased our first franchise in 2024, we were shown financial data that did not reflect subsequent material changes to design, operations, or costs. While those costs are important, we were not able to forecast those changes.

Veteran access to capital.

Veterans are encouraged to become entrepreneurs. Yet, there is no meaningful capital product through the VA to support this transition. The VA offers education and housing benefits, but they do not offer products that help us fund these businesses.

Starting a business has been our dream, but economic instability, rising costs, lack of transparency, and the lack of capital have made that journey harder for us than ever possible.

Franchising can be a pathway to entrepreneurship, but only if policy keeps pace with the realities faced by local owners. This is not a partisan issue, it is about preserving our entrepreneurial experience.

Chairman WILLIAMS. The gentleman's time is up.

Mr. MACARAEG. Thank you so much. And I look forward to your questions. Appreciate it.

Chairman WILLIAMS. We will now move to Member questions under the 5-minute rule that we talked about. I now recognize myself for 5 minutes.

Mr. Troutman, before you opened your first Tropical Smoothie, you had an entirely different career in the Navy, as you have talked about—and we thank you for that—and later as a cybersecurity defense contractor. I recently learned that veterans account for about 14 percent of all franchise owners today.

So could you share with us some lessons from your military experience that have helped shape your approach to running a successful franchise?

Mr. TROUTMAN. Mr. Chairman, wow. Yes.

So, transitioning from the Navy through contracting into franchising was a—skills we learned in the military were directly relatable to being in a franchise business.

Standard operating procedures, which are common, of course, in the military, have structured approaches to doing things and getting things done, training, organizational formats align directly with franchising, if you will. It allowed us to have a blueprint, if you will, on how to do it.

I had no experience, obviously, of Tropical Smoothie or food, but there was a template. And even when I did the application, I said no to all the things you asked me about as far as food service. But I did check that I could serve, and I can follow orders, and we can follow guidelines and templates and systems, and that is what we did.

Chairman WILLIAMS. Well, let me ask you this. What aspects of the franchise business model make it particularly well-suited for veterans to succeed? You have touched a little bit on that.

Mr. TROUTMAN. What aspect of the franchise? One more time.

Chairman WILLIAMS. What aspects of the franchise business model make it particularly well-suited for veterans like yourself to succeed?

Mr. TROUTMAN. What aspects of it? Building teams.

Chairman WILLIAMS. Yeah.

Mr. TROUTMAN. Building teams and empowering others. Those are the aspects of the business—

Chairman WILLIAMS. All right.

Ms. Patel, I am a current sponsor of the bipartisan American Franchise Act led by Congressman Hern, which we have talked about, in your district. This bill would provide permanent clarity to the joint employer standard for franchisors and franchisees alike.

What would a clear, predictable, and permanent joint employer standard mean not only for your business, but for the franchise model as a whole?

Ms. PATEL. Thank you, Mr. Chairman.

It would provide us clarity and certainty.

As a small business owner, I need to have certainty for my long-term planning, for my business, my staff, and my customers. And the back-and-forth in each administration on this rule makes it hard for a small business owner like me to project and plan for the future and long-term planning. So we need to codify this rule.

Chairman WILLIAMS. Ms. Katsanevas, can you tell us how important franchising is to the community's small business that you serve?

Ms. KATSANEVAS. Yes, Shawn and myself have been able to provide opportunity and employ people in our community.

Also, growing people within our teams that have been loyal to us and had the skill set to become a salon owner. And we were able to provide them the blueprint to do that.

And it could stay within our family and grow within the company. We were able to set them up for success by passing along our years of discoveries, failures. We took all the hits to get to where we needed to be today to offer them a salon that was set up for success.

But we employ several people in Salt Lake City and also outside of our network in Ohio and Boise, and we are growing organically and continuing to add people to our team.

Chairman WILLIAMS. Okay. Thank you for that.

I now recognize the Ranking Member for 5 minutes of questions.

Ms. VELÁZQUEZ. Thank you, Mr. Chairman.

Mr. Macaraeg, over the past year the President has instituted broad tariffs on every other country, sometimes fluctuating from day to day.

How has the constant uncertainty of these tariffs affected your ability to navigate the business environment and how has it impacted your profits?

Mr. MACARAEG. Thank you for the question.

As Ms. Patel said and my other panelists, we rely on certainty in our business. And, more specifically, during one of our projects, the administration was going through the variety of trade and tariff ups and downs, as we call them, and it provided a lot of uncertainty about the cost that it was going to impact us in opening our studios.

As I mentioned in my statement, we did end up getting a \$30,000 tariff bill three months after opening that I could have not planned for. And, ultimately, that takes working capital. And that is capital that we had planned for maybe growing a new location, to hire 20 more people, or bringing healthcare to our employees for that quarter.

So it makes it hard because we do need certainty, we need stability.

Ms. VELÁZQUEZ. Thank you.

Ms. Patel, hotel owners often rely on importing for much of the furniture they use in hotels. How would recently proposed Section 232 tariffs on upholstered furniture, kitchen cabinets, and vanities impact hotel owners?

Ms. PATEL. Thank you, Ranking Member, for that question.

I can only speak to my business, and from my experience with my hotels in Oklahoma.

Our industry hasn't actually fully recovered from the pandemic levels, and costs have been rising over the past 5 years, and revenues have not kept in pace. And so we continue to see stark shrinking margins. So we have seen it happen since 5 years back.

Thank you.

Ms. VELÁZQUEZ. Thank you.

Mr. Macaraeg, last year my Republican colleagues passed a large tax cut for businesses while refusing to extend tax credits for health insurance. Has their refusal to extend these credits impacted your business or employees?

Mr. MACARAEG. Thank you for the question.

Yes, it has, and this is as simple as the difference between a P&L and cash flow.

P&L offers you a look at the business from a holistic view, and a tax credit, while as beautiful as it is, if we don't make it to the end of the year to enjoy that tax credit benefit, then we don't have a business to operate.

And so when the government, whether it is local, state, or federal, provides these subsidies to us that allow us to offer healthcare or allows us employees to have affordable healthcare, they enjoy those benefits, and we can make it to the end of the year.

Ms. VELÁZQUEZ. How will that affect the skyrocketing cost, for example, for health insurance, and has that impacted your ability to recruit and retain high-quality staff?

Mr. MACARAEG. Yeah, it does make it challenging. We are currently still in early stages of our organization. We have opened three locations in nine months, and we are currently opening two more in the next six months.

So we are growing very fast. But it makes it very challenging for us to offer healthcare, because we can't afford healthcare as a small business to offer to our employees.

We did offer a stipend to our leadership and to employees as part of their benefits package. And, unfortunately, as of January, those colleagues that we offered the stipend to came to us and said the stipend they are offering today isn't making a meaningful impact and I actually can't afford the healthcare.

And so we have had employees that have come to us since January and have said they are no longer on a healthcare plan. And the stipend that we can afford doesn't make an impact for them.

Ms. VELÁZQUEZ. I would like to ask you a question related to FTC regulating presale disclosure of franchise-related documents to potential franchisees.

How could the franchise disclosure document be improved to level the playing field for entrepreneurs?

Mr. MACARAEG. Great question.

The franchise disclosure document is an important document, but it is very complicated. As a military veteran, E-5 coming out of the military with no college legal background, and I am handed a hundred-page document and said to understand and interpret it, it is very difficult. There is no legalese—it is all full of legalese, excuse me—and it is not consistent across the board.

Ms. VELÁZQUEZ. Thank you.

Mr. Chairman, I yield back.

Chairman WILLIAMS. The gentlelady yields back.

I now recognize Mr. Meuser from the great State of Pennsylvania for 5 minutes.

Mr. MEUSER. Well, thank you, Mr. Chairman.

Thank you very much to all of our witnesses. Thanks for making the trip in. We hope we get you out of here before the snow hits.

And congratulations. It is really a pleasure to hear your stories and your successes. It is wonderful to have you here. We want to learn as much as we can and learn also how to help you from a federal standpoint as much as possible.

So of course we passed the Big Beautiful Bill, as it was known, as well as the Tax Cuts for Working Families, and in it were several tax relief measures for small businesses. Of course, 199A, bonus depreciation, R&D tax credit. Some will say it is as much as 30 percent tax increase would have occurred were it not for the Republicans voting this long-term and permanent tax reduction into effect.

So would you mind—is it okay if I call you Ms. Angie K?

[Laughter.]

Ms. KATSANEVAS. Yes.

Mr. MEUSER. All right. Thanks. You said all of America does, so I want to be part of all America.

Ms. KATSANEVAS. Join the club.

Mr. MEUSER. Can you tell us a little bit, tell us how the federal taxes, and anything else you want to speak about, the regulations that we are minimizing?

Healthcare certainly came up. We are all working on that. We really didn't want to double down on what I consider to be a failed system because over the last 4 years your healthcare prices were going up. We just don't want to say, "Hey, let's extend that because it is working wonderfully," because it is not. So we are trying to set up a more improved program.

But that, as well as anything else you might want to say that you think, if you were sitting in our seat, you would be working on for small businesses and franchises.

Ms. KATSANEVAS. Yes. Thank you for the question, Congressman.

Chairman WILLIAMS. Microphone.

Ms. KATSANEVAS. Oh. Excuse me. There we go.

Thank you for the question, Congressman.

We are appreciative of the bonuses depreciation provisions. In the salon business we require special equipment.

A perfect example for us is our high-end ventilation system, salon seating. Under a hundred percent bonus depreciation, a franchise can modernize the entire space with 12 stations a year. Without them, they may only be able to replace three stations at a time over 4 years.

This immediate write-off has allowed several of our owners to upgrade their space and salons years ahead of schedule which improves the client experiences and grows their revenue immediately.

It has been great for us to be able to reinvest in this space, in technology, in equipment, and take that money and reinvest it back in hiring new employees and reinvesting it in our existing team members to offer benefits.

Mr. MEUSER. Good. Well, you sound enthused, and you sound optimistic. You looking forward to a strong 2026?

Ms. KATSANEVAS. Yes, we are ready. We are doing great. And this is just continued support. So thank you.

Mr. MEUSER. That is great.

And, also, while I have you, the American Franchise Act, of course I am a cosponsor for, how will this piece of legislation support your franchise?

Ms. KATSANEVAS. Well, just continued. No tax on tips has been a big part of our stylists' take-home pay. More money in their pockets to support them and all their hard work. And, again, just it is the continued health of the business.

Mr. MEUSER. That is great. Your employees appreciate the no tax on tips?

Ms. KATSANEVAS. Yes.

Mr. MEUSER. That is really, really nice to hear. Thanks.

Ms. Patel, some of the same questions. Why don't you just offer us what is working for you, what isn't, and maybe speak on the American Franchise Act, which I think we are all supporters of and we want to see get passed through on the House floor and have the President sign. So why don't you go ahead?

Ms. PATEL. Thank you, Congressman.

From the Working Families Tax Cut Act, it was beneficial for our business. We have a unique model in the franchise system where we actually own the real estate, we own the building.

And so when we are able to deduct and bring more capital into—or leave more capital into our business—we can reinvest it back into our properties. I am sure everyone loves a fresh, clean, updated hotel room with a flat-screen TV and great WiFi.

It helps us reinvest into our employees with training, and things like that.

One specific thing that really our company was able to take advantage of—not advantage, but was able to use the Opportunity Zone program lease authorization.

We were able to build one of our hotels in an underserved community of the Greenwood District in Tulsa, a historic district, and were able to build a \$16 million hotel with 116 rooms that provided 30 jobs and is still doing great, continues to serve that company. And we helped revitalize that area. So I am really proud of that one.

Again, on the American Franchise Act, it gives clarity, like we have all said here. As a franchise owner, our biggest risk is the unknown. And we have plenty to do as small business owners that—

Mr. MEUSER. Ms. Patel, I am out of time.

Ms. PATEL. Oh.

Mr. MEUSER. When I come and visit Representative Hern, I am going to stay in one your hotels.

Ms. PATEL. Yes, please.

Mr. MEUSER. See you then.

And, Mr. Troutman and Mr. Macaraeg, 5 minutes goes fast. My apologies I didn't get to you. But thanks for being here.

I yield back, Mr. Chairman.

Chairman WILLIAMS. The gentleman yields back.

I now recognize Mr. McGarvey from the great State of Kentucky for 5 minutes.

Mr. MCGARVEY. Thank you, Mr. Chairman.

I appreciate you all for being here today.

Of course, I saw that we were going to be talking about franchises. And as a Kentuckian, when you hear something about franchisees, you immediately think of the Colonel.

Colonel Sanders is not just from Kentucky. He is actually buried in a beautiful cemetery about 10 minutes down the road from where I live in Louisville, Kentucky.

And of course you think about the Colonel because you think what is possible, that somebody from Kentucky can start something that then goes across the entire world.

KFC is iconic. Thirty thousand restaurants worldwide. More than 150 countries and territories have a KFC in them. In fact, people used to ask me, like, when I first got elected, they said, "So have you learned anything cool since you have been elected?" I said, "Oh, yeah. If you are a Congressman from Kentucky, they tell you the 11 original herbs and spices."

[Laughter.]

Mr. MCGARVEY. That is not true. Those are under lock and key. But you know what? People know what the 11 original herbs

and spices are. They use them in Bangladesh and Brazil and so many other places. KFC is eaten by Japanese families on Christmas Day. And, of course, it is so important for us in Louisville.

And so we are talking about this and we are talking about rules and regulations, which no doubt are important. But I want to zoom out for a second, too, because franchising and the franchise model is so important in places like Louisville, Kentucky.

I worry about the environment that the President and this administration are creating right now for our small business owners. Whenever I am around talking to small business owners, the number one complaint I hear about right now is tariffs.

So we can talk about some of these rules and regulations, but when we are talking about the macro environment that is really hurting small businesses, the way this President uses tariffs, the way he threatens our military against our most loyal allies when we have franchises that are expanding across the world, even Canadians, we are seeing how they have stopped drinking bourbon.

When is fried chicken going to be next in some of these countries? And that may sound a little ridiculous, but I don't think it is farfetched. If you watched his performance in Davos yesterday, you know he has lost the plot.

So this is tough. Everything from higher costs in uniforms, ingredients, packaging, equipment. Our small business owners, our franchisees who are already operating on the thinnest of margins.

Everything is getting more expensive. And now consumers are seeing those expenses, too, in everything from healthcare to utilities to rent, and it is impacting our businesses.

So, Mr. Troutman, I will start with you. Earlier this year the CEO of your company, of Tropical Smoothie Cafe, issued a statement on the tariffs. You must have had some exposure to these tariffs because they are being placed on things like coffee, tea, and tropical fruits, other products that we cannot produce here in the United States. They are impacting our businesses.

Can you tell us a little bit how tariffs have impacted your business right now?

Mr. TROUTMAN. We are seeing increases in pricing. That is occurring. But we are doing what we need to do in this environment.

Mr. MCGARVEY. Are those prices that you are seeing increased on your ingredients or supplies, how are you absorbing those? Or are you having to pass them along to the customers?

Mr. TROUTMAN. Some we absorb. Some we pass. We do our best to keep things affordable for the customer, obviously, to absorb some of that if we can, where we can.

Mr. MCGARVEY. But it is tough because you operate on thin margins. And, again, Mr. Macaraeg said this. We are talking about if we make it to the end of the year.

I mean, this is a very tough environment, and it is created by policies coming out of this administration, I think, quite frankly, are going into effect without any thought or strategy or certainly input from the businesses and the customers that they impact.

Mr. Macaraeg, I will go with you.

When we talk about a franchise agreement, and you sign it, it explains the restrictions that franchisors may place an

franchisees—for example, what you must buy, where you must buy it, what you can sell, and where and how you sell it.

Can you explain how this lack of flexibility leaves a small franchise owner hit harder by tariffs, especially tariffs that are implemented as haphazardly as these are?

Mr. MACARAEG. Yes. So we enjoy the framework of a franchise. That is why we buy in the business. It is a business in a box.

But when a franchisor requires us to buy certain equipment that is only manufactured out of the continental United States, we are held at the whim of those tariffs and the dollars that are coming attached to those items.

We work in collaboration with franchisors to come up with alternate product sourcing, hopefully made in the United States of America. But it is a domino effect. With the healthcare situation the way that it is and our economy the way that it is, they can't afford to pay earning wages for somebody to build some of the equipment that is required for our businesses.

Mr. MCGARVEY. Thank you.

And, Mr. Chairman, before I yield back, I just want to say this hearing is important, but let's not lose the forest for the trees. We are talking about what is really hurting our small businesses—these tariffs with these rising prices. And it is something this Committee can do something about.

I yield back.

Chairman WILLIAMS. The gentleman yields back.

I now recognize Ms. Van Duyne from the great State of Texas for 5 minutes.

Ms. VAN DUYNE. Thank you very much, Mr. Chairman.

Let's get back to why we are here, our great witnesses here who are franchise owners.

Franchising is the most and the strongest pathway to entrepreneurship in our economy. It is built upon the principle of local ownership.

According to the International Franchise Association, more than 85 percent of franchisees live and work in the communities that they serve, and 64 percent are first-time business owners.

These are not large corporations. These are local entrepreneurs who took a risk to build something on their own.

Local ownership serves local communities, and it keeps jobs, investment, and charitable giving rooted close to home. In fact, more than 80 percent of franchisees give to local charities.

I know, Ms. Angie K, we talked about it last night.

And these franchises collectively contribute millions of volunteer hours each and every year.

Franchising also creates high-quality jobs. The IFA's "Value of Franchising" report shows that franchise employees experience faster wage growth, more generous benefits, and higher retention rates than employees of non-franchise businesses.

This model works because it lowers barriers to entry. It offers entrepreneurs a proven system. It establishes branding and ongoing support, making ownership more accessible for all.

As I meet with small business owners, including franchisees, I continue to hear concerns about regulatory uncertainty, particularly when it comes to the joint employer rule.

When Washington blurs the lines between franchisors and franchisees, it creates confusion, it discourages growth, and it makes it harder for local owners to be able to succeed.

And that is why earlier this year I joined my colleagues, led by Representatives Hern and Davis, in introducing the bipartisan American Franchise Act. This legislation clarifies joint employer standards under federal law, preserving longstanding precedent, and it provides the certainty franchisors and franchisees need to invest, hire, and grow.

I appreciate you commenting on that, Ms. Patel.

It ensures fairness while recognizing that franchisees are independent small business owners. With more than 800,000 franchises operating across the country, the stakes are high.

The American Franchise Act helps ensure that the franchise model remains strong, competitive, and fair, so that more Americans can achieve their dream of business ownership and continue strengthening their local communities.

Ms. Angie K, in your testimony you describe how franchising allows stylists to move from employees to become independent business owners.

What is it about the franchise model that makes that sort of upward mobility and the American Dream more accessible.

Ms. KATSANEVAS. Well, thank you for the question, Congresswoman.

You said it earlier, that we have—it is a tried and true model. And our team is set up for success. Our team, the majority of them start with us and grow with us. And we have a very strong career path that is focused and gives them the opportunity to grow and stay with the company, stay within the family, and they are set up for success.

So it gives them the opportunity also to have a path forward to ownership and to becoming an entrepreneur rather than staying stagnant over time. And so we offer that growth and a successful business plan for them.

Ms. VAN DUYNE. What is it about being a small owner that makes you want to give back to your community? Can you just show some of the ways in which you have been able to do that?

Ms. KATSANEVAS. Yes. We have been involved in several causes in our community. We are deeply embedded in our community. We employ hundreds of stylists in our business. And through that, we are giving back.

The majority of our guests are local guests that are neighbors, friends. And the name on our door represents our family. And that is important to us, that the service that we provide and giving back to our community is a representation of our family.

So for us it is just—our goal is to have a strong, successful business model and continue to grow however we can to give back to causes and support everyone in our community.

Our community supports us. It is about the relationships. And we want to continue to support them in return.

Ms. VAN DUYNE. Thank you very much.

Mr. Troutman, in your testimony you noted the joint employer standard has changed multiple times over the last decade. How

does that kind of regulatory whiplash affect the franchisor and franchisee relationship?

Mr. TROUTMAN. Yes. The whiplash effect is significant. When it is broadly scaled, if you will, expanded, then attorneys, they tell the franchisor to hold back from helping out to provide necessary support to the franchisee that we may need in training, things like that.

But by the same token, the whiplash also can be encountered from the other side as well, whereby if the franchisor is too involved in the business, if they get too involved, then it gets in the way of what, as an independent business owner, me making decisions, if you will, for my business. So, it is like a two-edged sword.

Ms. VAN DUYNE. Thank you very much.

I yield back.

Chairman WILLIAMS. The gentlelady yields back.

I now recognize Ms. Scholten from the great State of Michigan for 5 minutes.

Ms. SCHOLTEN. Thank you so much, Mr. Chairman.

And thank you to our great witnesses for being here today to hold this incredible hearing.

Ms. Katsanevas, thank you so much for being here today, the very first Real Housewife to testify before Congress.

Ms. KATSANEVAS. Thank you, Congresswoman. It is an honor.

Ms. SCHOLTEN. Thank you. Thank you for being here.

As you said in your testimony, before you were on TV, you were a humble small business owner. You have taken a small business to an incredible system of businesses that support so many through the powerful franchise model.

Now, the franchise system, especially the rules around them, can be incredibly confusing, more confusing even than Lisa Barlow trying to explain how she knows Ben Affleck. But, Ms. Katsanevas—

[Laughter.]

Ms. KATSANEVAS. And that is confusing.

Ms. SCHOLTEN. And that is very confusing.

You, however, help to break down for your franchisees so that they can be successful in their model.

What steps do you take as a franchisor to support your franchisees in their development?

Ms. KATSANEVAS. Thank you for the question Congresswoman.

It is our job to support our team. They are not singular, they are not alone in this process. We do it together. They are not in business by themselves, but they are in business teamed up with us at Lunatic Fringe. And we have created a sustainable business model. And we are fully in support along every step of the way with all of our franchisees.

And, again, just to add to that, I believe that we have 26 years of hard work behind us. And so we have really truly been able to set them up for success and do it as a team.

Ms. SCHOLTEN. It is a real model for success.

Ms. KATSANEVAS. Thank you.

Ms. SCHOLTEN. Thanks for your work.

Ms. Patel, I want to turn to you for one moment.

In your testimony you talked about the American Franchise Act. We have been discussing it a lot here today. I am not only a proud cosponsor but a proud co-lead of that bill with Rep. Hern, and as a co-chair of the Franchising Caucus.

I think it is really important to draw a distinction between this bill and other bills that purport to address the joint employer rule, such as the Save Local Business Act, which came before Congress—tried to come before Congress, excuse me—last week, which attempts to apply a much narrower joint employer standard to every business across the board, franchise or not.

The franchise model is unique, and we need a bill that targets specific issues that face this industry. This is not a one-size-fits-all solution. Workers need protection within every business model, but not every business model is a franchise. This bill will bring clarity without decimating certain worker protection issues.

With that said, Ms. Patel, can you please explain how your business has been impacted—I know you have answered this in a number of different iterations—but by specifically the shifting joint employer rule?

Ms. PATEL. Sure. Thank you, Congresswoman.

Again, we go back to certainty. Specific to my business, as we grew from one hotel to what we have now, our staff grew with us. And we were able to train them and give them upward mobility.

I had some of my staff members that came to us and joined our company as housekeepers, and now they are the general manager of their own hotels.

So not only does it give me certainty, it gives certainty to my staff that are growing with me as I continue to grow. It is a team effort.

The number one asset is not my real estate, not the hotel, or the name on the building, it is the staff that work and live and breathe that property 24 hours a day, 7 days a week.

So we need certainty. We need to know that I own the hotels, my staff have a position to play in those and want to grow with me. And we can't do any long-term planning, we can't figure out in 4 years what is going to happen to a small business. We need certainty, and that is paramount.

Thank you.

Ms. SCHOLTEN. I hear that as the number one issue when I speak to franchisors and franchisees in my district as well. The certainty is what allows you to continue to grow a business over 26 years and beyond.

And the unique setup of a franchise model deserves its own rule, which is why I am so proud to champion the American Franchising Act.

I have got just a few seconds. I would be remiss if I didn't also hit on tariffs.

Mr. Macaraeg, we are going to come to you. You highlight in your testimony how tariffs have created these certain challenges.

New research reported by The Wall Street Journal has found that foreign countries have absorbed only 4 percent of the burden brought on by tariffs, meaning Americans are responsible for the rest of the 96 percent.

Can you explain briefly why franchises, in particular, are vulnerable to absorbing these tariff costs?

Mr. MACARAEG. Yes. We are vulnerable because we have to decide to absorb the cost or pass it on to our customer. That is just it, point blank. No one else is carrying those dollars in between.

Ms. SCHOLTEN. Yep, exactly. Thank you.

Thank you, Mr. Chairman, I yield back.

Chairman WILLIAMS. The gentlelady yields back.

I now recognize Mr. LaLota from the local great State of New York for 5 minutes.

Mr. LALOTA. Thank you, Chairman. Thank you for your leadership.

Good afternoon.

For years, federal labor law and executive orders have lacked a clear and consistent definition of when two entities are considered a joint employer. That ambiguity has created uncertainty around wages, working conditions, and liability, and it has been especially disruptive for franchise businesses.

In franchising, local owners operate under a national brand, but they are small business owners who control the day-to-day employment decisions: hiring, pay, scheduling, and workplace conditions. When the law ignores that reality, it creates confusion for workers and small business owners alike.

That is why several pro-labor Republicans and I opposed a bill last week that claimed to address the joint employer issue but did so by applying the one-size-fits-all standard to fundamentally different industries. It created franchisors, the same as prime contractors, on complex construction sites, even though contractors often exercise direct control over job site safety and wages while franchisors typically do not. That approach blurs critical distinctions and risks weakening worker protections where real control actually exists.

Conversely, the American Franchise Act takes a better approach. It establishes a clear standard based on substantial, direct, and immediate control over essential employment terms, protecting workers where control is real while preserving the independence of independent local franchise owners. That is clarity, fairness, and accountability done right.

Angie K, good to see you.

Ms. KATSANEVAS. Good to see you.

Mr. LALOTA. In addition to being a well-known TV star, you are in the franchise business?

Ms. KATSANEVAS. Yes.

Mr. LALOTA. Great. Given your experience in that business, who makes the day-to-day decisions about hiring, firing, wages, scheduling, and work conditions at your locations, the individual franchisee or the franchisor?

Ms. KATSANEVAS. Thank you for the question, Congressman. The actual individual franchisee in their respective location.

Mr. LALOTA. Great. Thank you.

Ms. Patel, good to see you here today.

Ms. PATEL. Thank you.

Mr. LALOTA. You own and operate a hotel franchise, and you previously spoke about overseeing the construction at least at one site.

Based upon that experience, wouldn't you agree that a prime contractor on a construction site who exercises direct control over at least the job safety at that site and often other labor conditions and paying compensation is fundamentally different from a franchisor who does not control the day-to-day activities in that franchise?

Ms. PATEL. Thank you, Congressman.

Unfortunately, I handle the finances, and so I am not as familiar on the development side of the day-to-day construction operations. But I am happy to have our AHLA reach out to you with additional information.

Mr. LALOTA. I appreciate it.

Ms. PATEL. Thank you.

Mr. LALOTA. I was leading with the question. I know the answer. Typically, the prime contractor does, in fact, control a lot of the safety conditions, at least, and sometimes the compensation for the secondary or the subcontractor.

Given that dynamic, don't you think that that reality prescribes that Congress has two different approaches, one to franchise, like things that are in the AFA, and one that are things on the construction sites?

Ms. PATEL. Congressman, I am sorry, I am just not as familiar with that part of my business. Again, I can have AHLA reach out to you with all the additional information on the development side.

Mr. LALOTA. I appreciate that.

Ms. PATEL. Thank you.

Mr. LALOTA. I will give the next question to my shipmate, Navy man, Mr. Troutman, over there.

Thank you for your service.

Mr. Chairman, you packed the seats today. I know we have a TV star in other places, but I think these two Navy men over here are the cause of a lot of folks that are here with us today.

Mr. Troutman, you own and operate several Tropical Smoothie locations?

Mr. TROUTMAN. Congressman, yes, sir.

Mr. LALOTA. I have three daughters. We go to branches in New York all the time there. We love it.

From a practical standpoint, sir, what happens to small franchise owners like yourself when fundamentally different situations, such as construction sites and smoothie shops, are lumped together under the same joint employer standard?

Mr. TROUTMAN. So, what happens for us is that as business owners we are looking to run our businesses ourselves as far as construction sites.

The franchisor is not involved in that aspect of it. They do assist us when it comes to helping us identify a location based on their resources. But at the end of the day, it is up to the franchisee as my business to make that happen.

Mr. LALOTA. At your location, sir, the franchisee is the one who controls the pay, the hours, the work conditions, sir?

Mr. TROUTMAN. Yes, sir. That is correct.

Mr. LALOTA. Great.

In closing, Mr. Chairman, the American Franchise Act takes a narrower approach than the bill that has been mentioned. It recognizes the joint employer status only when there is substantial, direct, and immediate control over employment decisions. I appreciate that.

And I yield back.

Chairman WILLIAMS. The gentleman yields back.

I now recognize Mrs. McIver from the great State of New Jersey for 5 minutes.

Mrs. MCIVER. Thank you, again, Chairman, and thank you to the Ranking Member, for convening this hearing.

And also to Mr. Rico Macaraeg, thank you so much for being here.

As I mentioned before, he is a successful franchise owner in my district.

And I am thankful for you sharing your expertise today.

Local franchise ownership has become an important pathway to entrepreneurship for many Americans who want to build a business but may not have the resources to start entirely from scratch.

Franchising allows small business owners to operate independently in their communities while benefiting from established brands, operating systems, and customer trust.

For many first-time entrepreneurs, that structure can make business ownership more attainable and sustainable.

That role is especially important right now.

Small business owners, including franchisees, truly have their work cut out for them as they fight to keep staff employed and make a profit. Costs of everything from critical business equipment to food are rising and profit margins are shrinking, a truly dangerous combination.

While the national brands may have scale and leverage, local franchise owners still bear the day-to-day risks of payroll, rent, supply cost, and financing. They feel inflation immediately. They face the same labor shortages, and they observe higher healthcare and borrowing costs just like other small businesses.

Congress has heard directly from small business owners across the country for over a year now that they need a federal government that understands how policies play out on the ground. We have heard from many in this Committee.

Franchise owners, in particular, need assurance that their interests as independent small businesses are not overshadowed by large corporate actors within the same systems.

Small business owners need a Congress that is focused on real-world conditions, not partisan priorities.

With that, Mr. Macaraeg, I would love to talk more about how many small business owners are now facing higher healthcare costs after the Republican majority let the Affordable Care Act tax credits expire, forcing businesses to cut benefits, wages, and hiring.

You talked a little bit about it already, but what impact has the expiration of the ACA tax credits had on your ability or the ability of franchise owners generally to offer affordable healthcare to employees?

Mr. MACARAEG. Thank you for the question, Congresswoman.

The transition and landscape of the healthcare has done a couple of things. One is we have seen colleagues at our organization have to go and seek a second job elsewhere for these larger corporations that provide healthcare, which is absolutely a great benefit for the larger corporations. But what it does is it makes it challenging for us as small business owners to employ these colleagues.

The second thing that I have seen happen is it has put a strain on our colleagues in our organization where they have gone and taken second jobs to afford healthcare on the open market as a result of the rising costs of the healthcare system.

Mrs. MCIVER. Thank you for that.

Have you personally seen or experienced yourself a delay in hiring or reduced benefits or shift costs onto workers as a result?

Mr. MACARAEG. Yes, we have. I have had several colleagues come to me within our organization that have expressed that they have had to leave us because they needed to go work at another company that provided healthcare benefits, one of the larger, again, multinational organizations.

I had another colleague we offered a promotion to who was challenged at accepting this promotion because this individual was on Medicaid and she was scared that taking a W-2 role was going to jeopardize her healthcare that she desperately needed.

And so those are just a couple of the challenges we have faced within our organization.

Mrs. MCIVER. Yeah. I am happy you bring up that point because we hear those stories all the time about folks trying to protect the healthcare that they have and scared to lose it, or making a decision between healthcare and everything else. So thank you so much for sharing that.

I want to pivot just a little bit really quickly about the rise in energy and utility costs.

Can you talk a little bit how the rise in utility costs has affected your business?

Mr. MACARAEG. Yes, and I will do a gentle nod to Governor Mikie Sherrill, State of New Jersey, to please help us there as well.

Being that SweatHouz is a business in the infrared sauna space, we do consume a lot of electricity, and we have seen our energy costs within the State of New Jersey—I can only speak to that—have doubled. And it is unattainable.

And, again, we as small business owners are forced with the dilemma do we absorb those costs or do we pass them on to our customer. There is no one else that I can hand them off to.

Mrs. MCIVER. Thank you. Thank you so much for that.

With that, Mr. Chairman, I yield back.

Mr. LALOTA. [Presiding.] The gentlelady yields.

I now recognize Mr. Downing from the great State of Montana for 5 minutes.

Mr. DOWNING. Thank you, Mr. Chair.

And thank you to all the witnesses for being here. This has been a really interesting conversation So far.

I am going to start with Mr. Troutman.

I want to begin with you in your path to franchise ownership.

As you outlined in your testimony, you served in the Navy before becoming a franchise owner. I was in the Air Force, which I have been told is just like the military. So I appreciate your service.

Your experience demonstrates how for many veterans, including myself, entrepreneurship is a meaningful opportunity to continue to contribute to our communities after our military service. It is a message I have also said many times.

But I would love if you could elaborate on how the skills that you developed in the Navy have aided you in owning and operating your franchises.

Mr. TROUTMAN. Thank you, Congressman. Thank you for your service and for that question as well.

So military experience, again, working in an environment where we work for a mission, for goals, to achieve a common place or be at a certain place, that is something that we learned in the military. And Rico can speak to this as well.

But if you are on a ship—and I can speak from a Navy perspective—everyone has a job to do. And to get to a destination, we must do it together.

A lot of that likewise goes in franchising the same way, working as a team, working as a system. The franchisor and the franchisee must be in lockstep for the model to work. And when it does, it is a beautiful thing. It is truly a mutually beneficial relationship. That is why it is such an amazing thing.

But the military helps us tap into those types of skill sets.

Mr. DOWNING. And veterans—in your testimony, you highlighted that veterans are nearly three times as likely to own franchises as nonveterans. Why do you think that is?

Mr. TROUTMAN. Familiarity. We look for—we all have goals, dreams and missions if you will. Even after, if you work, say, without being in the military, after retirement, you are still asking the question, what is next?

Mr. DOWNING. Right.

Mr. TROUTMAN. What happens is, is that franchising gives us a framework to work together to achieve missions and goals. And it continues on and on and on. It never ends. It is really an amazing thing.

Mr. DOWNING. Well, thank you. I appreciate that.

What do you think are the main barriers that aspiring veteran entrepreneurs face when building their businesses?

Mr. TROUTMAN. Barriers? Access to capital. Information. Information on—that is where it exists. Sharing of information more than anything else.

Knowing that franchising is a model that exists. The IFA, the great people of the IFA are here today. Matt Haller and his team do an amazing job in getting the word out to everyone considering, most people still do not really know that it exists.

Mr. DOWNING. Right.

Mr. TROUTMAN. Education truly is the framework, I think, most needed right now.

Mr. DOWNING. Well, thank you. I appreciate your answer. In the interest of time, I am going to move on here.

The franchising business model is an important component of rural economies, including those of my home district of central and

eastern Montana. And franchisees help fill in service gaps. It helps create local jobs, boost tax revenues in areas where low population density can make sustaining small business difficult.

I am going to move on to Ms. Patel here.

Through your experience operating Promise Hotels in eastern Oklahoma, can you speak to the impact that your business has had on local employment and economic growth in the region?

Ms. PATEL. Yes. Thank you, Congressman.

Huge economic impact. Besides acquiring hotels, we also do ground-up development. So we are creating taxes for our municipalities, creating jobs. And whether I continue to own that hotel or not, those will continue to be paying dividends off in tax dollars to the federal government, to the county, the city, the sales, and then payroll taxes, and continue to keep employees employed there long after I am gone.

And so we feel like we are stewards of the community and play a role in making sure that our city can continue to thrive.

Mr. DOWNING. Building on that, how do you approach building and maintaining your relationships with the communities you operate in?

Ms. PATEL. Oh, open dialogue, networking, serving. We serve on boards. Just today, we got a call from a nonprofit because of the storm saying, "We need to house volunteers and the unsheltered for the storm." And our team jumped into action and planned to house them over the storm. So we continue to serve our communities.

Mr. DOWNING. Outstanding.

Unfortunately, I have run out of time. But thank for your responses.

And on that, Mr. Chair, I yield.

Mr. LALOTA. The gentleman yields.

You can never get enough Navy at one Small Business Committee hearing.

With that, I recognize my friend from California, a Navy veteran, Mr. Cisneros, for 5 minutes.

Mr. CISNEROS. Thank you, Mr. Chairman.

Thank you to my two fellow shipmates for being here today and testifying.

Like yourselves, when I got out of the Navy my wife and I actually did purchase a franchise and opened up a business. But, unfortunately, we are finding out a lot of first-time entrepreneurs are getting burned by franchises, particularly when they get lured by low-cost, unproven franchise models.

Mr. Macaraeg, you mentioned in your testimony that expenses doubled after purchasing your franchise in 2024.

What should entrepreneurs look for or focus on when considering the type of franchise that they want to buy?

Mr. MACARAEG. Thank you for the question, and go Navy, beat Army.

What I would say to that is, quite honestly, to my fellow entrepreneurs out there, is do your diligence because we cannot rely on the government to equal the playing field for us.

The FD documents and other disclosures that we have all received here, I can guarantee you the FDD that I have received and

my colleagues here with the hospitality industry and the quick serve industry all look vastly different. But we all deal with the same things. We deal with payroll, rent, construction, and so many other things.

But they all look different. Why is that? Why is that, that an industry such as franchising, which, I think was mentioned, almost a trillion dollars of our GDP is so unregulated that it can look vastly different?

That is tough. So my feedback to fellow entrepreneurs is do your diligence, speak to franchisees. I guarantee you the four of us on this panel will probably take your call and answer your questions. Because we cannot expect the franchisors to provide us everything that we need to make a sound and safe decision.

Mr. CISNEROS. Is there a better way that we can increase transparency between the franchisor and the franchisee?

Mr. MACARAEG. Yeah. Standardize the information that is presented, first of all. I think franchisors are required to present 23 items in the FDD, also known as Item Number 1, 2, 3, 4, through 23. And there is no standardization across the board.

Franchisor A and Franchisor B can present different information, which is in Item Number 19, which is the financial information of performance of a business. And franchisors get to choose what they put in there. And that is the information that we make decisions off of, is what is in Item 19 and all those other 22 items.

Mr. CISNEROS. All right. Thank you very much for that answer.

Ms. Katsanevas, I got to admit I am a fan of the Bravo universe, "Vanderpump Rules," "Below Deck." And still one of the first ones my wife got me addicted on and I still watch today is the "OC Housewives."

Unfortunately, I have not had time to see your show, but maybe after today that will change.

Ms. KATSANEVAS. It is the best, but it might be for the best. [Laughter.]

Mr. CISNEROS. I did see one of your viral moments, though, where you said somebody—you told them they do French fries, and you do franchise.

Ms. KATSANEVAS. Yes.

Mr. CISNEROS. So I wanted to ask you what would your advice be to help somebody who wants to become a franchisor to become a franchisor?

Ms. KATSANEVAS. Okay. Thank you for the question, Congressman.

I really believe that it takes years to, obviously, compile all the information and offer a sustainable business model.

But I think integrally you need to have everything organized for your franchisee and make sure the model is tried and true before you offer it. Make sure you understand all aspects of the business so you are setting a future franchisee up for success.

Mr. CISNEROS. All right. Well, thank you very much for that answer.

Ms. KATSANEVAS. "Housewives" is a franchise, just so you know.

[Laughter.]

Mr. CISNEROS. It is. It is.

Ms. KATSANEVAS. You are just watching the wrong ones.

Mr. CISNEROS. Mr. Troutman, just one question for you.

What do you think veterans need to be successful when they become franchisors? How can we help more veterans become franchisees?

Mr. TROUTMAN. Congressman, thank you for that question, and thank you for your service.

Mr. CISNEROS. Thank you.

Mr. TROUTMAN. So, the Transition Assistance Program will be one effective way of really focusing on franchising in that transition if you will. They may talk about business or things like that. But to be specific to talk about franchising in the TAP program would help.

In addition to that, yes, just make sure that programs like Boost to Business, if you will, are promulgated and available, working with the SBA as well. But getting the information out there, going to the bases, would really help that process.

Mr. CISNEROS. I am running out of time, but I got one real quick one if you can answer this—both of you, actually.

When you got out of the Navy and you went to TAP class, did you get information about franchises, coming into that business?

Mr. TROUTMAN. No.

Mr. MACARAE. Negative.

Mr. CISNEROS. All right. Thank you very much. I yield back.

Mr. LALOTA. Neither did I.

I now recognize Mr. Wied from Wisconsin for 5 minutes.

Mr. WIED. All right. Thank you, Mr. Chairman.

Thank you to our witnesses for being here today.

As a former franchise owner myself, I know firsthand how essential that it is that franchisees understand their obligations and that franchisors have the tools to enforce them.

Recent events in Minnesota where a franchise hotel failed to uphold required brand standards remind us that the strength of this model depends on clarity, consistency, and accountability. When one operator steps outside those standards it just doesn't create a local problem, it undermines the reputation and hard work of every responsible franchisee who does things the right way.

As we look ahead my hope is that today's discussion helps us advance policies that cut red tape, keep taxes low, and provide the certainty franchise owners need to meet their obligations and continue, of course, to grow their businesses.

Ms. Patel, I am going to start with you.

In light of those recent incidents in Minnesota where a franchise Hilton property refused service to federal law enforcement, leading to the public backlash and removal from the brand's network, how important is it for franchisees to consistently uphold brand standards?

Ms. PATEL. Very consistent. It affects everybody in the franchise world in that brand.

Our customer set expects to see the same business model whether it is in Tulsa, Oklahoma, California, or Texas. They want to see, when they walk into a hotel, it is the exact same room wherever they go.

And so brand consistency and upholding our standards are paramount for the brand trust throughout the system.

Mr. WIED. So like when a franchisee discriminates against guests in such a public way, it undermines the entire brand.

How do responsible operators work to prevent those kinds of violations? And what tools do franchisors provide to reenforce those?

Ms. PATEL. Well, I can speak to—my hotels are in Oklahoma, and we follow all the rules, we follow federal law, state law, local law, and welcome all guests. Thank you.

Mr. WIED. So incidents like this, I mean, it highlights how quickly franchisees can find themselves navigating legal, political, and public relations challenges.

How important is it for regulatory clarity? You had mentioned the stable joint employer standard in your remarks. How important is that in helping franchisees understand their responsibilities and avoid costly missteps?

Ms. PATEL. It is paramount. We need clarity in every aspect of our business, from human resources, financing, to loan documents, to everything.

And so none of us are attorneys here. We went into this business to be business owners and work for ourselves. And so clarity and just commonsense standards for us to live by.

Thank you.

Mr. WIED. Thank you.

Ms. Katsanevas, you mentioned the viral moment where someone questioned whether franchise owners are real business owners.

What do you wish policymakers understood about the realities of running a franchise?

Ms. KATSANEVAS. Thank you for the question, Congressman.

I think that it is the hard work that comes years before it. I said that earlier. You lose sleep, you lose money, you lose hair. We have been through the wringer.

But it is just that there is so much put into what comes before we actually offered our franchise to the public. And so just understanding that it is tried and true, it is consistent. We would not be offering it if we weren't a hundred percent sure that we could recreate our model, not only in our city but outside the city.

Mr. WIED. You mentioned stylist Kati—

Ms. KATSANEVAS. Yes.

Mr. WIED.—who went from employee to an owner because of the franchise model.

From your experience, what are the biggest barriers that prevent talented workers from becoming owners? And how does franchising remove those barriers?

Ms. KATSANEVAS. I think there is fear for someone that is more on the creative side—for example, a hairdresser—not sure if they understand the business side of it. It is a whole other side of—different than what they are doing on the daily.

So I think just allowing them to be part of—us to be part of the process and supporting them. And for us, we basically, we have done everything for them. So they can too learn as we did. We started out as hairdressers, So we are the prime example. And now we own multiple locations and opened a franchise company.

So it is possible with the support of a franchise company who has done the work for you.

Mr. WIED. All right. Thank you all for being great business owners.

Ms. KATSANEVAS. Thank you.

Mr. WIED. I yield back.

Mr. LALOTA. The gentleman yields.

I now recognize the gentleman from California, Mr. Tran, for 5 minutes.

Mr. TRAN. Thank you, Mr. Chairman.

Thank you to all the witnesses for being here.

Ms. Angie K, in your testimony you shared that you are the daughter of Greek immigrants who came to this country with very little, and you built yourself a life through hard work and eventually creating jobs and ownership opportunities for others. That is truly the American Dream.

In districts like mine, which is home to Little Saigon in Orange Country, immigrant entrepreneurs are workers who are the backbone of neighborhood salons and barbershops.

For Vietnamese refugees who fled their homeland due to the Vietnam War, they found success and a pathway to the middle class in the nail industry.

My question to you is, from your perspective, as a daughter of an immigrant, owner, and a franchisor, how do immigrants contribute to the successful small businesses like yours?

Ms. KATSANEVAS. Thank you for the question, Congressman.

I believe that one value that your immigrant parents will pass down to you is hard work, saying yes to every opportunity. You are here for the opportunity in America to have a better life for not only yourself but your children and grandchildren.

So one thing I have experienced being the daughter of an immigrant is that I had a job at 15 years old, I was taught that if I wanted something, I had to work for it, and no one was going to give me anything without seeing that I was willing to do the hard work for it.

And that is my experience with most immigrant children that I have met. We have all been raised the same. So we took hold of any opportunity. We all had jobs earlier than we should have, and it continued on into adulthood.

So it is the work ethic, it is the values, it is the say yes to every opportunity that comes your way.

Mr. TRAN. That is a great answer. Thank you for that.

Ms. KATSANEVAS. Thank you.

Mr. TRAN. I am going to ask the same question. How do immigrants contribute to the success of small business?

Ms. Tina P?

Ms. PATEL. Thank you, Congressman.

Vastly. Most everyone who has immigrated here came here for a better opportunity. We did not have generational wealth, most of us. And what I learned from my parents as well is hard work. You do whatever it takes to make it work.

And so when you have that every day as a child, saying, "Look, we are poor, hungry, and determined," so we work off of that.

My dad used to—after the oil bust, there was nobody traveling back in the 1980s. He had to go get a job as a machinist so he can bring back a paycheck and pay for the mortgage because there was no access to capital there. And we had almost predatory lending back then because we had to do owner financing with extremely high rates.

And so it is important. Immigrants are the backbone and risk-takers, and they are determined to make it successful here.

Mr. TRAN. Thank you for that.

And really quickly, can I just ask you, too, what do you think of the climate of fear around deportation, how that affects small business owners, your ability to hire, retain workers, plan for the future?

Ms. Angie K, why don't you start?

Ms. KATSANEVAS. Thank you for the question, Congressman.

In this climate, we just continue to support everyone as much as possible. We continue to be inclusive in our hiring in hopes of seeing that continued growth and success for everyone.

Mr. TRAN. Ms. Patel?

Ms. PATEL. Thank you.

Again, it is a theme of today, saying certainty. That can ease any fears or heartburn. So we just need certainty as small business owners. We have enough to deal with as small business owners, and so adding more certainty would help us immensely.

Mr. TRAN. Thank you.

Mr. Troutman, Mr. Macaraeg, as a fellow veteran, I thank you so much for your sacrifice to our nation. I know what it takes to serve because I come from the Army, not the Navy. Thank you.

Let me ask you first, Mr. Macaraeg, what can this Committee do to better help veterans start franchises?

Mr. MACARAEG. Thank you so much for the question.

I think what my colleague here said, Mr. Troutman, it starts with the Transition Assistance Program, also known as TAP, for people that are transitioning out of the military.

When I got out, it was a two-week crash course on how to tie a tie and do a resume, and then out you go.

And so I think there is a great opportunity there with the Department of Defense and maybe like an IFA on how we can get what we do out there to transitioning service people, because what we have is grit. You give us duct tape and 550 cord and we will build you an airplane.

Mr. TRAN. And with the few seconds I have left, Mr. Troutman?

Mr. TROUTMAN. Yes, sir. Again, sir, thank you for your service. I will not hold the Army against you, though.

But, no, Congressman, yes, that is it concisely, to really make sure that we are doing it intentionally to get to that granular. I think the IFA going to military bases or having curriculums infused into the military would be a definite gain.

Mr. TRAN. Thank you so much.

Chairman, I yield back.

Mr. LALOTA. The gentleman yields.

So we have a lot of Navy in the room. We also have a lot of Jersey in the room here today. And with that, I recognize Dr. Conway from the Garden State for 5 minutes.

Mr. CONAWAY. Thank you, Mr. Chairman.

Mr. Macaraeg, you raised an important issue—I am a little bit off my notes—but you raised this question of energy. And our new governor, Mikie Sherrill, is taking some very decisive action to deal with the rising energy costs that are not only facing New Jersey but around the country.

One of the reasons—and we are going to talk about some Trump policies here and how it is impacting businesses—when you take off free energy, when you encumber solar, when you encumber wind, that causes dirty energy, higher-priced energy to become the market leader and set the price for energy.

It is one of the reasons why we are seeing energy prices go up and we are seeing the impacts on small business, such as yours, that you mentioned as part of your statement.

But let me get onto tariffs, another policy which has been quite damaging to small businesses.

I have met with small business owners in my district. And we know that global supply chains and international trade directly impact small business across the nation. A lot of our small businesses in the conversations I have had get parts and material for their own products that they sell in the United States and overseas from overseas to begin with. And those tariffs are raising the cost of production for them.

And, of course, raising those costs are often passed on to consumers, which is why so many consumers are seeing their costs go up by hundreds and thousands of dollars per year.

My constituents have raised concern over the confusion around tariffs, tariffs at one level one day, it is in another level one day. It is one in one country. We tariffed an island with nothing but penguins on it during this year.

And so it has increased the cost of raw materials and had a major impact on consumer prices and the cost of living and affordability concerns that impact so many Americans.

And we found that people, of course, are trying to dodge these tariffs as they will do either through payoffs or other special deals for them. Chinese companies are setting up shell companies in the United States in order to evade the tariffs.

Can you explain to us how tariffs might be impacting your business and how you are managing the cost, that tax on Americans, as you try to sell your services?

Mr. MACARAEG. Thank you for the question.

As I previously mentioned, tariffs impact us and our ability to open a location, build and equip a location, because oftentimes the material that is used, the equipment, the furniture, the fixtures come from overseas. That is the problem there.

The dollar amount of that tariff is whether or not we as small business owners absorb that to our bottom line, our profits, which prohibit us from growing and providing healthcare, take out a line of credit to pay that tariff bill, or do we pass it on to the consumers.

I will tell you, Congressman, this year, not on the topic of tariffs, but more on the topics of uncertainty, there were days where I would get a call and say when is the boat going to land so I can look at the news to see what the tariff was of the day, because that

was going to be the dollar amount that I had to go find for our business.

We just want certainty.

Mr. CONAWAY. We have heard that over and over again.

Let's move to another Trump policy here.

The Corporate Transparency Act was enacted in 2021 with the intent of combating illicit finance. The intention of the Corporate Transparency Act was to increase transparency in business ownership in order to combat certain financial crimes like tax evasion, money laundering, and terrorist financing.

However, on March 2, 2025, the Trump administration and the Treasury Department started the process of dismantling the Corporate Transparency Act. The administration said that they will no longer enforce the penalties and fines against domestic companies and individuals that intentionally fail to complete their beneficial ownership information report and only require beneficial ownership information reports from foreign firms.

And it is thought that this would unleash American prosperity. And I feel that these firms—I have a small business myself—it doesn't seem particularly complicated.

But we know it is important and the war on terror. And in terms of enforcing laws, most people would say that you ought not be assisting those who are attacking our country, who are money laundering, involved in trafficking of human beings, and everything else. So I consider those changes extremely reckless.

How has weakening of the Corporate Transparency Act impacted small business? If you can answer that or anyone else who can answer that question, I would certainly appreciate it. And do you think transparency in corporate structure of the United States is important for deterring fraud as it relates to small business?

And I will yield back. I think I just ran out of time there.

Mr. LALOTA. The gentleman yields.

I now recognize from the great State of Maryland Mr. Olszewski for 5 minutes.

Mr. OLSZEWSKI. Thank you very much, Mr. Chairman.

And thank you to all of our witnesses today. Thank you to the servicemen and -women of both our witness table, as well as my colleagues here on the dais. I will just get that out of the way. We are grateful for your service to this fine country.

I want to open by saying how proud I am that my home State, Maryland, is home to 15,000 franchisees and franchise locations that employ more than 155,000 people.

Mr. Troutman, thank you for the shout-out earlier. I apologize that I wasn't here for it in person. But please allow me to return the favor to you and just say how proud we are to have you all over Maryland. I am not sure if you are in Maryland's Second Congressional District, but we are going to work on that. And much success to you in your new cafe that is about to open up as well.

But it is a business model that we know that creates jobs, that strengthens our economy, and it is why I am also proud to join the bipartisan group of legislators cosponsoring the American Franchise Act. I think it is an important step forward for this Committee, for this Congress, and for this country.

Closer to home, in my own district, a constituent and a friend, Richie Huffman, he founded the Celebree School in 1994. That started as a single preschool. It is now a nationally recognized brand and franchise with over 30 locations operating in 18 States.

The growth of these high-quality daycare and preschool programs has now provided for more than a thousand jobs across the country and empowered their customers to also pursue their dreams in the process of having high-quality childcare.

Recently, Richie, now president and CEO of Celebree Schools, traveled to Louisville, Kentucky, to help mentor a couple with military service—since we are on the theme of military—and teaching backgrounds. They now are interested in applying these skills through a franchise like Celebree.

We talk a lot about, this Committee, how we support and serve veteran entrepreneurs looking for their next step. And the franchise model not only can do that; as we see, it often does.

I also want to applaud Richie for Celebree supporting many philanthropic ventures through partnerships with Ronald McDonald House, local children's hospitals, ensuring that their franchisees and the children they teach also know the value of giving back to their communities.

We know that franchising gives Americans opportunities to succeed, and they enrich our community. So I am excited to wrap up this productive conversation we have had today.

A little lighthearted way to start here, Ms. Katsanevas, if I could. Your franchise is called the Lunatic Fringe. Is that right?

Ms. KATSANEVAS. Yes.

Mr. OLSZEWSKI. Did you take any inspiration in naming it from Members of Congress.

[Laughter.]

Ms. KATSANEVAS. Well, thank you for the question, Congressman.

No, that wasn't the inspiration, but maybe after today it will have inspiration on future locations and their names.

Mr. OLSZEWSKI. I appreciate that.

I am going to open this up to everyone. If we can start with Mr. Macaraeg. I just want to open up the conversation of tariffs a little bit. I think we started to dive into it.

Ms. Patel, you mentioned the need for continuity and certainty in conducting your work. I am just curious if—and, again, we can start there and work our way down if folks want to weigh in—I am just curious if you could discuss the cost and the disruption to that certainty that you have experienced through this tariff process, if you have felt it at all. And we can start there and just work our way down.

Mr. MACARAEG. Yes. As previously mentioned, the uncertainty just causes a disruption in our business, a disruption for our growth, and a disruption for the colleagues that we employ.

While they aren't aware of the tariff costs, it is our responsibility to carry that burden as leaders, but nonetheless it still causes a disruption in our business and requires us to make decisions on where those dollars go.

Mr. TROUTMAN. Yes, Congressman. Yes, we are seeing increases as well in our cost of goods. So, as we look at our COGS,

as they are called, we do see increases. Likewise, too, for a new build-out, equipment costs are likewise elevated.

Ms. PATEL. Congressman, honestly, in our business, I think I have said this before, we haven't fully recovered from the pandemic. It was a gut-wrenching time. And we continue to see costs going up over the last 5 years and no end in sight. So hopefully something can be done where we could start seeing some certainty in pricing.

Ms. KATSANEVAS. Thank you, Congressman.

Our business, our particular business, hasn't really been affected, it sounds like, as much as others at this time.

Mr. OLSZEWSKI. And I will just close by returning to our light-hearted start by saying that I am very proud this is a Committee that doesn't—that that isn't the case. This is a bipartisan Committee where we often come together on important issues just like this. And I hope that that is something we continue both for this Committee, this Congress, and this country.

And I thank you all for your time.

With that, Mr. Chairman, I yield.

Mr. LALOTA. Well said. The gentleman yields.

I would like to thank our witnesses for their testimony and for appearing before us today.

Without objection, Members have 5 legislative days to submit additional materials and written questions for the witnesses to the Chair, which will be forwarded to the witnesses. I ask the witnesses to please respond promptly should that happen.

If there is no further business, without objection, the Committee is adjourned.

[Whereupon, at 3:52 p.m., the Committee was adjourned.]

A P P E N D I X



ANGIE KATSANEVAS

FOUNDER & FRANCHISOR
LUNATIC FRINGE SALON

TESTIMONY BEFORE THE U.S. HOUSE SMALL BUSINESS
COMMITTEE

HEARING ON “LOCAL OWNERSHIP, NATIONAL BRANDS: HOW
FRANCHISING IS A PATHWAY TO ENTREPRENEURSHIP”

THURSDAY, JANUARY 22, 2026

Good afternoon, Chairman Williams, Ranking Member Velazquez and distinguished members of the Committee.

My name is Angie Katsanevas, or Angie K. Some people may know me from *The Real Housewives of Salt Lake City*, but long before I was on television, I was a hairdresser. And that's what brought me here today.

I'm the co-founder of *Lunatic Fringe*, a hair salon business I started with my husband Shawn in Salt Lake City in 1999. I was a 21-year-old hairdresser, sweeping hair, and making \$2 an hour with high hopes. That's where the story begins. I had passion for the beauty industry and saw a need for something bigger – to build something and call it our own.

That's when we opened the door to our own salon. We started out with humble beginnings: taking a small loan from Shawn's brother, renting a 700-square-foot space and carrying out a vision to build a place where you could have a thriving career as a stylist, grow within the company, and potentially even own your own salon one day.

We saw a strong need for a salon with a true guest experience in Salt Lake City – this had not been done before outside of major cities. We were on a mission to establish a place with a path for career growth for stylists, to create jobs in our community, and to provide financial freedom for those in the hair industry.

During the process, we learned that running a business wasn't easy. We encountered the failures and we took the hits, but through that we took the guess work out of it for others, and built a model that could be recreated outside of Salt Lake City and now offers entrepreneurs the opportunity to be a successful business owner.

Franchising gave us that ability to take our trials and create a model with a tried-and-true blueprint that allows others to be successful.

We've since grown into a network of salons across Utah, Idaho, and Ohio, some that we own directly, and others that we've franchised to local entrepreneurs who now run them as their own businesses.

And so, I'm here today, in partnership with the *International Franchise Association*, to share what franchising has meant to me, my family, our community and the people who have benefited from what we have built.

But before I get there, I'd like to share a little about my personal story. I am the daughter of Greek immigrants. My father came to this country with nothing but the clothes on his back. Through his example we learned kindness and respect. He taught me that if I wanted something, I had to work for it. He taught me drive and work ethic. That there's dignity in every job. And that taking care of your people is what business is really about.

That's the philosophy we brought to *Lunatic Fringe*. In other words, we wanted to build a business and culture where someone could walk in as an assistant or a hairdresser and if they worked hard and learned the craft, could eventually own their own business.

Proof Point: Franchising Creates a Path to Local Ownership

Let me tell you about Kati Torres. Kati is an *incredible* hairstylist. With over 25 years in the industry, she's trained stylists across the country and knows the craft inside and out.

Kati joined our team in 2017. She learned our systems, our culture, and how we do things. And last year, she and her husband Reuban opened their own *Lunatic Fringe* location in Draper, Utah.

They're franchisees now. They *own* that business. They employ local stylists. They serve their community.

And it's only possible because of franchising. Kati had the drive to own her own business but didn't know the ins and outs of running a business. Because Shawn and I learned the hard lessons, reduced the risks, and eliminated the learning curve surrounding leases, budgets, and understanding the salon business, she was able to achieve that dream. Now, our franchisees get to own their own business with the support and infrastructure that *Lunatic Fringe* is proud to provide.

I know some people hear "franchise" and think of big corporations. They see a familiar sign and assume there's some faceless company behind it. But that's not what it is, and that's why I'm here today to tell you about my firsthand experience with what franchise businesses are.

When I hear "franchise," I think about Kati and our other franchisees, who spent decades perfecting their craft and, through franchising, came to *own their own businesses – now passing on that success to others*.

That's what the franchise model does: it lets people who couldn't or wouldn't otherwise start a business from scratch to become entrepreneurs and business owners in their own communities.

And the community element is just so important. I see real careers with growth and professional development – you wouldn't believe the time and effort and care Kati devotes to her stylists.

It's just inspiring to be a part of it... if you can't tell, I'm passionate about this!

A Viral Franchising Moment

That passion came through on camera a few months ago. I found myself in a bit of a public disagreement... a fellow housewife, who happens to have a brand partnership with a quick-service restaurant brand, questioned whether I was a "real" business owner because I franchise.

In that moment, I quickly responded: "You do French fries, I do franchise," and the moment went viral. I didn't hesitate to defend a model that has provided so much opportunity for so many – putting food on their table, helping people buy their first homes and first cars, all the way to owning their own business. Franchising supports communities, neighborhoods, and families.

Here's what struck me most about that viral moment: the comments on social media weren't just the usual response to the drama; they were overwhelmingly in support of my business, in support of franchises, in support of women in business – and the possibility that they too could achieve the same.

It was people saying, this matters; this is important. We support you in standing up for franchise businesses – for a system that empowers others to succeed, a model that helps hardworking people like Kati go from stylist to business owner.

All of this is to say there's more support for this model than most people realize. And I think that's because, at its core, franchising is about something Americans believe in – that if you're willing to work, there should be a path to ownership. A path to building something.

Franchising makes that possible. It let me scale something I couldn't have scaled on my own. So let me share a little bit of background on franchising and how it has led to the creation of over 830,000 small businesses in the United States.

The Franchise Model

From its earliest origins in the United States, the franchise model has sought to enable brands' growth by empowering local business owners. The first known commercial franchise agreement – signed in 1731 between Benjamin Franklin and Thomas Whitmarsh for a printing shop in North Carolina – reflected the enduring logic of the model: an established brand entrusting local operators who understood the communities they served. That dynamic continues today. Franchising allows national and regional brands to expand while remaining rooted in local markets through owner-operators whose livelihoods depend on the success of their individual establishments.

The economic rationale for franchising is well established. Central to this is ensuring that the incentives between the franchisor and the operator of each establishment are aligned. Franchisees act as both investors and CEOs, giving them a direct financial stake in the performance of their locations. This helps address the classic principal-agent problem by motivating local operators to maintain quality, drive revenue, and uphold the brand's reputation. No salaried corporate manager has the same incentive structure as an owner whose income and wealth depend on the success of the business.

Today, franchising is a significant driver of economic and community growth. With over 830,000 franchise establishments in 2024, franchises provide jobs for over 8.8 million people across the country, generating over \$550 billion in GDP.

Franchises are also far more diverse than they are sometimes perceived to be. While many people associate franchising with national fast-food chains, these represent only about a quarter of all franchise establishments. The remaining three-quarters are made up of a wide range of industries, including business services, residential services, lodging, personal services – salons like my own – retail, and more.

Similarly, iconic national brands represent just 15% of all franchise brands, while more than half (52%) are local brands in just a handful of states. Nearly half of all franchise brands (47%) are relatively small, operating 25 locations or fewer. *Lunatic Fringe* has nine. This highlights how franchising is a business model embraced by both emerging companies and well-established brands

at every stage of growth. While every business model is different, Lunatic Fringe isn't focused on reaching a certain number of units or meeting a specific metric – we are focused on finding the right people who want to own their own businesses, to be a part of what we built and setting them up for success.

FRANdata estimates that franchise employment has grown by 7.3% between 2021 and 2024. This was higher than the average growth rate of 6.7% across similar sectors of the economy during the same period. In sectors like retail, business services, commercial and residential services, and personal services, franchise employment grew at a faster rate than the overall industry during 2021–2024. Looking ahead, franchise GDP is expected to continue to grow during 2025, at a pace of 5% year-on-year. This is faster than the Congressional Budget Office's projections for the U.S. economy, which is expected to grow at 1.4% in 2025.

The American Franchise Act

With all of these facts, it is hard to deny that the franchise model must be protected. Perhaps the most important thing Congress could do to protect the franchise model is to enact the bipartisan, bicameral American Franchise Act ([H.R.5267/S.3525](#)).

The American Franchise Act would clarify a regulation essential to the operation of the franchise business model, called the joint employer standard – which has changed four times over the last decade – with each change in presidential administration. The joint employer standard determines when two entities share responsibility for violations of the National Labor Relations Act (NLRA) and Fair Labor Standard Act (FLSA) based on one entity's control of the other entity's employees. Until 2015, a company was considered a "joint employer" with another company only if it had substantial direct and immediate control over narrowly defined essential terms and conditions of employment of the other company's employees – like wages, benefits, hours of work, hiring, discharge, discipline, supervision, and direction.

But in 2015, the National Labor Relations Board (NLRB) created an overly broad joint employer standard that is completely misapplied to the franchisor-franchisee context because franchises are independently operated, and no one is arguing that franchised employees belong to a franchisor. The 2015 NLRB standard cost franchise businesses over \$33 billion per year, resulting in 376,000 lost job opportunities, and led to 93% more lawsuits.

Over the past decade, the definition has unnecessarily become a political issue, creating legal confusion, eroding trust, and stifling growth for thousands of small businesses across America. That's why we need a new legislative solution – to provide long-term certainty and protect franchisors and franchisees from the political tide, for good.

The bipartisan, bicameral American Franchise Act modestly amends the Fair Labor Standards Act (FLSA) and the National Labor Relations Act (NLRA) to clarify that: "A franchisor may be considered a joint employer of the employees of a franchisee only if the franchisor possesses and exercises substantial direct and immediate control over one or more essential terms or conditions of the employees of the franchisee." This is consistent with historical precedent and current NLRB policy.

IFA applauds the bipartisan and bicameral group of Members who have joined together to find a commonsense solution to support locally owned franchise businesses, and together, we urge Congress to enact the American Franchise Act.

Tax Policies that Support Small Businesses

Last summer, Congress enacted legislation providing critical tax relief to small businesses, making permanent provisions like the 199A small business deduction, bonus depreciation, interest deductibility and add a new “no tax on tips” provision – all essential to supporting franchised businesses.

Section 199A Deduction for Qualified Business Income

In 2017, Congress enacted the Section 199A deduction as part of the Tax Cuts and Jobs Act (TCJA), providing pass-through businesses with a 20% deduction for qualified business income and a degree of parity with the large rate cut included in the bill for C corporations. Unlike the corporate rate cut, the 199A deduction, which functions much like a reduced tax rate on qualified business income, was scheduled to expire at the end of last year without Congressional action. Notably, more than 95% of franchised businesses are organized as pass-throughs.

Much like the rest of small business owners, the 199A deduction has enabled our franchisees to increase investment in new equipment, technology, and facilities, driving growth and innovation, while the extra financial breathing room has allowed them to hire more employees, and provide better benefits to existing team members.

We try to keep our salons modern and inviting, and we are grateful that Congress made this valuable provision permanent.

Bonus Depreciation

The TCJA allowed businesses to immediately write off 100% of the cost of capital investments in qualified property placed in service after September 27, 2017, and before January 1, 2023. This provision encourages businesses of all sizes to make investments that will boost wages and increase hiring.

Bonus depreciation allows businesses to deduct a large percentage of the cost of eligible assets in the year they are purchased. This immediate deduction significantly reduces taxable income, leading to lower tax liabilities and improved cash flow. For our businesses, this influx of cash is crucial for reinvestment, expansion, or managing operational costs. More importantly, the provision incentivizes businesses like our franchisees to invest in remodeling, new equipment, technology, and other qualifying assets, leading to increased customer appeal, productivity, efficiency, and overall economic growth. By allowing a business to make capital expenditures sooner rather than later, our franchisees have the ability to take a large deduction upfront simplifying tax planning, and reducing the complexities associated with traditional depreciation schedules.

The phasing down of this provision under TCJA added further complexity to long term business planning, and capital expenditure planning. Businesses had to plan for the future, knowing that the tax benefits were being reduced.

For these reasons, IFA strongly supported restoring and making 100% bonus depreciation permanent and applauds Congress for including it in the final legislation.

No Tax on Tips

This new provision, passed as part of the One Big Beautiful Bill Act, provides an above-the-line deduction of up to \$25,000 for qualified tips received by both W-2 employees and 1099 contractors. Effective in tax years 2025–2028, the provision also extends the employer-side FICA credit under Section 45B to beauty and salon services. This is essential to keep more hard-earned money in my employees and my franchisees' employees' pockets.

This legislation, now signed into law, has been essential to keeping small business owners' tax burden more predictable, affordable, and encouraging reinvestment in their business and employees so we can continue to grow and give back.

Conclusion

I'll close with this. My grandfather came to Utah and worked as a janitor so he could bring his family to America. My father built a life for us through his own relentless work and sacrifice. And I've been fortunate enough to build a business that has helped other families do the same.

I'm proud to be here today, proud to represent this business model, and proud to work alongside organizations like IFA that fight every day for the small business owners who make franchising what it is.

Mr. Chairman, Members of the Committee, thank you again for the opportunity to testify, and I look forward to your questions.



Written Testimony of Tina Patel

Co-Principal and Chief Financial Officer
Promise Hotels

Submitted to the
U.S. House of Representatives Small Business Committee

Local Ownership, National Brands: How Franchising is a Pathway to Entrepreneurship
January 22, 2026

Introduction

Good afternoon, Chairman Williams, Ranking Member Velázquez, and distinguished members of the committee. Thank you for the opportunity to testify today on the importance of the franchise business model and the entrepreneurial opportunities it creates for small business owners. This is especially timely as you consider policy initiatives that will impact small business owners across the country who fuel this nation's economy.

My name is Tina Patel, I am a proud first generation American, small business owner, and hotelier from Eastern Oklahoma. I serve as the Co-Principal and Chief Financial Officer of Promise Hotels, a family-owned hotel development and management company based in Tulsa. We own and operate seven hotels in the greater Tulsa area, providing 713 rooms for guests, and employing more than 165 associates. We hold franchise agreements with several leading hotel companies and operate properties under well-recognized, nationally trusted brands. Our portfolio includes a range of select-service and limited-service hotels such as Hilton Garden Inn, Holiday Inn Express, Hampton Inn and Suites, Home2 Suites, and Tru by Hilton with licenses to develop future hotels with several top brands. Our success as a company is the result of years of hard work, sacrifice, and dedication to our team members and community around us.

I am honored to be here today on behalf of the American Hotel and Lodging Association, the largest hotel association in America, representing more than 33,000 members from all segments of the industry nationwide – including iconic global brands, 80 percent of all franchised hotels, independent hotels, management companies, REITs, bed and breakfasts, industry partners, and more.

Like many in the hotel industry, my story is that of the American Dream we all hope to achieve in this country. In 1979, my family and I immigrated to the United States from Walsall, England, seeking the opportunity America offers all who want it and settled in Kansas City, Missouri. My father worked in manufacturing while my mother stayed home to care for me and my siblings, all while searching for the right business opportunity for our family. A year later, my parents purchased a small, mom-and-pop roadside motel in Sedalia, Missouri, where I spent the next 15 years of my life. Growing up in a hotel meant learning every job firsthand—we were the front desk clerks, the housekeepers, handymen, janitors, plumbers, and whatever else the day required. As the eldest sibling, I also took on an assistant parental role at home as well as assisting with the business. With four other mouths to feed, my mother was constantly juggling responsibilities, running back and forth between the hotel and our schools. Throughout it all, my parents emphasized one thing: if I wanted a different life, I needed to prioritize my education.

I attended the University of Missouri–Kansas City and spent my summer breaks in Sedalia, helping my parents manage and maintain their hotel. I fixed pipes, cleaned the pool, repaired walls, and tackled whatever projects were needed to keep the property running. After a few years, my parents sold the motel and purchased another independent hotel that was closed in

Paris, Texas. I helped them open the new hotel, managing the influx of guests, balancing the books, and overseeing renovations to create an improved experience for guests. Just prior to helping my family with the hotel renovations, I met my husband Pete Patel, and I began to consider whether I wanted to remain in hospitality or pursue a different career path.

Concurrently, Pete began his career in the industry, managing a Days Inn in Tulsa, Oklahoma. In 1997, we decided to begin our married life in the way we knew best—by operating our first hotel, a 54-room Best Western in Sand Springs, Oklahoma. This was the first branded hotel I have operated, and while operating hotels independently was great, having the backing of a trusted brand instilled greater confidence in us as our first joint venture. While we had the brand flag, we managed that property hands-on for five years, operating around the clock, seven days a week. It became our passion and we were so proud of it.

My husband's strength has always been in customer service and operations, while mine has been in financial management. As the hotel succeeded, our friends and family who invested in us recognized our commitment and performance and offered us sweat equity in future projects. With that opportunity, we determined that hotel franchising provided the most viable path for long-term growth. This ultimately led us to the founding of our company Promise Hotels in 2008. To date, we have developed, acquired and operated over 30 hotels.

I am honored to share how franchising has provided stability, flexibility, and long-term success for me as a businesswoman and hotelier.

Overview of the Hotel Franchise Model and Support for the American Franchise Act

For tens of thousands of hoteliers and millions of other entrepreneurs, franchising is the most accessible pathway to building a business. In the lodging sector alone, franchised hotels support more than 2.8 million jobs, account for nearly 60 percent of all U.S. hotels, and generate nearly \$100 billion in annual economic impact.¹

Hotel franchising is a win-win partnership between franchisees and franchisors. It allows small business owners to combine their local business with nationally recognized brands. As a franchisee, I am the principal decision maker and bear the ultimate responsibility for the performance of my business. Consequently, I must independently evaluate and manage a complex set of variables beginning with securing financing, obtaining insurance, navigating zoning, permitting, and regulatory requirements, purchasing land, contracting with builders and vendors, complying with health and safety standards, hiring and managing employees, and overseeing daily operations. Most importantly, I assume the full financial risk associated with the business and am accountable for its success or failure.

On the other hand, hotel franchise companies play an important but distinct role in supporting my business. They are the recognizable brand name guests associate with consistency. Brands

¹ AHLA Analysis with FranDATA, <https://www.ahla.com/issue/franchising>

also set and maintain standards to ensure quality across the chain, approve franchise relationships, invest in national marketing campaigns, establish a loyalty program to drive customers to our properties, and provide training and guidance to business owners to support our success as entrepreneurs. This clear delineation of responsibility allows franchisees to remain autonomous while benefiting from an established, well-known brand.

A core strength of the franchisor–franchisee model is the ability to provide on-the-job training and clear pathways for advancement beyond entry-level roles for our employees. At Promise Hotels, we have seen this first-hand; our team members who began in housekeeping have advanced to front office supervisor, assistant manager, and ultimately property managers. Many of them go on to work at different businesses within the hospitality industry as their career grows. Operating under a national brand also gives our business access to university-style training resources that support ongoing education and career development. One Promise Hotels employee who started in housekeeping now oversees two of our properties, a testament to their professional growth and the opportunities franchised business provides.

The franchise business model has allowed a daughter of a small business hotelier to build a career spanning multiple hotels across different brands, create economic prosperity for hundreds of employees, and reinvest meaningfully into the communities we serve. My success is just one example of the many small business owners across the country who benefit from the franchise model. Across the country, millions of small business owners rely on franchising to grow locally owned enterprises while benefitting from nationally recognized brands, proven operating systems, and shared standards that consumers trust.

Franchisees like me need a permanent, common-sense joint employer definition. The most critical step Congress can take is to pass the bipartisan American Franchise Act (H.R.5267). I am grateful to my hometown Congressman, Kevin Hern (OK-01), from Tulsa, Oklahoma, for introducing this bill, with significant support across both sides of the aisle. My husband and I came to know Congressman Hern first as a fellow franchisee in the hospitality industry. As a restaurateur, he appreciates firsthand the struggles we go through every day to ensure our businesses not only survive but have the regulatory environment to thrive. This legislation provides the needed clarity and certainty for small business owners by preserving the traditional franchise relationship, protecting brand standards, and preventing regulatory overreach that could fundamentally undermine this proven model. Ensuring a stable franchising framework, while ensuring franchisees remain in control of our businesses, is essential to supporting entrepreneurship, local investment, and a strong, resilient lodging industry.

For franchisees, the constant back-and-forth rule changes every time the administration changes hands and creates significant uncertainty and risk. Shifting interpretations regarding employment, control, and liability make it difficult to plan for the future. I need to make decisions about financing, expansion, hiring, insurance coverage, and capital investments across multiple years, yet those decisions can be disrupted from one election change to the next. This cycle of regulatory volatility discourages investment, increases compliance costs, and injects

unnecessary risk into a model that has always helped small business owners. I have enough to worry about in running my business than to figure out which rules are now the standard based on political outcomes. I ask you and your colleagues to pass the American Franchise Act so owners can focus on running our operations with confidence, no matter which administration is in office.

Increasing Access to Capital for Small Business Owners

The lodging sector is one of the largest users of the Small Business Administration (SBA)'s 7(a) and 504 loan programs, and these tools play a vital role in helping small business owners start, sustain, and grow their businesses. As a small business owner in the lodging industry, I have seen firsthand how critical access to SBA financing is to secure capital and start a business and that Congress can do more to support small businesses who employ millions of people nationwide.

7(a) loans provide the flexibility many hoteliers depend on by supporting property acquisition, refinancing, renovations, working capital needs, equipment purchases, and transaction. However, even this program can present barriers, including restrictions on loan amounts, lengthy underwriting timelines, extensive documentation requirements, rising interest rates, and lender hesitancy during periods of economic uncertainty.

These challenges are even more pronounced with the 504 program. While valuable for long-term real estate development, the 504 loans are significantly more complex to secure, often involving multiple lenders, rigid project structures, and higher upfront costs. For many small business hoteliers, these hurdles can delay projects, limit expansion, or prevent otherwise viable investments from moving forward.

While there are many challenges associated with expanding access to capital for small business hoteliers, I applaud this Committee for prioritizing an increase in the 7(a) and 504 loan programs from \$5 million to \$10 million. Raising the loan limit will enable more entrepreneurs in our industry to grow from one property or brand to another, supporting job creation, strengthening local workforces, and driving tourism and economic activity in communities across the country.

Incentivizing Entrepreneurship

A central pillar of economic stability for the hotel and lodging sector has long been a predictable and pro-growth federal tax environment. Prior to the recent "Working Families Tax Cut Act's" enactment, hoteliers faced millions of dollars in tax hikes as critical provisions pertaining to business operations, accounting, and real estate were set to expire. I applaud Congress for their dedication to delivering significant long-term benefits for the hospitality sector and the broader business community. Hotels are inherently capital-intensive businesses that require continual modernization, and without these provisions, many hoteliers, including myself, face steep barriers to reinvestment in our properties.

Many of the provisions have been extremely beneficial to my company and will help us to grow our business, support our team members, and expand our community footprint. Because of Congress's bold actions, hoteliers are expected to invest tens of billions of dollars into the American economy over the next decade. Critical provisions included making the Internal Revenue Code Section 199A small business deduction permanent, restoring 100% bonus depreciation, preserving the like-kind exchange, and reauthorizing Opportunity Zones. The law provides long-term certainty that will unlock capital and enable hotel owners to remain engines of community development, workforce opportunity, and long-term economic growth.

Permanency for Section 199A small business deduction has allowed us to deduct up to 20% of our business income, which allows us the opportunity to reinvest those funds in our company in lieu of the additional tax burden.

Restoring bonus depreciation to 100% encourages us to reinvest capital to keep our properties fresh and up to date. We can then speed up the deduction in the first year to help lower taxable income. This provision allows small business hoteliers to invest in hiring, marketing, and purchasing inventory and often renovations through franchise-mandated Property Improvement Plans (PIP). We use this program at all our properties when possible.

Section 1031, the like-kind exchange, has allowed us to reinvest back into our business, thereby allowing us to hire additional employees and continue contributing to the vitality of the local economy. Lastly, the Opportunity Zone program is one near and dear to our hearts. Reauthorizing this program has allowed us to develop one of our hotels in the Historic Greenwood District in Tulsa which employs over 30 associates. Our investors provided capital up front through this program, which incentivizes them to get the maximum tax benefit if they hold their investments for 10 years. This long-term partnership not only helps support the business's health in lieu of a quick flip property but also positions us to be a deep-rooted presence in the community.

Taken together, these pro-growth tax provisions support small business entrepreneurship and create thousands of jobs across the country. I am grateful to this Congress for delivering the certainty I and the millions of small business owners need to reinvest in our team members, properties, and our community.

Conclusion

Chairman Williams, Ranking Member Velázquez, and Members of the Committee, thank you for your leadership and for the opportunity to share my story today. I am proud to be here today as a representation of the American Dream on behalf of all of the hotel owners who share this dream with me in the hotel industry. I commend your commitment to expanding entrepreneurship across our country, and I look forward to working with you to strengthen access to capital and support the continued growth of small businesses nationwide.



CLEMENT TROUTMAN

FRANCHISE OWNER
TROPICAL SMOOTHIE CAFÉ
CAPITOL HEIGHTS, MD

TESTIMONY BEFORE THE U.S. HOUSE SMALL BUSINESS
COMMITTEE

HEARING ON “LOCAL OWNERSHIP, NATIONAL BRANDS:
HOW FRANCHISING IS A PATHWAY TO
ENTREPRENEURSHIP”

THURSDAY, JANUARY 22

Good afternoon, Chairman Williams, Ranking Member Velazquez and distinguished members of the Committee.

My name is Clement Troutman, and I am a franchise owner of two Tropical Smoothie Café locations in Capitol Heights, Maryland, which are a part of a roughly 1,600 Tropical Smoothie Café locations that serve families and communities throughout the United States. Many of which, too, are owned by constituents of yours and operate and employee individuals as small businesses within the communities that you all represent here in Congress. In addition to our Tropical Smoothie Café locations, we are also planning our grand opening of PJ's Coffee of New Orleans here in Maryland. That said, on behalf of my fellow franchise owners, I appreciate the opportunity to be before you today to speak on local ownership, national brands, and how franchising is a pathway to entrepreneurship.

I also appear today on behalf of the International Franchise Association (IFA), the world's oldest and largest organization representing franchising worldwide. IFA works through its government relations and public policy, media relations, and educational programs to protect, enhance and promote franchising and the approximately 830,876 franchise establishments that support nearly 8.8 million direct jobs and \$896.9 billion of economic output, representing almost 3 percent of the Gross Domestic Product (GDP). IFA members include franchise companies in over 300 different business format categories, individual franchisees, and companies that support the industry in marketing, law, technology, and business development.

After my career in the United States Navy, I became a defense contractor in cybersecurity consulting, which I enjoyed and felt was a meaningful career, as it allowed me to be a part of a team to help support the warfighter. In 2015, while in my consulting career, my daughter, who was attending Howard University School of Business, approached me on a research project of hers that was about the smoothie industry. As a Baby Boomer, the smoothie industry was a new industry to me; however, shortly thereafter, I was returning from a meeting and was asked by a colleague as to whether I had ever been to a Tropical Smoothie Café. My answer was, "No, I wasn't familiar with it," yet we stopped. That lunch was a game changer. I had a smoothie and a wrap. It was real simple, but I saw the brand potential, and it reawakened the spirit of enterprise within me and being a part of team.

So in 2015, without any qualifications or background in franchising and the food service industry, I, with my wife, Jackie's support, opened my first Tropical Smoothie location less than 30 minutes from here, knowing that I could harness the teamwork learned from my background in athletics and in the United States Navy to then lead, motivate, inspire, and serve my business venture. And ironically, my first hire became my daughter following her graduation from Howard. Now, our Tropical Smoothie Cafés are a 9-year-running family business within our community with nearly 70 to 80 total employees across our two locations and we are growing.

Today's hearing is a great opportunity to highlight the power of franchising, an all-American business model that is far more than the 9 million direct jobs and roughly 831,000 establishments across America. Franchising is more than just numbers on a page – it is a powerful method for business growth in hundreds of industries, including restaurants, hospitality, personal care, pet care, security, home care, fitness, and real estate, and provides business ownership opportunities to individuals who may not have the opportunity otherwise but feel empowered to be a part of a team, to find a purpose, and to be a part of brand that is greater than themselves – all the while, helping to positively affect the lives of their employees, family, and communities as a small business owner.

To add, the franchise business model allows franchisees, like myself at Tropical Smoothie, to immediately benefit from the franchisor's existing supply chain, marketing tools, and operational systems, while maintaining control of day-to-day operations. As I always say, every franchise owner is driven by something, has a dream that may not only be monetary, but is willing to make a difference, and statically, the benefits of franchising speak for themselves: for example, franchising drives 1.8 times higher sales than comparable non-franchise establishments, and 2.3 times as many jobs than non-franchise counterparts.

For franchisors and franchisees alike, the model is a win-win, and I look forward to speaking on its benefits as a family-run franchise owner.

The Franchise Model and the Value of Franchising

Despite how it is often characterized, franchising is not an industry, rather it is a business growth model used *within* nearly every industry. At its core, franchising is about the relationship between the franchisor and its franchisees — how the franchisor supports its franchisees, the franchisor's brand value, and how the franchisee, like myself, then meet the franchisor's obligations to deliver the products and services to the system's brand standards. For me, that is delivering quality smoothies, acai bowls, and sandwiches at our Tropical Smoothie locations in the DMV area. The franchise relationship is a long-term relationship that spans a decade and, in many cases, more than 20 years. These long-term relationships only work where the parties can trust that the relationship and the expectations each party has of the other will remain stable.

Often, franchising is mischaracterized as “big business,” yet it is not. Franchises are first a local business, like mine in Maryland, distinguished from other local businesses because we are licensed the branding and operational processes from a franchisor – for me, that is Tropical Smoothie Café – while operating independently in a defined market – for me, the greater DMV communities. The local owner, or franchisee like myself, is responsible for hiring staff, organizing schedules, managing payroll, and all daily operational tasks as well as local sales and marketing.

The value of franchising then lies in a strategic balance in the relationship between a franchisor and franchisee: the independence for me as a franchisee to manage the day-to-day operations and connections with my employees, consumers and the local community, balanced with the franchise system giving aspiring small business owners, like I was, a head start toward becoming my own boss, with a proven business model that can set up new business owners for success and easier access to financing than a traditional business.

This franchise model has allowed me as a franchise owner to become entrepreneurial, where we set and accomplished a goal of serving 1 million customers when we began our first location, where we also grew so successful as a team to the point that we had to relocate from our first 1,600 square-foot, drive-thru store to a new location, and where we partner with an 501(C)(3), Mission of Love Charities, which I sit on the Board of Directors of, to provides services like food and support items to the community of Capital Heights and the surrounding area. And lastly, the franchise model has allowed us as a franchisee to create a Customer Appreciation Day at our first location on its anniversary day, which has an emphasis on the customer and the community, because we are creating jobs for the community and it's a place where tomorrow's leaders come either as employees or customers.

Earlier this month, IFA released an updated version of its flagship research report, [The Value of](#)

[Franchising](#), in partnership with Oxford Economics. This study featured three workstreams: 1) a survey of more than 2,900 franchisees, representing over 13,000 U.S. franchised establishments; 2) a literature review of major empirical evidence around franchising; and 3) an econometric analysis comparing franchises with non-franchise employers.

In addition to the importance of franchising to the U.S. economy, this study highlights the contributions of the franchise model to positive worker outcomes, promoting entrepreneurship and supporting local communities. My own story can make up so many of these findings.

Franchisees as Employers

Oxford Economics' econometric analysis of data from leading payroll services provider Paychex suggests that franchises drive stronger employee retention and faster career growth than non-franchised businesses. They found that retention rates at franchised businesses were significantly better than those of similarly situated non-franchised businesses. In the second month after initial employment, non-franchise employees were 16% more likely to leave their jobs than their franchise counterparts (conditional on still being employed at the start of the month); this figure rose to 34% in the sixth month and 49% in the 12th month.

Workers at franchised businesses also switched from part-time to full-time faster than their counterparts at non-franchised businesses, on average. In the second month after initial employment, part-time franchise employees were 20% more likely to switch to full-time employment than are non-franchise employees, all else equal. The data also show that wages grow faster for franchise employees than for non-franchise employees and that there is no difference in wage rates between franchise and non-franchise employees overall, after controlling for observable characteristics available in the dataset. In other words, franchises offer pay on par with comparable non-franchise small businesses.

And job quality extends beyond salary. The data showed that working at a franchised business was associated with 3–7 percentage points higher likelihood of receiving key benefits compared with working at a non-franchised business. The effects were strongest for sick leave and health insurance, with franchise employees 6.5 percentage points more likely to receive sick leave pay and 5.7 percentage points more likely to receive health insurance benefits. These effects were even larger for full-time employees.

Franchisees as Entrepreneurs

The benefits of being a franchise owner are substantial, particularly for those new to entrepreneurship. In the IFA franchisee survey for the Value of Franchising report, franchisees were asked to describe the areas where franchisor support was received and proved most useful. The most important areas identified included access to a network (65% of franchisees found it very important), franchisee training (64%), and technology platforms (64%). For first-time business owners and women, access to an established network was perceived as very important by a larger share of respondents (67% and 69%, respectively), stressing how franchising can meaningfully help overcome barriers to business ownership for these groups.

Similarly, the 2023 Annual Business Survey found that franchised businesses were more likely to have a minority owner than non-franchised businesses, and those businesses tended to be larger than non-franchised businesses. On average, franchises reported sales 1.4 times as large as non-franchised businesses, and Black or African American franchise firms earned 2.3 times as much in

sales compared with Black-owned non-franchised businesses.

For the majority of survey respondents (64%), their franchise was the first business they owned, suggesting that franchising serves as a reliable entry point into entrepreneurship for many prospective business owners. Additionally, 30% of respondents said they would not own a business if they were not franchisees. Those respondents were more likely to be single-unit owners, women, and first-time owners. Extrapolating the percentage of enterprises that would not exist without franchising, the U.S. would have an estimated 80,000 fewer businesses, 215,500 fewer local franchise establishments, and 4.0 million fewer jobs.

Franchisees as Neighbors

Most franchisees operate as small business owners who live and work in the communities they serve, with 85% of respondents owning/operating businesses in the town or region where they live. In this way, the franchise model supports local employment and helps circulate wealth and economic growth within the community. Franchise supply chains also support the local economy: on average, franchisees purchased 40% of their inputs from local suppliers. Even further, approximately 83% of franchisees surveyed gave to local charities during the previous year. By aggregating those responses, the report found that, during the last financial year, U.S. franchisees donated an estimated \$2.3 billion to charity, raised \$2.6 billion, and sponsored 34 million hours of volunteer activity.

The Veteran Advantage: From the Navy to Franchising

My career in the United States Navy provided the foundational toolkit that allowed me to transition successfully into business ownership in 2015. My transition from the United States Navy to small business ownership was successful because franchising mirrors the structured, mission-driven environment I knew in uniform. In the military, we live and die by standard operating procedures; a franchise operation manual is remarkably similar to the manuals used to operate complex military equipment. This "business-in-a-box" model allowed me to execute a proven playbook with the same precision I used in the service, translating my background in logistics and team coordination directly into operational excellence. For a veteran, franchising isn't about reinventing the wheel, it's about "owning the mission" and leading a team to achieve a well-defined objective.

Beyond my own success, I believe other veterans are uniquely positioned to benefit from this pathway to entrepreneurship. Veterans are nearly three times as likely to own a franchise as non-veterans because they possess a "leadership toolkit" – emotional intelligence, resilience, and the ability to make decisions under pressure – that others may spend years developing. Furthermore, programs like IFA's VetFran and the SBA's Veterans Advantage offer critical financial incentives, such as fee reductions and specialized lending, which make ownership accessible even to those without prior business experience. By entering franchising, veterans don't just find a second career; they build wealth, stabilize their families, and continue their legacy of service by providing meaningful employment to their local communities.

My military background taught me how to lead, motivate, and inspire. Today, I apply those lessons to manage nearly 80 employees, providing them with the same sense of purpose and teamwork I felt during my service. Whether serving the warfighter as a contractor or partnering with Mission of Love Charities to provide food to those in need, the mission remains the core of my enterprise.

SBA Lending and the Franchise Directory

Next, I'd like to speak about the importance of the Small Business Administration (SBA) and the access to capital that its lending programs provide for entrepreneurs, like myself, to become franchise owners within a franchise system, like Tropical Smoothie. When I was beginning my first location, I was completely a new franchisee and needed access to capital, which I did not know how to do with a bank lender. However, my franchisor's familiarity with the SBA's 7(a) loan program was instrumental, as it allowed us to access capital to start my venture under the best conditions and was an instrumental part of our and many others franchise success story. The 7(a)-loan program is so important and widely utilized amongst many of my franchise-owning peers, in which in fiscal year 2024 along, the SBA guaranteed \$31.1 billion in 7(a) loan volume and \$6.7 billion in 504 loan volume. Of which, franchises have represented about 20% of SBA loans by dollar volume.

To that end, I'd also like to highlight the welcomed news to the franchising community last spring, where the SBA stated it was reinstating the Franchise Directory. The Directory, which was unfortunately eliminated in 2023, is an essential and centralized tool for lenders to assess SBA loan eligibility and financing for franchisees, like mine. The SBA Directory has also served as a beneficial tool for prospective franchisees as we continue to evaluate franchise opportunities.

On behalf of IFA, we appreciate the Committee's attention to this issue given how critical SBA lending is to new franchisees and appreciate your efforts to once again have the use of the Franchise Directory for both banks and borrowers.

Tax Policies that Support Small Businesses

Last summer, Congress enacted the One Big Beautiful Bill, which provided critical tax relief to small businesses, making permanent provisions like the 199A small business deduction, bonus depreciation, interest deductibility, and estate tax relief. In particular, as a family-run franchisee, I cannot underscore my appreciation for the estate tax relief.

Estate Tax

Again, with my daughter being a vital role in our franchise locations, acting in a manner similar to Chief Operating Officer, the changes within the estate tax are so vitally important to me, as we see our Tropical Smoothie Café as a something being built for the future of our family. I know other franchise owners feel the same.

The TCJA made permanent the \$5 million estate tax exemption, spousal transfer and stepped-up basis that was passed as part of the American Taxpayer Relief Act of 2012 and increased the exemption to \$11 million through the end of 2025. Yet, the One Big Beautiful Bill went a step further, raising the exemption amount to \$15 million for individuals, indexed to inflation.

These provisions are critical to allowing family businesses, like ours, to be passed down to the next generation without selling or taking on crushing debt burdens. Throughout the franchise community this is especially critical, as many franchisees are family-owned and operated. Estate taxes can pose a substantial burden on family-owned businesses when owners pass away. Without careful planning, heirs may be forced to sell off parts or all of the business to cover the tax liability. The TCJA's increased estate tax exemption helps maintain the business's continuity and

preserves the family's legacy. Moreover, family businesses often have significant value tied up in illiquid assets, such as property, equipment, and inventory. Paying a large estate tax can create a liquidity crisis. By increasing the exemption, I applaud Congress in lessening the immediate financial strain on these businesses, enabling our family and others to focus on long-term strategic planning rather than worrying about immediate tax liabilities.

The Power of the 199A Deduction

As a franchise owner, I cannot overstate the impact of the 199A Small Business Deduction, which was made permanent and expanded under the One Big Beautiful Bill (OB BB) Act enacted last summer. Prior to this legislation, the 199A deduction was a temporary provision scheduled to expire. For a family business like ours, making this permanent provides the long-term stability needed to plan future investments in our staff and additional locations. Most franchises are organized as "pass-through" entities, meaning our business income is taxed at individual rates. The 199A deduction ensures we remain competitive by allowing us to deduct a significant portion of our qualified business income, which we then reinvest directly into our Capitol Heights community.

Work Opportunity Tax Credit (WOTC)

WOTC is a federal tax credit available to employers for hiring and employing individuals from certain targeted groups who have faced significant barriers to employment, including SNAP recipients, supplemental security income recipients, ex-felons and certain veterans. According to Department of Labor statistics, WOTC supports the hiring of around two million such individuals annually. IFA supports support efforts to strengthen WOTC and expand its eligibility to additional groups.

The American Franchise Act: Securing the Future of Local Ownership

Finally, I urge this Committee to support and enact the American Franchise Act (AFA). This bipartisan, bicameral legislation is essential to ending a decade of "regulatory whiplash" that has threatened the independence of small business owners like myself.

For years, shifting federal rules have blurred the lines between franchisors and franchisees. The AFA would codify a uniform standard, clarifying that a franchisor is only a "joint employer" if they exercise substantial, direct, and immediate control over hiring, firing, or wages. As a franchisee, I am responsible for my own payroll, scheduling, and daily operations. The AFA ensures I remain an independent employer, preventing the government from treating me as a mere middle-manager of a large corporation. Currently, many franchisors are hesitant to provide advanced training or recruitment tools for fear of being labeled a joint employer. By enacting the AFA, Congress will allow brands to better support their local owners with best practices and resources without increasing legal liability.

Franchising is a uniquely American engine of upward mobility. By supporting the American Franchise Act and maintaining the tax benefits of the OB BB Act, you are protecting the dreams of thousands of veterans and family business owners across the country.

In conclusion, I'd like to express my gratitude to the Committee for holding this hearing on franchising, a business model that has benefited not just myself and Tropical Smoothie Café, but also the millions of Americans that work at small businesses and enjoy the diverse products and services franchising offers every day. Congress should not only support this business model through sound tax and regulation but celebrate as a uniquely American business model that provides incredibly upward mobility that could only exist in the greatest country on earth.

Mr. Chairman, Members of the Committee, thank you again for the opportunity to testify, and I look forward to your questions.

Rico Macaraeg
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House Committee on Small Business Hearing, January 22, 2026
Local Ownership, National Brands: How Franchising Is a Pathway to Entrepreneurship

Chairman, Ranking Member, and Members of the Committee,

Thank you for the opportunity to testify before you today. My name is Rico Macaraeg. I am a veteran, a franchise owner, and a small business operator.

I am here to speak about how franchising can be a powerful pathway to entrepreneurship—and how the systems surrounding it are creating unnecessary barriers for entrepreneurs like me.

I believe context matters. We all have origin stories, and mine helps explain why this work matters so deeply to me.

I grew up poor. My mother was a single mother raising three boys, working three jobs just to make ends meet. My father was an immigrant from the Philippines who became an American citizen and worked for the Department of the Navy for more than 30 years. There was no generational wealth and no safety net—only hard work and resilience.

I served in the United States military for eight years, from 2003 to 2011, with deployments across the Middle East, South America, Africa, and Europe. When I left the service, like many veterans, I transitioned directly into the workforce with no clear plan—just grit and a strong military work ethic.

At the same time, I studied nights and weekends full time, earning my bachelor's degree in Organizational Leadership from National University in San Diego, and later my MBA from Georgetown University's McDonough School of Business.

I went on to hold senior corporate leadership roles, including head of marketing for Lamborghini North America and Lord & Taylor. By many measures, I had a successful corporate career.

But entrepreneurship—owning something and building something—was always our dream.

My co-founder and husband, Steven, also chose a path of service. He served our nation as a Peace Corps volunteer in Morocco for nearly three years, working directly with local communities to help build small businesses. Service—to country and to others—has always been part of our DNA.

Together, we wanted to build an organization that would create jobs, support healthier lives, and ultimately provide the foundation for a lasting family legacy and philanthropy.

That's why we chose franchising. Franchising is often presented as a structured and supported entry into entrepreneurship, particularly for veterans and mission-driven founders—one that allows local owners to succeed with the backing of national brands.

And in many ways, that promise is real.

But what is often overlooked is how shifts in the macro-economic environment and policy decisions impact local franchise owners first—and hardest.

These issues are not abstract. They determine whether a business opens on time, whether employees are hired, whether benefits are offered, and whether a business survives its first critical year.

First, tariffs.

Tariffs matter because they directly affect the cost of building and equipping a business—long before a single dollar of revenue is earned. Most furniture, fixtures, and equipment for franchise businesses are sourced overseas, primarily from China. As a result, we have seen cost increases of **25 to 50 percent** on required items.

After one of our projects opened, I received a **\$30,000 tariff bill**—three months after opening—for equipment we had already purchased and installed. That cost was never forecasted and could not be planned for. For a newly opened small business, that kind of surprise expense immediately drains working capital and often forces higher prices on consumers.

Second, economic instability and inflation.

For small business owners, predictability is essential. When costs change rapidly, it becomes extremely difficult to budget, hire, and grow responsibly.

Earlier this year, one of our locations was built at **\$130 per square foot**. Just months later, the same studio design, using the same materials, now costs **\$165 to \$170 per square foot**—an increase of more than **25 percent**.

Those increases don't just raise construction budgets. They reduce capital available for staffing, training, marketing, and employee benefits. Local owners absorb these costs personally, while larger national brands are insulated.

Third, the Franchise Disclosure Document, or FDD.

For first-time entrepreneurs, the FDD is often treated as a trusted and reliable source of information. In reality, it is not meaningfully regulated. Franchisors can choose what financial data to include, how it is averaged, and how it is presented.

When we purchased our franchise in 2024, we were shown financial data that did not reflect subsequent material changes to design, operations, or costs. Build-out expenses later doubled—from **\$400,000 to \$800,000**—yet none of that was reflected in the disclosures we relied on.

This lack of consistency can turn what appears to be a safe investment into a highly risky one, with life-altering financial consequences for local owners.

Fourth, veteran access to capital.

Veterans are encouraged to become entrepreneurs, yet there is no meaningful capital product through the Veterans Administration to support that transition. Education and housing benefits exist—but entrepreneurship funding does not. Without access to appropriate capital at reasonable terms, the dream of business ownership remains out of reach for many veterans.

Finally, healthcare.

Healthcare costs directly affect hiring, retention, and long-term stability. Rising premiums and economic uncertainty make offering coverage increasingly difficult for small businesses.

Even when we attempted to provide stipends so employees could purchase their own plans, healthcare had become unaffordable. Costs have increased by as much as **300 percent** compared to what many employees previously paid.

Starting a business has been our dream. But economic instability, rising costs, lack of transparency, and limited access to capital have made that journey far harder than it needs to be.

Franchising can be a pathway to entrepreneurship—but only if policy keeps pace with the realities faced by local owners. This is not a partisan issue. It is about preserving the entrepreneurial spirit that has always defined our country.

Thank you. I look forward to your questions.



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January 22, 2026

The Honorable Roger Williams
Chairman
House Small Business Committee
2361 Rayburn House Office Building
Washington, D.C. 20515

The Honorable Nydia Velazquez
Ranking Member
House Small Business Committee
2069 Rayburn House Office Building
Washington, D.C. 20515

Dear Chairman Williams and Ranking Member Velazquez,

On behalf of NFIB, the nation's leading small business advocacy organization, I write regarding the hearing entitled, "Local Ownership, National Brands: How Franchising is a Pathway to Entrepreneurship." NFIB represents nearly 300,000 small businesses nationwide, including independent franchises, and we appreciate the opportunity to discuss ways Congress can protect against threats to the franchise model.

The franchise model is a proven way for Americans to enter entrepreneurship, own their own business, and contribute to the American economy. In fact, a recent report shows there are over 830,000 franchise establishments in the United States that created 8.8 million jobs, and most of these franchises are independent small businesses.¹ Like most small businesses, franchises have faced growing threats and uncertainty due to policies proposed or enacted by lawmakers in Washington, D.C.

In 2023, the National Labor Relations Board issued an updated Joint Employer Rule that significantly expanded the federal government's definition of a joint employer. Under this rule, the longstanding definition of joint employment expanded from direct and immediate control over employees to direct or indirect control. Accordingly, independent franchise owners would have been stripped of control of their workforce and made de facto managers of a local branch instead of an independent small business owner. NFIB strongly opposed the 2023 Joint Employer Rule and thankfully, a district court struck down the rule.²

¹ Oxford Economics, The Value of Franchising, January 2026, <https://www.franchise.org/wp-content/uploads/2026/01/FA-ValueOfFranchisingFINAL.pdf>.

² National Federation of Independent Business, NFIB Statement on NLRB's New Standard for Determining Joint-Employer Status, October 26, 2023, <https://www.nfib.com/news/press-release/nfib-statement-on-nlrbs-new-standard-for-determining-joint-employer-status/>.

Congress can provide a long-term fix to this issue by passing H.R. 4366 the *Save Local Business Act* or H.R. 5267 the *American Franchise Act*. H.R. 4366 would protect independent franchises and subcontractors by preventing a future detrimental joint employer rule, while H.R. 5267 would only protect franchises. Specifically, these pieces of legislation codify the traditional definition of joint employment into law by ensuring only two employers who exercise direct and immediate control over employees can be deemed joint employers. While H.R. 5267 has garnered bipartisan support, it takes a narrower approach by enshrining the traditional definition of joint employment for franchises only, but leaves contractors and subcontractors out, leaving these businesses threatened by a future burdensome joint employer rulemaking. It is critical that Congress provide long-term relief for all small businesses through H.R. 4366, the *Save Local Business Act*.

In promulgating the 2023 Joint Employer Rule, the NLRB side-stepped Regulatory Flexibility Act (RFA) requirements by significantly underestimating compliance costs for small businesses and failing to minimize impacts on small businesses.³ Unfortunately, this is one of many examples of agencies disregarding the requirements of the RFA and saddling small businesses with massive new regulatory compliance costs and red tape.

To prevent abuses like the 2023 joint employer rule in the future, Congress should strengthen the RFA through legislation such as H.R. 1163, the *Prove It Act of 2025*. This legislation would close loopholes in the RFA that regulatory agencies have exploited to saddle small businesses with crippling regulatory compliance costs and red tape. These regulatory hurdles are a barrier to entry for aspiring entrepreneurs and act like a weight preventing small businesses from growing and reinvesting. H.R. 1163 would ensure the Congressional intent of the RFA is fulfilled and ensure agencies are fully considering the impact of regulations on small businesses.

Unfortunately, independent franchises are facing several other major threats. NFIB's recent white paper entitled, "Direct Assault on Main Street: Looming Labor Threats That Could Decimate Small Businesses and Their Workforce," explores policy proposals that would have devastating affects to small businesses, including franchises, by increasing government control over daily business operations, imposing new burdensome labor and employment mandates, and raising costs for hiring and keeping qualified employees.⁴

Specifically, H.R. 20, the *Richard L. Trumka Protecting the Right to Organize (PRO) Act* is a radical piece of legislation that would dramatically upend long-standing labor and employment law in favor of labor unions at the expense of small businesses and their workers. The *PRO Act* includes numerous

³ Major L. Clark, Deputy Chief Counsel, Office of Advocacy, U.S. Small Business Administration, Comment Letter to the National Labor Relations Board's Joint Employer Rule, November 29, 2023, <https://advocacy.sba.gov/wp-content/uploads/2022/11/Comment-LetterNLRB-Joint-Employer-Rule-508c.pdf>.

⁴ National Federation of Independent Business, *Direct Assault on Main Street: Looming Labor Threats That Could Decimate Small Businesses and Their Workforce*, September 2025, <https://www.nfib.com/wp-content/uploads/2025/09/NFIB-2025-Labor-Policy-White-Paper.pdf>.

policies that would devastate franchise small businesses including legalizing secondary boycotts, requiring employers to provide personal contact information for employees to union organizers, codifying the National Labor Relations Board's (NLRB's) expansive Browning-Ferris Industries joint-employer standard, abolishing state "Right-to-Work" laws, and banning so-called "captive audience" meetings. Small businesses have long opposed the policies included in the *PRO Act*.⁵

Additionally, minimum wage hikes are also a significant threat to franchises. H.R. 2743, the *Raise the Wage Act* would immediately increase the federal minimum wage by 30% and dramatically increase the federal minimum wage to \$17 per hour by 2020. Only 1 state has their minimum wage at or above \$17 per hour, meaning this would dramatically increase labor costs for small businesses in 49 states.⁶ In fact, NFIB's research shows a grim economic reality if Congress raises the minimum wage to \$15 per hour. This policy change would result in 1.3 million lost jobs in the United States, with small businesses bearing most of these job losses.⁷ That massive job destruction does not account for the additional lost jobs from indexing the minimum wage to inflation or for the additional \$2 per hour the *Raise the Wage Act* would mandate.

Another destructive policy for small businesses is the Occupational Safety and Health Administration's proposed Heat Injury and Illness Prevention in Outdoor and Indoor Work Settings rule, or OSHA Heat Standard. The OSHA Heat Standard is a direct threat to many franchise businesses. The rule, if finalized, would implement new one-size-fits-all mandates and place a significant new compliance burden on small businesses across the country. Specifically, the proposed Heat Standard would add burdensome training and paperwork requirements and mandate a paid 15-minute break for every two hours of work. Congress should eliminate the threat of the proposed OSHA Heat Standard by enacting H.R. 6213 the *Heat Workforce Standards Act*, which would stop the rule from being finalized and prevent future administrations from pursuing a similar rule.

The most important thing Congress can do to protect small independent franchises is provide certainty regarding the Beneficial Ownership Information (BOI) reporting requirement. Under this unconstitutional mandate, small businesses, including some franchises, with 20 or fewer employees and 5 million in revenue or less are mandated to file their BOI or face enormous fines and up to two years in federal prison. Congress must enact H.R. 425, the *Repealing Big Brother Overreach Act* to repeal this costly, unnecessary mandate. Congress can also codify the Trump Administration's interim final rule exempting American businesses from the reporting requirement and destroy the BOI of small businesses who already filed with FinCEN. If Congress fails to act, a future

⁵ Dylan Rosnick, *Small Businesses Oppose Big Labor's PRO Act*, March 2025, <https://www.nfib.com/wp-content/uploads/2025/03/Final-Letter-of-Opposition-to-the-PRO-Act-senate.pdf>.

⁶ National Conference of State Legislatures, *State Minimum Wages*, January 5, 2026, <https://www.ncsl.org/labor-and-employment/state-minimum-wages>.

⁷ NFIB, *Small Business Survival*, <https://assets.nfib.com/nfibcom/Minimum-Wage-Pizza-Parlor-infographic-06-03-2021-FINAL.pdf>.

Administration will reimpose this burdensome and intrusive mandate for 32 million small businesses.

NFIB appreciates your leadership to reduce onerous regulatory compliance costs and red tape for small businesses. We look forward to working with you to protect small businesses from federal government overregulation and government intrusion during the 119th Congress.

Sincerely,

A handwritten signature in dark ink, appearing to read "Dylan Rosnick", is written over a light gray rectangular background.

Dylan Rosnick
Principal, Federal Government Relations
NFIB