

**Testimony of
Honorable Steven C. Preston
Administrator
U.S. Small Business Administration**

**Hearing on
Government Contracting Legislative Proposals**

**Committee on Small Business
US House of Representatives**

October 4, 2007

Chairwoman Velazquez, Ranking Member Chabot and Members of the Committee, thank you for the opportunity to testify before you regarding SBA's government contracting and business development programs and the committee's legislative proposals.

In the past year SBA has made significant strides in working to improve small business access to federal contracting opportunities. We have worked to provide better data to accurately measure agency progress, and created a new Scorecard that clearly and transparently measures agency progress towards small business goals. We have not achieved all goals and SBA plans to use the scorecard as an integral part of our effort to make the small business programs under our authority work in a more coordinated fashion throughout the federal government.

While significant improvement has been made over the last year to create greater transparency within the federal procurement process, we continue to pursue further internal improvements to assist our customers. We have increased training for SBA field staff to enable them to improve outreach to our small business clients and refocused our PCRs on their primary responsibilities – identifying small business opportunities. We have also hired additional PCRs to increase our coverage. These improvements are just the beginning and we look forward to continued progress in our government contracting programs as we reengineer and improve our processes.

Committee Legislative Proposals

I would now like to discuss the proposals from the brief outline we were provided and discuss the Administration's positions.

8(a) program –

SBA would be opposed to the elimination of the delegation of authority. Agencies need this authority to streamline the process for making 8(a) awards. Otherwise, SBA and the agencies will be required to return to the laborious process of passing letters of intent back and forth. SBA would suggest amending the process rather than eliminating it. As I mentioned before, SBA has already redrafted the agreement with the agencies and is now requiring PCR review of 8(a) business mix to increase opportunity for all program participants. A limit on the use of contracting authority with any one 8(a) firm combined with a requirement for market research will produce a simplified process and more even distribution of contract opportunities.

Regarding the net worth standard SBA has not found that the current \$250,000 level is a barrier to entry to the program. Program participation currently stands at 9,667 firms, an all time high, and applications are steady. While studies have shown that, indexed for inflation since the time it was instituted, the standard would be \$550,000 SBA has concerns over a blanket \$750,000 minimum. There may be merit to increased standards in some industry groups. However, we believe the blanket is too high.

Finally, the SBA has some concerns regarding the committee's intent in changing the current phase structure of the 8(a) program. Currently the program has a 4 year development stage and a five year transition stage. If the program participation is expanded to ten year the SBA believes legislation should not shorten the transition stage but rather have them equal at five years each.

HUBZone program -

SBA is concerned over the proposal to require on-site exams before a firm's second contract. We foresee significant cost and logistical challenges in implementing the proposal effectively. The on-site examination is also redundant of the FAR regulation SBA has pending. That will require attestation of HUBZone status at the time of award on any contract. However, consistent with the committee's concerns SBA could pursue greater enforcement and assessment of penalties against firms that violate HUBZone program rules.

SBA is equally concerned about the other provisions in this title. If a HUBZone firm is not allowed to have offices outside a HUBZone then SBA believes the need for on-site examinations is eliminated. However, SBA has a further concern with this proposal. If a HUBZone firm may not have an office outside a HUBZone then this would ban offices at jobsites located outside a HUBZone, a standard business practice in the service and construction industries. That would be a significant burden to HUBZone contractors.

Finally, SBA is opposed to a change restricting the award of HUBZone construction contracts outside a 150 mile radius from the firm's HUBZone. Depending on the state or location of the HUBZone this would effectively eliminate many HUBZone firms from competing for work at all. For example, a HUBZone construction firm based on a Native American reservation would be unable to bid on a contract in the nearest city, which could be well over 150 miles away.

Veterans –

SBA has no objection to the provisions included in this part of the outline provided. False certification should affect all firms. Nor does SBA object to the codification of the terms of the Executive Order. SBA is committed to implementing that order.

General Provisions –

SBA does not support requiring background checks on all SBA program participants. SBA is responsible for certifying program eligibility. Under the Federal Acquisition Regulations, the contracting agencies are responsible for verifying contractor integrity. The only situation where that is different is 8(a). In the 8(a) program SBA and the 8(a) firms have a unique prime contractor/subcontractor relationship which shifts that responsibility.

SBA also has significant concerns about the proposal for increasing sole source award authority to \$10 million. This provision has the potential to create a significant pool of large sole source contracts that would be outside the reach of most small businesses. If the committee's concern is to reduce the disparity in the 8(a) program, SBA would not suggest this approach. Creating such authority is only likely to increase the gap between large and small 8(a) firms.

SBA must also object to granting "interested party" status to any small business. Any firm, regardless of interest, could then protest an award and significantly multiply potential protests. SBA believes this would drive contracting officers to avoid SBA procurements. It is appropriate that firms involved in the bidding process have interested party status, but there is no benefit to allowing HUBZone firms to protest small business set-asides, or 8(a) firms to protest Service-disabled Veteran awards.

The Administration also wishes to express concern over the proposal to require prime and subcontracting goals for all SBA programs. While this will create a goal for the 8(a) program it will, of course cause overlap with the existing goal for Socially and Economically Disadvantaged Businesses (SDBs).

SBA also has concerns about the suggested annual reporting requirement. This is useful information, but SBA would like to know the scope of the reporting regime required and whether the proposals would cover all small business set-asides.

Chairwoman Velazquez, that completes my testimony and I will answer any questions you might have.