ENCOURAGING THE GROWTH OF MINORITY-OWNED SMALL BUSINESSES AND MINORITY ENTREPRENEURSHIP

FIELD HEARING

BEFORE THE

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ENCOURAGING THE GROWTH OF MINORITY-OWNED SMALL BUSINESSES AND MINORITY ENTREPRENEURSHIP

MONDAY, AUGUST 27, 2001

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

The Committee met, pursuant to call, at 2:00 p.m., at the TVI Workforce Training Center, 5600 Eagle Rock Road, NE, Albuquerque, New Mexico, Hon. Donald A. Manzullo [chair of the Committee] presiding.

Chairman MANZULLO. The House of Representatives Small Business Committee will come to order. We welcome you to our hearing. Are we missing somebody down there at the end? Miguel Rios. He'll get here.

Annually, the federal government spends about $200 billion in services purchased from the private sector. It's a large marketplace, one in which our committee is committed to ensure the small business community is treated fairly and the federal agencies obey the law. In the past, small businesses have had major problems with the way the federal government does business with small businesses. I see some smiles and some frowns. You should have been with us in Santa Fe. We had quite a hearing, didn't we, Mr. Udall?

Mr. UDALL. We sure did. We also introduced you to green chile.

Chairman MANZULLO. I know some people have corn in the west, but chiles are a little bit different.

The problems with the federal government include failure to meet procurement goals. Bundling of contracts will diminish the number of contracts going to small businesses. These are key issues for the small business community.

The first session of this Congress, the committee is focused on making procurement practices in the Pentagon more small business friendly because of the large dollar volume of purchasing the Pentagon does annually. The Pentagon buys over $26 billion each year in goods and services from small businesses.

One of our hearings involved the purchase of black berets for the US Army from foreign manufacturers and not from US small businesses. In fact, the Small Business Committee was the only committee in the entire Congress to have a hearing on the whole issue of procurement of black berets. It was our committee that stopped American men and women from wearing black berets made in China and elsewhere. The hearing focused on the decision of the

Defense Supply Agency to purchase black berets for the US Army from foreign sources.

This committee has both legislative and oversight jurisdiction to ensure that small businesses are not bypassed in the federal procurement process. The hearing uncovered gross disregard for the procurement rules, severely impacting textile manufacturers, apparel and shoe manufacturers in this country. The paramount issue of this hearing was why couldn't these black berets be manufactured in the United States.

The result of the hearing was the Pentagon canceled the contracts with most foreign manufacturers and no US soldier will have to wear a black beret made in China.

There was a further result of this hearing. The Defense Logistics Agency has announced the following on beret procurement, which is going to be over $50 million, that is will be set aside solely for small businesses. You can be sure, as chairman of this committee, I'll use subpoena powers to bring federal officials before the committee to answer why they have failed to follow the law or to treat small businesses fairly. Thank you.

We're all excited, and we haven't even started the hearing yet. I represent the 16th district of Illinois, which runs from the Mississippi River on the west, all the way across the top of the state, to within one county of Lake Michigan. I don't know anything about cactus, but I do know something about corn, and we have a huge industrial area. We have the two fastest growing counties in the state. We have an area that has a tremendous number of farmers, and it's a very, very interesting congressional district.

I got to know your congresswoman the first day that she was sworn in as a member of Congress, and she was acting very lost. That happens, especially when you come in midterm, as Heather did, and the very first day she was a member of Congress, I had the opportunity or the honor to have dinner with her. I'll tell you that this is a tremendous member of Congress that you have representing you. You can applaud. She's done a great job.

We're joined here, also, by another great congressman from this tremendous state of yours, Tom Udall. He and I spent last night together, and then we had quite a hearing this morning in Santa Fe, and Tom is also doing a tremendous job for the people of the enchanted state of New Mexico.

Mrs. WILSON. Thank you.

Chairman MANZULLO. Congressman Roscoe Bartlett and I came in in the same class of the 100th Congress back in January of 1993, and Roscoe has a Ph.D. in science. He's the vice-chairman of the Small Business Committee. He's also chairman of the energy subcommittee. He's on the Science Committee, and he really is going to lend a tremendous amount of expertise, especially when we talk about the labs.

So that's the only opening statement I've got. Let me give it to you, Heather.

Mrs. WILSON. Thank you, Mr. Chairman. I appreciate very much your willingness to come here, and I think one of the great strengths of the Small Business Committee is, it gets out into America's mainstream and finds out what's really going on with America's small businesses, and I very much appreciate you coming

here to New Mexico, because we have such a vibrant small business community here, many of whose members you're going to hear very shortly.

I also wanted to introduce Nancy Renner and Ron Johnson, who are kind of the owners—not really the owners, but they run the workforce development center here, which is brand new, and they run it in a way that's responsive to business, and it's not yet another government-supported endeavor. They actually are self-supporting here, so they are very connected to the business community and very responsive, and I wanted to thank them for letting us come here.

I know Senator Kent Cravens is here. I wanted to thank him for coming. He's a state senator. And I think I saw Aggie, from the commissioner's staff is here. Thank you.

And I want to thank you very much for coming down and doing your service on the Small Business Committee. Small business is important in New Mexico, and it's good we have a New Mexican, besides you've got to keep Don in line.

Mr. UDALL. Yes.

Mrs. WILSON. And I particularly wanted to thank Roscoe for coming, Roscoe Bartlett, who I've worked with, as well, on the Armed Services Committee, but the real reason I'm glad he's here is because we expect to see him back frequently, since his son was just hired to do supercomputer modeling at Sandia Labs, so we'll take him as kind of an honorary constituent.

I wanted to thank all of you for coming today, as well as those of you who came to listen about how the government does business with small businesses. What are the programs that work in the Small Business Administration, what are the subcontracting problems that we have in New Mexico? It's a huge government contractor. We're talking about $200 billion, nationally, being contracted by the federal government. Well, when you take into account we have three military bases and two national labs here, and less than 1 percent of the country's population, the federal government has a disproportionate impact on the state of New Mexico, and also has a disproportionate impact on small and minority-owned businesses.

We have a disproportionate number of small minority businesses here in New Mexico, and some of the most successful ones in the country are here in New Mexico, and some of the leaders of those companies, we will have an opportunity to hear from. 99.7 percent of the employers in this country are small businesses, and they employ half of the employees in this country.

For women-owned businesses, 15 million Americans are employed by women-owned companies, and minority-owned business and women-owned businesses are growing much faster than large businesses. This is where the jobs are coming from, this is where the innovation is coming from, and as a state and a country, we need to pay attention to small businesses. If the economy falters a little, as it has for the last 13 months, it's small business that's going to bring us back. We surely need to pay attention to that. I'll be very interested to hear the discussion—and I have reviewed the written testimony—I'm very interested in the discussion, give and take, on some important issues, like funding, like how to make the

8(a) program work, like how to expand creative management programs, other things that are important and just the hassle, sometimes, of doing business with the government.

I know about that hassle, because, before I knew I was going to be laboring away in state government, I started and ran a small business here and did work for both of our national laboratories, as well as large other government contractors, and it certainly keeps you awake at night not knowing whether they are going to cut that check for the 60, 90, 120 days accounts receivable that you're carrying on your back, and you're wondering whether you're going to be able to meet payroll this month without taking another covering loan, because somebody in accounts payable hasn't got the paperwork done, and that's not the burden you should be putting on a small business.

So I want to thank all of you for coming. Particularly, I want to thank the chairman and members of the committee for joining us here today, and look forward to a lively and interesting discussion. And thank all of you.

Mr. UDALL. Thank you very much.

Chairman Manzullo, let me say it's a pleasure to be here and have the Small Business Committee be here, and Heather, the first congresswoman in that district, I know that, from her hard work, she cares very much about small business, she cares about the job growth, and she wants to make sure that small businessmen and women are not lost in the shuffle when it comes to government programs and all the other things that are going on out there.

So it's a pleasure, Heather, to be here with you. My colleagues and I on the Small Business Committee have long recognized the barriers that have affected minority small business entrepreneurs.

The last session of Congress, our Small Business Committee passed 27 bills, 20 of which were signed by the President, making our committee one of the more productive, Mr. Chairman, in the 106th Congress. We were able to accomplish that by working with the bipartisan Congress members, checking our ideologies at the door, and keeping in mind one simple goal: How do we help small businesses? And at this time, we call on all members of Congress to join us.

Much of what we accomplished last Congress will significantly benefit minority businesses in all aspects. We were successful in lowering the cost of loans to startup businesses, most of whom are minorities. This will enable thousands of business owners across New Mexico, who cannot access affordable capital, to do so, and grow their businesses.

We also created the first ever venture capital technical assistance program. In terms of opening the federal marketplace to small businesses, our committee continues to work to ensure contracts are of manageable size so that small businesses can compete for contracts.

Mr. Chairman, you know, as we covered in Santa Fe, we've created a new women's contracting program that will allow women-owned businesses in historically underrepresented industries, like technology or construction, to have a level playing field and compete for contracts. But probably our most critical victory was saving the 8(a) program, which has been systematically under attack

during the last few years. We were successful in stopping moves, by some in Congress, who failed to recognize, even in this day and age, racial bias still exists. We've been successful in maintaining the 8(a) program, allowing them to continue as a viable vehicle for minority business opportunities.

For my part as the ranking Democratic member for the rural enterprises, agriculture and technology subcommittee, I recently worked with Chairman Manzullo to pass my Native Entrepreneurial Development Act. This legislation will help develop one of our most underutilized sectors of the local economy, the tribal businesses, by extending the successful network of small business development centers to create a new business center whose sole focus will be to work with local tribal businesses to increase startup and expand existing firms.

These are just a few steps, and I believe our committee should continue to work in helping minority businesses to grow, and I know the entire New Mexico delegation will join me in this endeavor.

With that, let me thank all the panelists for being here. I look forward to hearing from the panelists and from others that the chairman might recognize.

Thank you.

Chairman MANZULLO. Roscoe.

Mr. BARTLETT. Thank you very much. I'm very pleased to be here, and I'm very very pleased to be a constituent of Heather. She agrees with me on about as many issues as my wife.

I've served with Heather both on the Small Business and on the Armed Services Committee, and you are represented by a very thoughtful, hard working representative, and you're lucky. I hope you continue to be lucky, to have her represent you.

In a former life, I worked on both sides of the issues that we're going to be talking about today. I worked for government and was involved in letting contracts. Then I was a small business person, one of maybe 35 in the Congress, belonged to NFIB, sought government contracts, poring over the Business Commerce Weekly, daily. I guess it came out to that.

Small business is the engine that drives our economy. Heather mentioned that women-owned small businesses are growing at twice the rate of male-owned small businesses, and bankers need to listen up, because although the women-owned small businesses have difficulty in attracting capital, there is a lower bankruptcy, failure rate for women-owned small businesses than there is for male-owned small businesses.

Also, women-owned small businesses have better employee relations. That doesn't surprise me. Women are different than men. Our military is having some trouble figuring that out, by the way, but they are different. Women are more compassionate, more empathetic, able to pay more attention to detail, make better employers, their companies are better corporate citizens. For the same reasons they are better employers, those same qualities make them better corporate citizens, and they are more involved in the community.

I'm pleased to be here at this hearing. Most of the new innovations in our country, most of the patents—and I was lucky enough

to be awarded 20 patents, and I know the kind of environment it takes for a person to be creative, and that environment is not produced in government, and it's not produced in large businesses. Most of the new innovations that push the envelope, really, is what happens in small business, and when we come out of a recession, most of the jobs we've created are created by small business, so we need to do whatever we can to make sure that the government benefits, not just in small business, although that's certainly—you know, my interest is also in spending the taxpayers' dollars in the most productive way, and the most productive way to spend those dollars is to involve small business more, rather than less.

So I'm pleased to be at this hearing today.

Chairman MANZULLO. Thank you very much.

Nelson, could you put this mike in the middle. The four of us can share these mikes.

Okay, before Congressman Wilson introduces the panel, let me give you just a couple of basic rules. The little light in front of you, we try to limit your testimony to five minutes, and if I go like this, you know you're coming up on the five minutes. If I get more energetic, you know, it's time to wind it up, because I want to leave plenty of time for interaction among the panel with questions of the members of Congress.

All statements of the members of Congress and the witnesses will be part of the record, and if anybody here in the audience wishes to submit written testimony, you can do so within 28 days of this hearing. I would suggest that you get all of your written statements—can you give them your office address here, Heather?

Mrs. WILSON. If you send it to our office in Albuquerque—there's an address for the office.

Chairman MANZULLO. If you'll get those in within 28 days.

Congresswoman Wilson, do you want to introduce the panel?

Mrs. WILSON. I'd be honored to do so.

Tina Cordova is the founder and president of Queston Construction Company. She started, in 1990, a company that does general construction, as well as roofing. One of the neat things about her business, which nobody in the business can imagine women working on construction, including her. She's one of the top 25 women-owned businesses in New Mexico, and in the year 2000, she was small business person of the year for New Mexico, honored by the Small Business Administration for that, and she currently serves on the board of directors of the United States Hispanic Chamber of Commerce.

Anna Muller is the president of NEDA Business Consultants, Incorporated. She's been working with small minority business for 30 years now——

Ms. MULLER. 31.

Mrs. WILSON. 31, and she is very well known to the business community here as a determined advocate for small and minority business, and a great representative of her clients. She has been very active in the community, including the New Mexico 8(a) & Minority Business Association, Latin American Management Association Board of Directors, and has worked very closely with Sandia National Laboratory on the Supplier Community Advisory Council to improve small business and minority business contracting.

She's also one of those who constantly shares her knowledge with me, and I wanted to thank her for that, for her help.

Dr. Evaristo Bonano is president and chief executive officer of Beta Corporation. Beta Corporation is an environmental engineering and management firm that does work on risk assessment, risk management and decision analysis with respect to environmental and waste management problems. He's received numerous awards, including the US Small Business Administration Small Business Exporter of the Year, for New Mexico, in 1999, and also was Minority Exporter of the Year, Hispanic Engineer National Achievement Award, and Entrepreneur of the Year for the year 2000. He's currently serving as president of the New Mexico 8(a) & Minority Business Association.

Joan Schlueter is the owner of On Site Hiring Consulting. I worked with her in the past as an active member of the Association of Women Business Owners, and she's just completed a three-year term on the board of the National Association of Women Business Owners, and is the current chapter president of the National Association of Women Business Owners, here locally.

She's also the founding partner of Women Impacting Public Policy, which I kind of like the sound of.

Joe Powdrell is the owner of Mr. Powdrell's Barbeque House, and he started his business in 1978. He's gained a rather good reputation in this community as a wise and fair and good businessman, good in the best sense of that term. He contributes to our community as the president of the African-American Business Council and the Governor's Business Advisory Group.

His great praise in our household comes from my in-laws, because whenever they come to town from Ohio, they have to stop by Powdrell's Barbeque on the way to the house, because they can't stay away. He makes a great barbeque recipe.

Don Furtivo, specialist of Matrix Capital Bank, and his role here, since August of 2000, is to open a branch of a major bank here in New Mexico and develop the New Mexico region for SBA guaranteed commercial loans. He retired from the US Small Business Administration in 1998 after 27 years of service. With the SBA, he was responsible for the SBA commercial loan portfolio. He's got a great deal of knowledge and experience, and I look forward to working with him in the community and hearing what he has to say about how we can expand access to capital for small businesses in New Mexico.

Michael Canfield is the president of Valliant Enterprises, Inc. He became a small business owner in 1989, and later purchased the company in 1993. Valliant Enterprises provides a variety of economic development and human resources development for Native American tribes with an imaging division providing scanning and archiving products and services, which has been the long-time basis of the company that he bought.

Michael took a sabbatical from Valliant from 1996 to 1998 to manage Laguna Industries, a tribally-owned manufacturing company, and he's a member of the Laguna Indian Tribe. He's also a board member of the Albuquerque Chamber of Commerce and the Indian Pueblo Cultural Center.

And last, but not least, Dr. Miguel Rios, who's the founder and chief executive officer of ORION International, was recently named interim CEO of the National Center for Genome Resources, which is up in Tom's district, just south of Santa Fe.

He established ORION International Technologies in 1985, and ORION Information Technologies in the year 2000. Over the past 16 years, the company has grown to over 200 employees, headquartered here in Albuquerque, New Mexico, and is consistently in the list of top national and Hispanic-owned businesses. The company provides engineering services and research and development support to the Department of Defense, Department of Transportation, national laboratories and large federal prime contractors.

His companies that he owns, and he personally, have received commendations and awards, including the year 2000 Department of Energy Minority Business Summit Excellence Award, listed in 1999 and 2000 among the 100 most influential Hispanics in America, and the 1999 Small Business Administration National Prime Contractor of the Year Award.

I don't think there's anybody who comes from Illinois or Maryland who can say that New Mexico isn't very well represented with national leaders in small business and minority-owned businesses. We have some great companies here, and I want to thank all of you for your participation and insights and sharing your wisdom and knowledge with us today.

Chairman MANZULLO. Thank you. The first witness will be Tina Cordova.

Tina, do you want to put the mike down there.

STATEMENT OF TINA M. CORDOVA, PRESIDENT, QUESTON CONSTRUCTION, INC.

Ms. CORDOVA. Congressman Manzullo, Congressman Udall, Congressman Bartlett, Congresswoman Wilson, I am honored and proud to have this opportunity to testify before you today as a representative of the small business community of New Mexico, and the United States.

My name is Tina Cordova, and I'm the founder and president of Queston Construction, Inc. I am a general commercial construction contractor——

Chairman MANZULLO. Hang on a second. It shows red on there. It should be green.

[Discussion held off the record.]

Chairman MANZULLO. We'll start the clock all over again and just continue.

Ms. CORDOVA. Thank you.

Chairman MANZULLO. One of the rules, you can't get nervous in testifying. Nobody is on the ropes. You know, this is not the type of hearing that gets real wild, like we have in Washington. We're here to listen to you all and get information.

Ms. CORDOVA. If I get nervous, just give me a signal.

Chairman MANZULLO. If I go like this, that means five minutes are up, please.

Ms. CORDOVA. I'm a general construction contractor, with a division of my company devoted to roofing. I've been in business for 11

years, and my company is a small, woman-owned, minority-owned business. We work all over the state of New Mexico, and have had contracts with most of the government agencies that work in New Mexico. I'm currently working on my 8(a) application. We've always met the criteria for becoming 8(a) certified, but I wanted to feel comfortable that my company was ready. That's why I have waited, and we are indeed ready.

Aside from my work, I also serve on the board of directors of the United States Hispanic Chamber of Commerce, where I'm the legislative chairperson.

Locally, I'm on the executive board, as well as the board in general, of the Albuquerque Hispano Chamber of Commerce, and also serve on the advisory board to the TVI Small Business Development Center that is located in this building.

I believe I'm very much in touch with the business community at large and most specifically the minority business community, as I spend most of my spare time in an advocacy role for the same.

I am passionately devoted to exploring the issue of procurement opportunities for small, women- and minority-owned businesses. It is the lifeblood of our existence and, yet, there remains much to be done to reach parity.

In March of this year, the US Department of Commerce Census Bureau released data that placed New Mexico as the per capita leader in the nation when it comes to the number of Hispanic-owned businesses. 22 percent of the businesses in New Mexico are owned by Hispanics. This is not surprising, when you take a look at the fact that the year 2000 census figures place Hispanics at 42 percent of the total population of New Mexico.

However, the same census bureau data indicates that the 22 percent of businesses owned by Hispanics in New Mexico only account for 5 percent of the state's business receipts. These numbers speak to the disparity that remains today in the year 2001, across this great country of ours, when it comes to opportunities for Hispanic business owners.

When you examine where the growth has been in the overall numbers of small businesses in the last ten years, the data indicates that the number of Hispanic-owned businesses has grown 232 percent. Much of this growth can be attributed to the increase in Hispanic women-owned businesses. There are well over two million Hispanic-owned businesses in the US today. From an economic standpoint, it only makes sense that we should protect the success of these businesses. We should reduce barriers and shore up programs that assist minority businesses in their quest for opportunities.

In that regard, and as the chair of the legislative committee of the United States Hispanic Chamber of Commerce, I present to you, and have attached a copy of, our legislative plan for the year 2001. It is a comprehensive plan assembled by the USHCC every two years. We poll our constituency, and from the input we receive, we address the areas of utmost concern. Many of you have seen the plan, as the USHCC made every effort to distribute it widely in Congress. This is a great opportunity for me to more formally present it to you, and I ask that it be made part of the record. Please review it at your leisure.

This year, the priorities of the plan focus on four main areas: Access to capital, procurement, e-commerce, and finally, business education and training.

I want to focus on one area today, and that is procurement. The 8(a) program, as most of you know, has assisted many small Hispanic-owned businesses in competing for federal contract dollars. This program is essential, and I believe it should be protected as a vehicle to achieving the parity that I spoke of earlier. Attempts to circumvent or dilute the 8(a) program should be avoided. I believe the HUB zone program is an example of a plan that circumvents the 8(a) program.

There are problems within the 8(a) program. One problem is that Hispanic firms have been significantly underrepresented in the 8(a) portfolio. This problem has existed since the inception of the program. Hispanic-owned businesses account for well over 40 percent of the total minority population in this country, yet we only account for 24 percent of the firms in the 8(a) portfolio and 21 percent of the total value of the 8(a) contracts. We must be equitably represented to achieve parity. To resolve this problem, a thorough review of the 8(a) portfolio must be undertaken and a recruiting effort made to reach out to Hispanic woman-owned businesses.

Finally, I would be remiss if I didn't address the issue of contract bundling and the negative effect it has on all small business owners. Contract bundling takes away from small business, period. The statistics are clear on this. As small business owners, we have very little opportunity to participate in these bundled contracts. Contract bundling goes against all the efforts made to bring parity in the federal contracting arena. Make no mistake, it doesn't save money, and it's wrong. The USHCC publishes a newsletter, quarterly, called "Networking." The spring 2001 issue had an article I wrote on contract bundling. I have attached that article for your review and to be made part of the record.

I thank you for the opportunity to testify here today. I applaud your attention and interest in the small business community, and most specifically, the small Hispanic business community. I ask you to continue to work hard on behalf of small business issues like those presented here today, and I personally look forward to future opportunities to provide this committee with input.

Thank you.

[Ms. Cordova's statement may be found in appendix.]

Chairman MANZULLO. Thank you very much.

Our next witness is Anna—is it Muller?

Anna, if you want to, speak into the microphone there.

Mrs. WILSON. Someone else came in that I just wanted to acknowledge she's here. Ramsay Gorham, who represents the North Valley, is also here and I want to thank her very much for coming.

Chairman MANZULLO. Ms. Muller.

STATEMENT OF ANNA MULLER, PRESIDENT, NEDA BUSINESS CONSULTANTS, INC.

Ms. MULLER. Honorable Congressman Bartlett, Honorable Heather Wilson, congresswoman, and Congressman Manzullo—am I pronouncing it right?

Chairman MANZULLO. You probably wondered whether there should be a tilde on the end. Italian names don't have tildes.

Ms. MULLER. No? And, of course, in northern New Mexico, where I'm from, Congressman Udall, thank you for describing what I do to earn my daily tortillas.

I've been a consultant to the minority business community for 31 years. I'm into decades these days, and I'm into three decades. I also participate nationally on the Latin American Management Association Board of Directors, and I'm the only one out of the beltway that is serving as vice president of the National Alliance of Minority Business Associations.

I'm going to really confine my remarks to the decline of 8(a) procurement centers, because they have absolutely been—it's not an exaggeration to say they are precipitous, and one of the reasons is, obviously, contract bundling, which my esteemed colleague, Tito Bonano, will be addressing more thoroughly. But you all have seen the latest report from the Federal Procurement Data Center, which clearly demonstrates the federal departments and agencies have produced mediocre results, and Congresswoman Velazquez' report cards will be coming out soon, and I'm sure most of those agencies will be getting Ds and Fs, at the very best, and it's no secret that those numbers have declined, as I said, precipitously.

I have provided you all with the New Mexico numbers, and there's a graph in here that shows that from 1995 to the year 2000, 8(a) sales have gone from, in 1995, 220 million to 51 million. I mean, if that isn't precipitous, I don't know what is. And this, by the way, New Mexico activity is just a microcosm of what's happening all over the United States.

Now, there's a whole litany of reasons for this, you know, contract bundling, acquisition contracts, utilization of GSA schedules, government-wide acquisition contracts, GWACS, impact cards, the addition of different categories, you know, HUB zones and veterans programs. The pie isn't getting any bigger, so the pie is getting split up with all these additional categories.

We had always been able to sell the fact that the 8(a) program is the most—the fastest contracting mechanism for procurement officials.

Well, we can no longer claim that, because 8(a) contracting is not faster than any other contracting method. A contracting officer can use that GSA schedule, "boom," there you are. It is absolutely a much lighter-on-its-feet contracting mechanism.

So with that and the GWACS, which is also a very onerous vehicle that is impacting how much business is going to small minority and women-owned companies, GWACS can now allow agencies to buy off of each other's contract schedules. The FAR regulations are giving it an order of precedence, and this type of contract is above all commercial contracts. And this means that an agency must order from a GWACS prior to ordering any other way. And due to the ease of all of these new contracting programs, the 8(a) program now is seen as a slow-moving program, and it's in competition with all of these other contracting mechanisms.

So it's no wonder that we are now finding ourselves behind the 8 ball, in terms of being able to sell that 8(a) is the fastest and easiest contracting vehicle.

Now, I have some recommendations that I'd like to make; and by the way, I really want to thank Congresswoman Velazquez' office—Michael, please thank the congresswoman for me—your staff helped me pull my thoughts together on these recommendations.

We need to track the dollars that are going to GWACS to determine whether small business opportunities are being lost and by how much. That's going to take some quantitative analysis.

I'd like to make some comments about the net worth of 8(a) firms having to stay at $750,000. That's ludicrous. I mean, we should be building wealth in this country. You're not wealthy at $750,000. Firms are having to cap their assets in their businesses, because the net worth cannot exceed $750,000. You're encouraged to get into a double taxation situation. And, by the way, the house and senate passage of House Bill 1234, the Small Business Contract Equity Act of 2000, and thank you, Congressman Udall, for cosponsoring that with Congresswoman Velazquez, this will not only add an important quality evaluation to contract bundling, but it will put teeth into small business goals by disallowing that bundling for those agencies that don't meet their small business goals. And I'm going to let Tito talk about contract bundling, but another area that I'd like to see changed, we need to increase those small business size categories. In most of the industries, they are still too small, and we need to raise that competitive 8(a) threshold. $3 million is just too small a number.

And with that, I'd like to thank you.

[Ms. Muller's statement may be found in appendix.]

Chairman MANZULLO. Thank you very much.

Mr. Bonano.

Mr. BONANO. You can call me Tito.

Chairman MANZULLO. Tito.

Mr. BONANO. Tito Bonano.

Chairman MANZULLO. Okay, Tito, I had your testimony and I read it on the plane. I don't have it now. Do you have copies of it?

Tito, we look forward to your testimony.

Mr. BONANO. Chairman Manzullo, Vice-Chairman Bartlett, Representative Wilson, Representative Udall, I thank you.

Chairman MANZULLO. Hang on a second. Do we have more copies of it? That's Michael Canfield's.

Can you imagine a government committee lacking paperwork? Tito, please go ahead.

STATEMENT OF EVARISTO J. BONANO, PHD., PRESIDENT OF BETA CORPORATION INTERNATIONAL

Mr. BONANO. Thank you.

Chairman Manzullo, Vice-Chairman Bartlett, Representative Wilson, Representative Udall, I thank you for the opportunity to testify before this committee.

My remarks this afternoon reflect my views and concerns both as the owner of a small minority business and as president of the New Mexico 8(a) & Minority Business Association. There are numerous obstacles that small businesses, in general, and minority businesses, in particular, need to overcome daily just to survive. Some of those have already been mentioned here by both Ms. Cordova and Ms. Muller. Each day these obstacles seem to become more for-

midable, and therefore, they are becoming a major threat to our country's economic well-being. In the interest of time, I'll address only one of those obstacles: Contract bundling.

Notwithstanding the regulation enacted in December of 1999 restricting contract bundling, contract bundling seems to be on the increase in federal procurement. In fact, the increase in contract bundling was the clear message sent by representatives of NASA, the Health and Human Services Department, and the Veterans Affairs Department, to small businesses attending the Jet Propulsion Laboratory's conference, a small business conference, earlier this year.

Contract bundling it not restricted to the federal government. State and local governments are also embracing the practice. The ongoing procurement for concession packages at the Albuquerque International Sunport is an example of a local government using contract bundling to the detriment of small businesses.

The argument is that it's a more efficient way of doing business, that eventually will result in significant savings to the government. However, there seems to be little evidence indicating that significant cost savings have been realized, so far, from bundled contracts. Moreover, there may be some costs that are not being accounted for in estimating the cost of bundled contracts.

In the meantime, contract bundling is considered a key factor for the decline in the number of contracts awarded by the federal government to small and minority-owned businesses, according to a July 2000 report issued by Representative Velazquez, the ranking Democrat on this committee.

In practice, contract bundling can be considered a set-aside procurement program for large businesses, because it effectively hinders competition. Our businesses are generally precluded from being prime contractors for large bundled contracts because we cannot meet an often mandatory criterion contained in such contracts: Demonstrated past experience in contracts of similar size and complexity.

In some cases, government agencies are bundling smaller existing prime contracts, held by small businesses, into considerably larger contracts. Consequently, small businesses are being forced to step down from prime contractors into subcontractors, just to be able to participate in the procurement and retain at least some fraction of the business.

When small businesses are forced into a subcontractor role, they are at the mercy of the prime contractor. Few large businesses truly help their small business subcontractors grow in capacity and experience by assigning them meaningful tasks.

Finally, contract bundling increases the demand on small businesses to secure more working capital. It is a well-known fact that securing the needed working capital is becoming increasingly difficult for small businesses. In order to raise the necessary working capital to perform the contracts, many small business owners have been left with no recourse but to sell equity in and relinquish some of their control of their companies to their partners. Choosing the right partner must be done very carefully, because the consequences of making the wrong choice can be disastrous.

Let me conclude by stating that I, personally, and the New Mexico 8(a) & Minority Business Association strongly oppose contract bundling. It is a clear and present threat to all small businesses. The detrimental impacts from contract bundling on small businesses, and hence, on our nation's economic well-being are too great to ignore.

I'm also a realist and accept the fact that some contract bundling is inevitable and, perhaps, even necessary. However, there needs to be assurances that contract bundling should be the exception, not the rule.

I urge this committee to take immediate action to halt the detrimental effect that contract bundling is having on small, disadvantaged businesses, and to ensure that the antibundling regulation of December 1999 has the intended impact. A moratorium on contract bundling is needed now until a process can be established to, one, decide whether a proposed bundled contract has been properly justified, and the interests of small and small disadvantaged businesses have been adequately protected; and two, SBA and the other federal agencies have the necessary resources available to ensure enforcement of the antibundling regulation.

I have taken the liberty, in my written testimony, to suggest some specific criteria that could be implemented for achieving these goals. The New Mexico 8(a) & Minority Business Association stands ready to work with this committee and address the contract bundling issue, as well as others affecting our businesses.

Once again, I thank you for the opportunity to offer this testimony.

[Mr. Bonano's statement may be found in appendix.]

Chairman MANZULLO. Thank you very much, Tito. We were interested, in the hearing we had in Santa Fe, regarding Los Alamos, which is, well, into big-time contract bundling. I was displeased with what's going on there, and the complete lack of accountability on the part of the University of California and others that are engaged in running the laboratory. And I appreciate your testimony.

Joan Schlueter. Do you have some Schlueters, who are relatives in Chicago, Illinois?

Ms. SCHLUETER. Well, my father-in-law was one of 18 children, so I probably do.

Chairman MANZULLO. These things happen.

Ms. SCHLUETER. I'm from Illinois, originally.

Chairman MANZULLO. Where?

Ms. SCHLUETER. Northwest suburbs, Park Ridge.

Chairman MANZULLO. Okay. That's outside the district I represent, but it's in the right state.

Ms. SCHLUETER. It's now New Mexico. I chose to move to New Mexico.

Chairman MANZULLO. I'm looking forward to your testimony here. I've got it. Does everybody have her testimony?

STATEMENT OF MS. JOAN E. SCHLUETER, PRESIDENT AND CEO, ONSITE HIRING CONSULTANTS

Ms. SCHLUETER. Good afternoon, Chairman Manzullo, Vice-Chairman Bartlett, Representative Wilson and Representative

Udall. The women business owners of New Mexico welcome you, and I appreciate this opportunity to talk to all of you.

I'm Joan Schlueter, owner of On Site Hiring Consultants of Albuquerque. As a founding partner of Women Impacting Public Policy, WIPP, a national organization representing women business owners, and having just completed three years on the national board of the National Association of Women Business Owners, I have contact with women business owners across America. In the last 18 months, I have visited 30 NAWBO chapters. My numerous awards include the 1999 SBA Women in Business Advocate for New Mexico and Region VI.

There are 9.1 million women business owners in the U.S. that generate $3.6 trillion and employ 27.5 million. New Mexico, a state with only a million-and-a-half population, has over 60,000 women business owners, which employ over 120,000 and generate over a $11 billion.

My experiences put me face to face with many of the problems. I'd like to share some.

One of WIPP's members, Deb Naybor, owner of Naybor Land and Surveys in New York, who, after working on government contracts for 13 years, recently made the choice of getting out of government programs because of time, effort and low profitability. Her allowable overhead on government projects is 25 percent lower than on private clients, her allowable fixed fee is 10 percent to 20 percent lower, and it takes an average of 120 days to get paid, whereas, her private clients pay within 40 days, leaving her with no choice.

Another WIPP member, Lori DeVito, owner of AET Environmental, in Colorado, has been running in circles since 1995, trying to solicit business from the Rocky Flats site in Golden, operated by Kaiser Hill. And after several failed attempts, she gave up. When people at the DOE Marketing Conference in Denver, in 2000, encouraged her to try again, she did, only to be told by the Kaiser project manager that they only deal with large companies.

Another example is Mary Kay Bruns, owner of Contractor Quality Management, who did construction contracting with the US Navy and Army in New Jersey. The trend to pull together some contracts that had already been put out to bid and award them in a bundle put her out of business in 2000.

Finally, there is Kathleen Diamond, who recently testified before you. As owner of a full-service language company in D.C., she's been getting training contracts for over 20 years with the Pentagon and other DoD agencies. She was not successful when competing for a translation contract because she was compelled to team with a "wired" engineering company that would be the prime contractor, even though the scope of the work was primarily language service.

I decided early in my business that I would not work with the labs here because of the time needed to do paperwork and the low profitability.

Having presented you with some women business owners' experiences with government contracts, on behalf of WIPP, I offer you some solutions.

The interest of government and women business owners would be better served if procurement officials and contract officers were held accountable to current legislation already in place, such as the

5 percent goal established by the Federal Acquisitions Streamlining Act of 1994.

What you did, Chairman Manzullo, on the black beret procurement issue, that was brought to the committee's attention, I have that testimony from the Women Business Owners Association in Arizona, and your comments, and was brought to the attention of your committee in May, is what should happen for all women seeking government contracts.

The Women in Contracting Act was passed by Congress last December. The SBA should have the rules ready in three to six months. I urge you to push Congress to implement this act.

The time frame for requests for proposals must be shortened to 90 days for approval of proposals, with ramp-up of 30 days after the submission deadline for fulfillment of contracts.

The Prompt Pay Act must include all contracts, including cost-plus contracts.

The approval process must be streamlined.

Access to capital is another huge problem.

USA Today, August 14th, 2001, focused on this issue, commenting that a woman's work is rarely funded. It continues, "Women received only 4.4 percent of the most important source of investor dollars last year. That percentage has been flat or down since 97, while VC funding has soared, says major research group VentureOne.".

The article quotes Patricia Greene, a University of Missouri professor, who studies women and financing, ". . . Jump-starting women's entrepreneurship is critical. There's a lot of glowing embers here, we just need to fan those flames.".

The SBA should be urged to work closely with more local banks to help women like NAWBO member Elissa Breitbard of Betty's Bath & Day Spa in Albuquerque, who, even after getting preapproved by the SBA, was rejected by six banks before finally getting her loan.

Thank you, Chairman, for your advocacy of association health plans. It's very important to us. We hope this ends up as final legislation.

And thank you, Chairman Manzullo and Congressmen Udall and Bartlett for your time today. And a special thank you to Congresswoman Wilson, who, as a former business owner, understands and supports many of our issues, and for putting forth my name to speak to all of you today.

[Ms. Schlueter's statement may be found in appendix.]

Chairman MANZULLO. Thank you, Joan. I would like you to get a hold of Lori DeVito. If she'll get us a letter, on her letterhead, explaining to the DOE—the DOE has got to get a minus in the manner in which they treat not only minority, women-owned small businesses, but all small businesses across the board.

Ms. SCHLUETER. I have about three or four pages of details of what she's done.

Chairman MANZULLO. If you could get me the letter—if you could get it to Nelson Crowther, Nelson is the attorney on our behalf, Michael Day is the staff director for the minority side of our committee—if you could get the letter to them, we'll forward the letter

on to DOE, and we'll ask them for a response, and if they don't respond to it, then we'll subpoena them.

Ms. SCHLUETER. You're wonderful.

Chairman MANZULLO. I've had it with those clowns. What we heard about three hours ago, it was a disgrace. I've never seen a federal agency act as carelessly and recklessly and totally without any form of organization in trying to, essentially, pander the small business community by bringing up figures that absolutely do not make sense. So we're here to do some things for the small business people.

And when Tom, of course, mentioned to me, then Heather mentioned to me, later on, about what was happening with the small business community and the national labs—not the one here; Sandia is a little different, they don't have prime contracts, but with Los Alamos, I could not believe that I actually listened to the weakest testimony this morning. It was remarkable.

Ms. SCHLUETER. I could give you four hours of that.

Chairman MANZULLO. Don't need that.

The next witness is Joe Powdrell.

Mrs. WILSON. Before Joe begins, I also noticed that Loretta Armenta, president of the Hispano Chamber of Commerce here in Albuquerque, is also here in the room.

Chairman MANZULLO. Have her stand up. There she is.

Did you bring some samples of your barbeque sauce?

Mr. POWDRELL. You know, I was hoping you wouldn't say that, but that can be arranged.

STATEMENT OF JOE A. POWDRELL, MR. POWDRELL'S BARBEQUE HOUSE

Mr. POWDRELL. My testimony—I didn't pass it out.

First of all, let me say that it is more than an honor and a privilege to be able to serve in this capacity, Chairman Manzullo, Vice-Chairman Bartlett, and Mr. Udall, and the beauty among the beasts, Ms. Wilson. This is indeed an honor, and salutations come from my parents, Mr. And Mrs. Powdrell, who are founders of a company that's been in business in Albuquerque just about 41 years, and we represent a community that is a minority. We make up about 2 percent——

Chairman MANZULLO. Joe, could you put the mike in front of you.

Mr. POWDRELL. Sorry. We represent a state whose population is around 50- to 60,000 African-American. Statewide, there are about 325 African-American businesses, ranging from hairdressers, all the way to government programs. It is difficult to be Afro-American lineage in the state of New Mexico. I don't want to come here to cry, that's not a story that my family likes to tell. I've learned a lot the last ten years, having formed the African-American Development—African-American Business Council, on how we exist in New Mexico and what kind of struggles that we're having.

A lot of the problems that people at this table are having, we don't have those problems, because we haven't positioned ourselves—we haven't been positioned to have them. Most of the 8(a) applicants, of African-Americans, find it too difficult to be certified.

We lose people as a result of that. They find it too difficult to do business in New Mexico.

Another gentleman, who should have been here today, left here, is going to Houston to find another job.

There are a number of things that I'm supposed to say in representation of this particular portion of the community. We're having a difficult time accessing capital. I have checked with a number of people to see how many other African-Americans do I know that have received an SBA loan, and in ten years, I've met not one. And I'm not sure what that says. There's a lot of things that can be read into that, but that should not be the case.

I talked to a major car dealer yesterday, in an effort—in preparation for this meeting today. He said to me that when African-Americans ask for money on the other side of a half-million dollars, you become categorized as a very high risk, and that suggests that that might be the sentiment that X number of people are feeling.

We wish good business to the other portions of the minority community, hoping that, as they progress, they will look back and try to pick up those who are of a lesser representation.

It is significant that Hispanics, male, female, tall, short, do well, because we have strength there; we have possibilities there. We're losing lots of our young people to a climate that does not receive them well. Most of these young people coming out of school, educated well, are leaving New Mexico to go to other states.

There are some suggestions I'd like to see:

We need to watch the banking industry. It's changing so fast. One of the reasons Powdrell's Barbeque has had success is because we have such a strong relationship with this community. Now, that doesn't mean that we can't be turned down, but it's difficult to turn your back on a company who is so notorious. But we have been turned down. My mother says that accessing capital is too high, and we have had people, and Ms. Schlueter can tell you, who have worked with us real well, kept us from getting frustrated. We almost gave up on them, and that was 20 years ago.

I really want to emphasize there are some critical things we need to think about. There needs to be some incentive given to other financial institutions, other than banks. We need to probably think about legislating where private investors are given some kind of incentive to assist the creation and the development of small businesses. I don't know if it needs to be a tax incentive or what, but we need to look for some other funding sources to assist the development of minority businesses, particularly the Afro-Americans in this state.

Lastly, I think the 8(a) program has been too difficult for us to get into, and we've suffered because of that. There are a number of things I really want to say, but I'm overpowered by the presence of these people, it's kind of tough, but I'm honored to be a part of this state. I'm concerned about the future. It's tough to live in New Mexico. Again, we represent 2 percent of the state, but we represent 25 percent of the inmate population, and I really want you to take note of that.

The business community is the most aggressive portion of the Afro-American community, and it's important we have successes

here, because we are, to a large degree, part of the motivating force of progress in our community.

Again, I want to thank, particularly, Ms. Wilson for the opportunity to come here. I hope the contributions and thoughts that might have made are taken in a positive nature rather than negative. But these federal programs are in a position to have—by the time it trickles down through the rest of the community in New Mexico, we don't see it.

Thank you very much.

[Mr. Powdrell's statement may be found in appendix.]

Chairman MANZULLO. Joe, thank you. I was raised in the restaurant business. My parents went into the food business when I was four years old, and the family business continues today. My brother runs a restaurant that has 13 tables and 13 bar stools, and he works, like you, too many hours a week. He's exchanged his security for something called entrepreneurship.

Don Furtivo is with—is it Matrix Bank?

Mr. FURTIVO. It's Matrix Capital Bank.

Chairman MANZULLO. Matrix Capital Bank.

I'm also a member of the Financial Services Committee. I served on the banking subcommittee, and I noted your background in the 8(a) program of the Small Business Administration. I believe your testimony will be very appropriate.

Mr. FURTIVO. Thank you, sir.

STATEMENT OF DON FURTIVO, MATRIX CAPITAL BANK, COMMERCIAL LOANS, SBA DIVISION

Mr. FURTIVO. Good afternoon, Mr. Chairman, Mr. Vice-Chairman, Honorable Congresswoman Wilson, and Honorable Congressman Udall. Thank you for the opportunity to speak to you this afternoon regarding these important hearings here in New Mexico.

The small business community and its lenders rely on the Small Business Administration guarantee program. Without this program, many lenders would not be able to make loans to the small businesses that they presently participate in and submit to the SBA. The SBA guarantee program is an enhancement that makes it possible for lenders to assist the small businesses that they otherwise could not assist. As Senate Small Business Committee Chairman Christopher Bond (phonetic) wrote in his letter of March 16th, 2001, the small business community is dependent on the SBA's programs to obtain long-term financing at a competitive interest rate.

Each year, 40,000 or more small business concerns, who cannot obtain credit elsewhere, turn to the 7(a) programs for critical financing. This is especially true here in New Mexico, where approximately 29 out of the 33 counties are deemed rural communities, and a lot of the community banks just do not participate in the SBA programs for any number of reasons, reasons such as fees are too high, the paperwork is too extreme, and they don't have a commercial lender within their organization that can meet the requirements of the SBA application process, and loan volume is dropping in this state.

Three years ago, lenders in this state made 308 7(a) loans. Last year, they made 278 7(a) loans, and as of the third quarter ending

September 2001, only 146 loans. So that would seem to tie into many of these things that you would like to address.

As Mr. Powdrell pointed out, a lot of Afro-Americans, a lot of minorities, other minorities, are unable to obtain the capital here, because the banks just do not want to take the risk of making a high-risk loan, because they're afraid of the SBA program, and afraid if they don't cross the right "t's" or dot the appropriate "i's" that the SBA is going to pull the guarantee out from under them, and we know that that cannot happen, and we should not let that happen.

With this in mind, the fee increases to borrowers and lenders for fiscal 2003 are simply not justified. The present fee structure right now is too high, and based on recent information that was submitted by the General Accounting Office, fees paid by 7(a) program participants on loans from 1992 to 2001 will likely increase from 1.8 billion to $2 billion. The OMB office used a default estimate for loans, fiscal year 2001 loans, saying that estimated default loans were 13.8 percent, but based on statistical data, the General Accounting Office rebuts this, saying that the average defaults are 8.8 percent. So there's a 5 percent differential in there. So it's time to consider reducing the fees on the SBA loans.

The SBA loan program should not be run at a profit to the federal government, but it should be run at a subsidy rate that would be more acceptable, and I believe that the three agencies, SBA, OMB and GAO need to get together and settle on a mutual formula to arrive at a reasonable default rate and a subsidy rate, rather than each agency just going its own way, which eventually ends up penalizing the use of the program.

We also ask for your support in fees—I'm sorry, we also ask for your support to stop the cuts in the small business development centers. It's estimated to cut that program by, I think, $10 million. Many New Mexico small businesses, especially those in the rural areas, need this resource. They need it to educate themselves on planning and preparing to be small business entrepreneurs. To cut this program of its funding would sever the evolution of small business entrepreneurship and set us back into ambiguity, which is not what I think Congress or the administration wants to do.

And I would like to add that we also need the assistance from other resources that are available through the state, with the small business development centers and the micro lenders and other organizations that assist small business; that lenders who participate in the 7(a) program, the SBDC centers and these other organizations need to work more closely together so that we can provide the needed capital that these small businesses need in this state.

And with that, I thank you for this opportunity.

[Mr. Furtivo's statement may be found in appendix.]

Chairman MANZULLO. Thank you very much. You might be interested to know that we met in Washington, just before the break, with the new people from OMB, trying to get a true subsidy rate picture. I have more hope now than I did before, that we'll find a subsidy rate, and that the default rate is a lot lower than you think it is.

Mr. FURTIVO. When I was working in Denver—if I might just add, when I was still working for the agency in Denver, we calculated our own default rate on some loans that were made over

a three-year period, and the loans made to small businesses in the state of Colorado, at that time, our default rate was less than 1 percent over three years, and yet the commercial banking rates were 1-and-a-half percent. So small business loans, while people would say that they are risky, they can be less risky if you know how to work with them, and you work with your small business entrepreneurs.

Chairman MANZULLO. I appreciate that.

The next witness is Michael Canfield, and Michael, I also had an opportunity to read your testimony on the plane, but for some reason, I can't find it in front of me.

Mr. CANFIELD. Mr. Chairman, I think I do have some extra copies. If you would like, I'd be happy to provide you with that.

Chairman MANZULLO. You like that paperwork, don't you, Mike.

Mr. CANFIELD. I love paperwork, yes.

Chairman MANZULLO. We welcome your testimony.

STATEMENT OF MICHAEL CANFIELD, PRESIDENT/CEO, VALLIANT ENTERPRISES, INC.

Mr. CANFIELD. Thank you, Mr. Chairman, Mr. Vice-Chairman, and honorable committee members. Thank you for inviting me here today. I also want to thank you for coming to me instead of me having to go to you. I really appreciate you visiting our community. I would also like to welcome you on behalf of the business community, and the Native American business community, as well, welcomes you here today.

I'm really here today to talk to you as a Native American small business owner. My testimony will cover two, maybe three areas, depending on the time.

First, I would like to talk about some of the programs that have impacted myself and my business. I think it's important to check out things that are working, as well as things that are not working, but the second part of my discussion today will also be on some of the challenges small business owners have. And then, thirdly, I would like to talk about some of the programs.

As for the first part of my testimony, I have to go way back to post high school days, which, as I have to go in decades now, instead of years, but when I got out of high school, I don't think I had the option—I didn't think I had the option, at the time, to go to college. And at the time, there was an option for me here, and that was here in Albuquerque.

There's a federally funded and operated school called Southwest Indian Polytechnical Institute. It, at the time, was a technical school for Native Americans. I was able to attend that school for basically no cost, and with the basic education that I received there, I was able to land a job at Xerox Corporation. I was able to stay with Xerox for 14 years, and, of course, I learned a lot about business and leadership from that corporation.

In 1989, I decided to become a small business owner; and by the way, the jury is still out on that decision. They'll have to think about that one. I can say, since 1989, I have not seen one dull moment in my life, so that's something to be said for small business ownership.

But in 1993, we purchased a struggling printing company here in town and worked very hard to turn it around. As we did, along the way, we came across the opportunity to purchase the building we are in, and not a lot of business owners have that opportunity, but we could not qualify for a loan. We did not have the financial strength to do that. The local SBA office was able to help us, and help us with a guaranteed loan program, and we would not have been able to qualify without their help. So we appreciate the local office here and what they did for us.

We have a fantastic loan, if that's not an oxymoron. Maybe it is. I'm not sure. We had a good loan with good terms. It will be a lot better when it's paid off, and we're very pleased to be working with local people here and the help they've given us.

The other program that has been mentioned, the 8(a) program, we are a certified 8(a) company at this time. When we became an 8(a) company, I called on a small business person in Washington, D.C., and found out the Government Printing Office doesn't recommend 8(a)s; they don't really recognize the minority program. So, essentially, that didn't do us any good in my printing area business. And recently, we started archiving, and I'm happy to say we received our first 8(a) contract last year, with one of the government agencies here in town.

I would also state that, you know, I really recognize the impact that those programs have had on my company and myself. It's hard to say where I would be without some of those things, but there are still many hurdles that we need to overcome as small business owners. And, Mr. Chairman, in your letter, you recognized that small businesses are a significant contributor to our economy. You also mentioned in the letter that small businesses have been job creators and have helped the economy out of hard times. I certainly agree with you on these points.

I would also contend small businesses are responsible for providing a significant amount of training that shapes our future work force. Small business owners like myself also donate a significant amount of their time and expertise to the nonprofit organizations to improve our community, and this list, Mr. Chairman, could go on and on, of contributions of the small business owners.

I would tell you I feel the burden of these contributions every day, and I feel the burden of paying taxes; I feel the burden of rising healthcare costs; I feel the burden of crime; and I feel the burden of an ill prepared work force. I think it's time for our government to look for ways to ease that burden.

I've got an example I'd like to share with you, and that is that I'm the vice-chairman of the state's workforce development board here, and as part of that board, I've come to find out we have approximately $295 million of federal money that comes to this state, in one way or another, to improve our workforce. It's usually set aside for targeted populations, and I understand that that's important, but it's really not set aside. There's really none, that I know of, that's set aside to help and assist small business owners who do the majority of the training of our workforce. I know we hear of in-plant training dollars; we hear of those programs that are usually set aside for the Intels of the world, and the Gateways. I appreciate that, too. That's important for economic development in

our state, but maybe we should look for ways to recognize what the contribution of the small business is when it comes to training the workforce.

There are two other recommendations I would like to make before I close, and then I'd really like to suggest the committee spend a lot of your time and our money looking into ways to reduce the government bureaucratic regulations on procurement that so many of my colleagues have talked about today.

For example, printing regulations. The printing market has changed significantly over the years, and our procurement has not. The Government Printing Office, I will submit to you, that's not the best way for the government to procure printing anymore. Maybe, at one time, it was, but—so please look at those.

Finally, I'd like to just mention and leave you with my feelings regarding minority assistance programs. I do believe that the day will come that the business playing field will be level. As Congressman Udall mentioned, I believe the power of diversity will be fully realized and business opportunities will be available for all Americans, but unfortunately, that day has not arrived. Until that day, I urge you to continue to support the assistance programs out there. We need programs that continue to assist the development of our minority entrepreneurs, as well as programs that groom minorities for leadership in private and government organizations.

I thank you, Mr. Chairman and committee members, for having me here today. I'd also like to invite you to the Indian Pueblo Cultural Center, which is down on 12th Street, before you leave. I understand you had some green chile earlier, but we have——

Chairman MANZULLO. I think we're supposed to have ribs tonight, so——

Mr. CANFIELD. I would not suggest that you pass up the Powdrells' ribs, but I invite you to stop by the cultural center.

[Mr. Canfield's statement may be found in appendix.]

Mrs. WILSON. I also wanted to thank John Garcia, who's the state secretary of economic development here. I always have trouble, because he has a twin brother who works—runs the El Pinto Restaurant down in my neighborhood, so I always have to be careful. I've made that mistake, more than once in my life, introducing one as the other.

Chairman MANZULLO. Our next witness is Miguel Rios, Jr., chief executive officer of ORION International Technologies, Incorporated.

Miguel.

STATEMENT OF MIGUEL RIOS, JR., PHD., CEO, ORION INTERNATIONAL TECHNOLOGIES, INC.

Mr. RIOS. Thank you, Mr. Chairman, and thank you distinguished members of the committee for the opportunity to share some thoughts and experiences and opinions on the status of small business in this country. As Congresswoman Wilson pointed out, I'm the founder and CEO of ORION International Technologies, a firm that has been in business over 16 years, and the summary she gave was a very gracious summary of my business background. I would like to add, however, a little bit about my background.

By training, I'm a physicist, postdoctoral work in physics. I spent about four years in academia, I spent ten years at Sandia National Labs before leaving to start ORION an engineering services & R&D company that supports our federal government exclusively. I have been running ORION for 16 years, and have also done a spin-off company to do work in the commercial sector. As Congresswoman Wilson pointed out, I'm currently on assignment from the board of directors of the National Center for Genome Resources as interim president and CEO of the Center in Santa Fe, and I expect to do that for perhaps another five months.

So, my experience ranges from fundamental research, academia, the national labs, industries supporting the federal government, and some limited experience in private industry and in the commercial sector, and now nonprofit. So my perspective is predominately from the point of view of high technology engineering services, but certainly I hope some of my comments are relevant to the issues across the board.

ORION International Technologies is now an exclusive federal contractor. About 90 percent of our business is Department of Defense, including support to Sandia National Labs. So we are heavily a defense-oriented contractor. About 10 percent of our business is with agencies such as the Federal Aviation Administration. I'm obliged to say that I'm here today as a successful small business entrepreneur because of the 8(a) program, although I must parenthetically add that I constantly tell our folks that success in small business is not permanent. It's not necessarily that I wouldn't be here if it weren't for the program, but the fact of the matter is the 8(a) program afforded me the opportunity to enter the mainstream of American capitalism, and I think I represent one of the success stories of the 8(a) program.

ORION was certified in 1985 as an 8(a) contractor, shortly after I left Sandia National Labs and we completed our 8(a) tenure in June of 1994. So we have now been out of the 8(a) program for some seven years.

During the period from 1985 through 1992, ORION prospered steadily, growing in annual revenues, basically from zero to about $14 million a year in revenues in 1993. And we leveled off at about 14 million per year in 1995, and then we declined precipitously in 1996 and 97 to about $8 million per year in revenues.

I'm happy to report to you today that ORION is growing at a compound annual growth rate of 20 percent since 1998, and we completed fiscal year 2000, last September, with revenues of 12 million and acceptable profits. An entrepreneur is never happy with profits, but I have to admit, by the standards of the industry, it's very acceptable.

Further, in October of last year, we did a divisive reorganization of ORION under the IRS rules that allowed us to spin off our non-federal information technologies work as a tax-free transaction. We expect to complete the fiscal year with between 15 and 16 million dollars in total revenues for both companies and project, quite reliably, for next year, between 18 and 20 million.

With the end of the cold war in 1989, it was certainly clear by 1990 that business would change dramatically for defense contractors. The subsequent budget reductions led to facilities closures,

elimination of contract requirements, consolidation of contract requirements into large omnibus contracts and GSA schedules. Thus, the end of the cold war, in conjunction with concomitant globalization fueled by the explosion of the internet, and, I do believe, the collapse of the Soviet Union, clearly made the thrust of the globalization we see today, which has resulted in mega mergers, such that services and products are more and more dominated by very few large companies. This, in my opinion, has caused a deep erosion of the small business legacy that historically has been the key element in the robustness and innovation in both the federal and commercial market sectors.

Based on my experience and observations over the past ten years—and I straddle this, as I said in my comments, between the federal and the private sector—these are some of the key points that I respectfully offer:

Small business suppliers to the federal government are under great duress to prosper and, in all too many cases, to survive.

Second, the 8(a) program is ineffective to help disadvantaged entrepreneurs enter the mainstream of American capitalism.

The size of what constitutes a small business is now much larger than it was before the end of the cold war, and the precipitous globalization that is occurring, the problem is, how do we get big enough to prosper and survive?

Further, the federal market is not a hotbed of entrepreneurship and innovation, although the SBIR program has preserved a small vestige of innovation.

Chairman MANZULLO. I'd like to take that and put it in neon letters five feet high and just flash that over the skies of Washington.

Mr. RIOS. I can help supply you with the neon, and we'll give you a discount, Mr. Chairman.

Further, tech transfer and partnership programs at the national labs are working much better than they were five years ago, certainly at Sandia they are, but probably, across the board, not nearly as well as they could and should.

In addition, conducting commercial work in a company that does federal work is very, very difficult, if not impossible, particularly if the company is focused on cost-reimbursable, high-technology services with DOD and DOE. That's the reason that we did the reorganization, and that's a very good section of the IRS code, by the way.

Finally, the tax structure on small businesses appears to me to be very disadvantageous compared to large companies.

In summary, Mr. Chairman and members of the committee, I believe you should view the erosion of small business vitality in the federal sector with great concern; not because the government should be primarily responsible for developing small business, minority or otherwise, although I do feel that we have an obligation there, but I don't think that's the main reason that we should be alarmed. I think we should be alarmed because I believe our government and perhaps the private sector are losing the key benefits of a robust community of small businesses that provides the best quality, cost effectiveness, innovativeness, responsiveness, and flexibility to quickly adopt to changing user requirements.

It is these characteristics in our small business sector that have been essential to making our country the economic and techno-

logical leader in the world. The globalization process is fostering emerging economies that have nascent entrepreneurial classes that will certainly challenge our economic and technological leadership in the future. We can count on it.

I respectfully submit, Mr. Chairman and members of the committee, that the health and vitality of American business is so important to our long-term world leadership that the Congress should look into the matter very broadly and in sufficient depth to make bold and comprehensive changes that will help ensure our leadership for a long time.

[Mr. Rios's statement may be found in appendix.]

Chairman MANZULLO. Thank you very much.

Before I turn this over to Congresswoman Wilson for questions, let me just explain to you some of the resources that are available to you, in terms of the Small Business Administration, and actually through our committee. We have in our committee, I think about six or seven attorneys that serve as members of the professional staff. Michael Day is an attorney, Nelson Crowther is an attorney, and in regards to our staff, in working in conjunction with the Small Business Administration Office of Advocacy, we have gone to bat for small business people that otherwise would not be able to afford an attorney.

Let me give you an example. You'll like this, Michael. During the course of a hearing, it was discovered that the Department of Air Force wanted 107,000 baseball hats made up as part of their official uniform, and they put out no less than six RFPs. The person in charge of procurement did not know what she was doing. There's not much—I mean, a hat is a hat, you know, with the letters you want on there, and the colors and braids and whatever it is.

Finally, after the seventh letter from our office, they stated that she had withdrawn it. Michelle Goodman, who runs a small business in Phoenix, Arizona, was discussing this with a colleague who said, "Don't you know what happened? The Department of Air Force got a contract with the Government Printing Office to make the baseball hats.".

Now, hats are manufactured, they are not printed. And GPO let out a contract, through their web site, and none of the people who make baseball hats domestically knew about it. By the time we got involved, they had—GPO had let out the contract to a company in the United States, and guess where those hats were going to be manufactured. China. We stopped the contract; we stopped it cold.

Mr. Day, working with our counsel and with the Office of Advocacy fired a letter off, and we stopped that garbage from taking place.

So, if you feel, as a small business person, that you've really been beat up by any government agency, get ahold of your member of Congress, and she can work with our staff and with the SBA. Sometimes the small business—do you have an ombudsman. Do you have an ombudsman in New Mexico?

Mrs. WILSON. The SBA.

Mr. FURTIVO. I believe there's one, through the regional center, that's available.

Chairman MANZULLO. You can call Don; he probably still knows a lot of those people, but the resources are there. There's about 40

people that work in the Office of Advocacy, and they do a terrific job of going after different agencies. There's no politics involved in it at all. It's republicans chasing republicans, democrats chasing democrats. That's to make sure small business people aren't roughed up. Don't hesitate to use us.

Mrs. WILSON. Thank you. Listening to the testimony, there are some very good ideas, and good real world experiences and things of that nature, but there were some things that I wanted to ask a couple of you to expand on, if you could.

Michael, you mentioned how the printing regulations and the RFPs, and so forth, have not kept pace with technology. Can you give an example, from your experience, of what you mean when you say that. What's happening to you? What do you see that just doesn't make any sense from a 21st century point of view?

Mr. CANFIELD. Well, Mr. Chairman, Congresswoman Wilson, I think, originally—this goes back too many decades for me, but I think the GPO originally started off saying "We should be doing most of the printing." You're doing a lot of printing for the government, and obviously, there's a lot of printing, and that makes sense, but now they hardly do any of the printing, they just sub it out. So it seems to me like there's an extra column there that says they're going through these contracting—they are the contracting folks, so we deal with them, and our customer may be right next door to them, yet we have to go to either Denver or Washington to talk to people about the contract. It hampers the relationships, as well, because we are not dealing with our customer like we should. So, my opinion is that GPO should be taken out of the loop, and we could save a ton of money in dealing direct with——

Mrs. WILSON. If you get a customer at the Department of Energy, have you actually had—where you've had a potential customer that you knew he needed some printing work, but you had to go to talk to somebody in advocacy to get the job?

Mr. CANFIELD. They are primarily long-term contracts that GPO lets out, so they can let it out to whoever they feel like, whether it's on a national or local basis, they can let it out wherever. So you could have people doing printing all over the nation for businesses here, for the federal government here, okay.

Mrs. WILSON. Don, you've seen this, now, or seen it from both sides of the SBA loan program, and the numbers you gave were really shocking for how New Mexico is really not taking advantage of, particularly, the 7(a) program. I think that the numbers you gave in the decline of 7(a) loans, we are 45th out of 51 for these loans, and that just doesn't make sense to me.

What are the one or two things that we could do, as a community, to turn this around so that more small businesses would have access to that capital? What would you do to double that in a year or triple that in a year, as far as the number of loans?

Mr. FURTIVO. I think perhaps one of the best things to do might be to get the lenders together that participate in the program. Obviously, you have your larger finance banks, like the Wells Fargos and Bank of Americas, et cetera, that are producing the majority of the small business loans in the state, but there's also the smaller banks that have to compete with those larger banks.

So I think if we could get maybe a half dozen or so of the banks together and discuss the opportunities there, that perhaps we can help educate these banks that don't participate in the program, at all, or very little, because of the lack of knowledge that they—their commercial lenders don't have, and maybe do a little bit of sharing, because there is enough small businesses, I believe, within this state, that they all don't have to go to the Wells Fargos or the B of As, or they shouldn't have to.

Mrs. WILSON. Miguel, when you look at where we are for small businesses—I'm trying to get a baseline of what's happening with small business—how should the Congress go about getting a more in-depth assessment of where we are with the small business programs, to get a better and clearer picture of the reality? Do you have some ideas on that?

Mr. RIOS. Well, I'm of the firm opinion, Congresswoman Wilson, that the issue is so vital to this country in the long-term, and is so complex, I just mentioned some of the issues, everything from taxes to all the departments of the federal government, innovativeness, et cetera, that—let me give you an example of how the Congress might make a more in depth assessment.

In 1987, the Congress chartered a task force to investigate the status of women, minorities and the handicapped in science and technology in this country, and I served on that task force, and it was led by Mr. Jaime Oaxaca, a former vice president of Northrup, and Dr. Ann Reynolds, who's chancellor of the California state university system. We gave a report to the Congress that projected the shortage of scientists and engineers, and I looked up the report on that, because we submitted it in 1989. Sure enough, we see a tremendous shortage of people trained in certain areas.

So it's my opinion that this country would do well to charter a blue ribbon commission of perhaps 20 people or so, with some from the federal government, perhaps a couple of people from the SBA, some top-notch procurement people, and a strong component of business people, just a diversity of people, but we must have—if the Congress is to do this—we must have dynamic people, that can think out of the box, to look at this issue comprehensively and come back with a comprehensive approach, with recommendations on changes, because I think that we'd appreciate it. And I respect the staffs and the hearings. I've seen that—I've seen how hard the staffs of the committees work and how good they are, but this is, I think, a notch above doing it in a segmented way, for lack of a better word.

So with all due respect, I think Congress should consider chartering a blue ribbon commission on this issue. We do that all the time with the National Academy of Sciences, and it works extremely well, and it could be something very beneficial to this country. I think we need extensive revamping of federal procurement. I don't think we'll ever see the days again that we saw, and perhaps we shouldn't. I think if you do the right things, and I don't know what they are, that's why we need some out-of-the-box thinkers to come back to a comprehensive approach.

Mrs. WILSON. Mr. Chairman, I'll yield to my colleagues here.

Mr. UDALL. Thank you, Mr. Chairman. I want to ask a couple of questions, but I want the other panelists, as she answers them—

I'm going to ask her about three—if you also are interested in commenting or adding anything. And as you well know, the 8(a) program was designed for both individual and entrepreneurship, the SBA's HUB zone program was designed as a community renewal program. Clearly, these two programs have different purposes and, yet, the solution is the same, federal contracts.

Recently, the SBA reversed itself and now proposes that the 8(a) program no longer have precedence over the HUB zone program, or rather that the two programs have parity, meaning that a contracting officer could choose which program to use. How do you believe that this will affect the 8(a) program?

Ms. MULLER. First of all, Congressman, as you well know, there was a legal interpretation by the legal staff of the Small Business Administration, and I think your committee needs to look at that decision and see if we can get it reversed; because, as you well know, the HUB zone is place-based, it is not risk-based, so it is absolutely in competition with the 8(a) program. Many of the 8(a) companies cannot become HUB zone certified, because they can't reach that employment criteria.

For example, if you look at HUB zones, they're really designed for construction firms, companies such as janitorial companies and firms that have employees who live in HUB zones. So because this is place-based and because you well know it was originally designed to replace the 8(a) program, let's not forget that in our deliberations. I mean, that's where that—that's why that program was enacted five years ago. So it's what I said earlier, there are all these new categories that are coming up, and they're all in competition, because they all have goals, and the 8(a) goal has got to become statutory. That's part of my presentation.

Mr. UDALL. Well, you and I both know there's no statutory goal for the 8(a) program, so do you believe that the fact that there isn't a statutory goal makes the 8(a) program less likely to be used by contracting officers?

Ms. MULLER. Well, that's just one of the reasons why it's not being used as extensively as it was, but it was that whole litany of issues that I went into great detail on.

Mr. UDALL. The 8(a) program is the primary program to increase minority businesses in the federal government. This program has successfully created over 15,000 businesses. It seems to me that one of the reasons for the decline in 8(a) program dollars might be the fear of the Adarand case, although Adarand did not deem 8(a) to be unconstitutional. Do you have any thoughts on that?

Ms. MULLER. No. I think the Adarand case has been used as an excuse, and, as you've said, it was not deemed—the 8(a) program was not deemed unconstitutional, and we've got to stop trying to find out—find who to lay that excuse on. Sales are down, it's that simple, and we've got to make sure that procurement sales get increased in the 8(a) program, whatever method that takes.

Mr. UDALL. Do any of the other panelists have any thoughts on any of these three questions, the HUB zone issue, the Adarand case, or the statutory goal issue?

Ms. CORDOVA. I have some, Congressman Udall.

As I presented in my testimony, and as was referenced by Congresswoman Wilson, New Mexico is very dependent on federal gov-

ernment dollars, and the census bureau shows that even though we own 22 percent of the businesses here, we're only receiving 5 percent of the revenues. That speaks to this in a big way. The HUB zone program, I believe—my estimation of the HUB zone program is that it's just a way of circumventing; it's a way of taking away from 8(a), and we need to shore up these programs—we would like to see some parity in what's going on with federal contract dollars. We can not remove from the 8(a) program. We have to shore that program up.

I also believe we have a program in place where they assess what their plans were for the coming few years, as far as federal contracting dollars; and the focus was very much on the HUB zone program, and it was very obvious the focuses weren't on doing business with the 8(a) program, and I think it's significantly impacting the growth of Hispanic businesses in New Mexico.

Mr. BONANO. Chairman Manzullo, let me add my comments to what both Ms. Muller and Ms. Cordova have shared with you.

I'm the owner of a high tech engineering company here in New Mexico, an 8(a) certified company, and frankly, the nature of the business our company does for the national laboratories, some private sector clients, and some other government agencies would not allow us to be HUB zone certified, based upon the mere fact that we have to be located in Albuquerque just to be able to serve our current client base. That is a detriment to our company. I think the same concerns are shared by a number of other companies.

I think, in New Mexico, we are blessed, in the sense that many of our 8(a) minority-owned businesses are also high tech companies; however, the HUB zone being on a comparative level with the 8(a) program is a disgrace, and I think Congress should take action on that.

Mr. UDALL. Thank you. One more question for Don. Earlier this year, as part of President Bush's budget, he proposed to increase the fees on the 7(a) loan program to both the borrower and the lender, resulting in an additional cost of thousands of dollars per loan. How will this increase affect your ability to use the 7(a) program, and what type of effect would it have on the availability of loans to small businesses?

Mr. FURTIVO. Any increase is certainly going to impact it dramatically. The previous increase was done, well, maybe about five years ago. If you go back and look at the numbers of loans that were produced in the mid 1990s, versus those loans that were produced in the latter 1990s, and into the year 2000, you will see that almost every district office in the United States have had their numbers decline, and there has been a decline in numbers—some of the states or cities, major cities like perhaps Dallas, New York, San Francisco, Los Angeles, of course, are going to keep their numbers pretty much the same, with a very small percentage of decline, but other cities like Albuquerque, Denver, Chicago, et cetera, their numbers are going to drop, because number one, the lenders don't want to pay the fee that they are being required to pay.

For example, when they sell a loan on the secondary market, yes, they get some fee income for doing that, but then they have to turn around and pay 50 basis points per loan back to the SBA, which is an additional fee, which means they have got to hire somebody

in their institution in order to track those, fill out those loan reports, and then have to balance with the secondary market financial companies out of New York, and that costs money to the banks. So the fees that the banks generate by selling loans on the secondary market are eaten up by other costs of operation.

The impact on our ability to make loans—it's going to be difficult, because we cannot—we generally pass these fees on to the borrower, and most small business borrowers can't afford it, especially here in this state. Although the SBA allows a lender to add these fees to the loan, sometimes adding these fees to the loan disqualifies the applicant from obtaining their loan because of the additional burden.

Mr. UDALL. Thank you.

Mr. Chairman.

Chairman MANZULLO. I would add, those fee increases for the 7(a) loan program are not going into effect. OMB needs to come up with a new subsidy rate on the subject. I am not aware that OMB has come up with a new subsidy rate. If you increase these fees, you make the 7(a) loan program more expensive and less affordable for small businesses.

Roscoe, did you have any questions you wanted to ask?

Mr. BARTLETT. Thank you.

I noted that two of you mentioned contract bundling, Ms. Cordova and Evaristo Bonano.

Mr. BONANO. That's very good.

Mr. BARTLETT. I took a couple of years of Spanish about 60 years ago. Just a note.

Some of this bundling is a sign of the times. Two of our large government agencies had decided that if they didn't do this, they really couldn't be current. One of those was the Marine Corps and the Navy. They found that if they were buying high tech communications equipment, that they never were state of the art, because the procurement time was so long that when they had the equipment delivered, it was already obsolete. So what they decided to do was to buy performance rather than equipment, and then the private sector person could buy the equipment overnight, where the government would take so long to buy it that it's literally obsolete before it's delivered. That's a compelling argument, and I think that because of the requirement to be current, they probably do need to bundle in this case.

Another organization with even more compelling reason to do that was NSA, and clearly they need to be current, and they couldn't be current. Nelson Crowthers and I met with both of those, and they agreed to 35 percent—as a matter of fact, the Navy and Marine Corps relet their RFP to ensure 35 percent small business participation, and 10 percent of the money would be paid directly to small businesses, although, they would be able to negotiate that same thing with NSA.

The word obligatory, I think everybody understands. All we want is a fair opportunity for small business, and we think the 35 percent, 10 percent direct pay is reflective of what's now going on in this procurement world, where there are procurement contracts.

There's one part of this that bothers me, and you've had experience with this, and that's a practice called bid shopping. Are you

familiar with bid shopping? I see some heads nodding. This is where the prime comes in with his response to the RFP, saying, "We'll do a good job doing this, because I'm as good as there is, I have all these subs who are going to support me, and, gee, they are really good."

Then, when he gets the contract, he comes back to the subs and says—you know, they have got a contract—that times are tough, "and you've really got to do better than you did with your pricing; as a matter of fact, I'm going to shop around and see if I can't get somebody to do it cheaper than you."

We took some steps in Small Business to deny contractors of the federal government the opportunity to do that, because, generally, when a bid is accepted, it's not just the prime we are looking at, it's the whole team we are looking at, and if you're still having trouble with bid shopping, we need to know that.

Have any of you had any personal experience with that?

Mr. BONANO. Chairman Manzullo and Vice Chairman Bartlett, first of all, I do agree with you that, as I stated in my testimony, there are some programmatic requirements in government agencies that do clearly necessitate contract bundling. However, as so eloquently put forth, most of these contracts also have strict subcontract requirements. Let me use an example. My company has suffered this, but let me use a company which is in your home state, called Enercorp Federal Services, Incorporated. It's a company owned by Mr. Steve Ruffin, an African American. The company has less than 15 employees.

About 18 months ago, or so, the US Nuclear Regulatory Commission bundled a contract which included as one of the important technical areas criticality safety for facilities. Enercorp is second to none in that area. One of the largest prime contractors in the federal government recruited Enercorp to be their subcontractor and help them write a proposal to the NRC for that contract. The large prime contractor was successful in getting the contract.

And then, talking about bid shopping, they decided that it was cheaper to hire individuals, as employees of the prime contractor, to do the criticality safety work than to award the subcontract to Enercorp, that had worked so hard for and was entitled to.

As a result of that, Enercorp did not get any work on that contract.

Now, shame on the big prime contractor for doing that, but more shame on the NRC for allowing the prime contractor to do that and not enforcing the subcontracting goals as stated in the prime contract. Surely, the subcontracting goal is a performance issue. As a result of that, they should have been dealing with some of the performance issues in that contract.

So, yes, we are very familiar with bid shopping. Like I said earlier in my testimony, I do think some contract bundling is perhaps necessary. The programmatic requirements and necessities of a contract needs to be, I think, clearly defined, and the subcontracting goals and requirements under the prime contract have to be abided by and enforced by the client, the NRC in this case.

Mr. BARTLETT. Thank you. You mentioned the 8(a) program. Two of you indicated—the last two witnesses indicated that the 8(a) program is very helpful to them, they wouldn't have been here without

the 8(a) program. Three others mentioned that the 8(a) program was "too slow," "too difficult," were terms that were used. A couple of you gave very specific recommendations as to how to improve the 8(a) program. I wonder if the different experiences relate to the different offices that they dealt with, or did they reflect the histories of the companies that contended for the 8(a) loan. Few of you have had very positive relationships with 8(a), and three of you had somewhat negative relationships, I guess because you felt it was too slow, and indicated how the program can be better, so we'd appreciate your specific recommendations.

Do you think that it was the companies' background that came for these loans, or do you think that it was the different departments that you dealt with, or the entity you dealt with?

Mr. RIOS. Thank you, Mr. Vice-Chairman, for giving me the opportunity to clarify my comments. I clearly indicated that the 8(a) program was a great opportunity for ORION International, my company, and we were very successful from 1985 through 1992, in particular. The contract loan program, being a credit line guarantee, was a very small one for $45,000 on our very first contract. Later, we got advance payments when we got a $4-and-a-half million contract at White Sands Missile Range, and we didn't have the capital to capitalize the contract. So clearly, the 8(a) program and its programs were very good to me.

But towards the end, I also said that the 8(a) program is now ineffective for helping disadvantaged people enter the mainstream of American capitalism. What I mean by that is, that the 8(a) program has become ineffective because of the dramatic changes that have occurred in federal procurements. With the end of the cold war, there are virtually no set-asides for small business. Even 200-person companies are in danger of not surviving, because if we loose one major contract, we have a major setback. There's virtually very few 8(a) set-asides. I see companies struggling to get small pieces of work, and so it is not working. It did work for me, but it changed dramatically, as the market changed.

Mr. BARTLETT. We appreciate your comments, and if you have additional observations on how the 8(a) program might be improved, we would appreciate getting those.

Just one last observation, Mr. Chairman. I noticed that two of you mentioned the availability of venture capital, that it was too limited. I'm not sure how to improve that. We don't want the taxpayers' money to be used on questionable loans, and yet, there are a lot of entrepreneurs out there that have ideas that might produce another Microsoft that—if they only had a chance to get started.

I was wondering what your thoughts would be about tax incentives—I'm not a big fan of big government, by the way. I was wondering what your thoughts would possibly be about tax incentives that would permit the private sector to invest in venture capital that would reward them more for high risk loans. You know, very frequently, high risk and high reward go hand-in-hand, don't they, and if you are limiting your loans to low risk opportunities, you're likely to really miss some very big returns on that.

How do you feel about, rather than taking your money and doling it out as we see fit, to permit the private sector to make in-

vestments, with some appropriate incentives for additional rewards if they are going to invest in high risk loans?

Ms. MULLER. Since, traditionally, most women business entrepreneurs do not have very much capital, I would be looking for other ways for women to get loans out of the box. That's relative to the fact that women-owned small businesses have a lower bankruptcy or failure rate. We pay our loans back faster, and we have a lower bankruptcy rate.

Mr. BARTLETT. I guess that the bankers don't know that yet.

Ms. MULLER. I think it also leads to another point access for some companies of a different nature. I think that there are people who do have money, and they are not rewarded. There are three ways you can get money, three places, right now. The banks are one, and they are changing so fast at the local level, it's not attractive to local people. By the time you get there—I mean, you have one hell of a product, but it's just the points in between. I think venture capital, private investment is another point, but they need to be motivated to invest, and I think taxes is one of the ways to do that.

Mr. BARTLETT. Thank you, Mr. Chairman.

Chairman MANZULLO. Tina, did you have a comment?

Ms. CORDOVA. I wanted to respond to Vice-Chairman Bartlett's question on contract bundling.

In the construction industry, running that kind of business, bid shopping is a very common practice. It happens all the time. That's unfortunate. The thing about contract bundling, though, is that as a subcontractor, you're always relegated to a position of building the portfolio of a prime contractor, of building their financial wealth, and sometimes at the expense of your own company, when we take a look at contract bundling as a whole, because, to achieve the ability to compete for a prime contract, you have to have the ability to build your own portfolio, and also a lot of these prime contracts have assignments to them that you have to have a certain level of experience on like contracts.

If you work as a subcontractor, you never actually get that experience, and so often with these bundled contracts, if you're relegated to a subcontractor, that's where you'll remain, and sometimes, the other thing, too, I would like to point out is, you're also at the mercy of when and how they would like to pay you, and that is very critical as a small business owner, because we would like to receive that money as soon as possible. I have worked as a subcontractor and as a prime contractor on contracts at Los Alamos Labs. I've had very good luck there, I'll say that much, but it's always been much more difficult when I've worked as a subcontractor rather than as a prime contractor.

Mr. BARTLETT. Yes. I know prime contractors frequently try to use subcontractors as their bank.

Ms. CORDOVA. It happens all the time.

Mr. BARTLETT. They just want to pay you very slowly. That's the same thing as borrowing money that's interest free. That's unethical. I think that bid shopping is particularly unethical, and I think that for federal procurement, it ought to be united.

Ms. CORDOVA. Another thing I might add, as a subcontractor, what leverage do you have? You want to continue to work with

these prime contractors, so often, you can request to get paid, and that would be what you would like to have happen, but you also don't want to upset the apple cart, if you're working with them as a subcontractor.

Mr. BARTLETT. I understand that, and that's why we need to build into our RFPs the requirement that they pay you promptly.

Chairman MANZULLO. I want to thank you for coming here. I want to thank Heather for inviting the tremendous witnesses. You know, we hear lots of testimony from people across the country. There's a saying that misery likes company. It helps out.

Capital is short for everybody across the nation, I don't care whether it's for your own enterprise or not. We should have a hearing on the lack of availability for capital for any small business person. And sitting on the Financial Services Committee, we're very much interested in why that is.

The other side of that is the fact that there has been a lack of demand. Small companies have just been very reticent to try to raise capital because of what they see out there. But what's happening, I assume, with this panel and with the last panel, I think the real focus here is contract bundling in prime contracts. They are hammering everybody. Whether it's a minority-owned business or not a minority-owned business, all small businesses are coming under the hammer of the prime contractors.

And as I said to the folks at Los Alamos—I think they know my name now. I think their resorting to prime contractors is just laziness. They don't want to go out and do procurement themselves. They get ahold of the prime contractor, including the University of California, to do their bidding for them and come up with these incentive programs, outreaching to the minorities. If I hear that once more, I'm going to scream, because minority groups are out there, already reaching out, wanting to know where the contract is, and all we hear from the bureaucrats is, they are talking about reaching out to minorities. Reach out with a check, and that will take care of it.

And so, we made that point very clear to the folks at Los Alamos. I'm not going to tolerate, as chairman of the Small Business Committee, seeing small business people having to suffer while these bureaucrats don't want to do their job as procurement officers and simply end up with a prime contractor.

We have the Defense Logistics Agency, DLA, that does the work for DoD. They have 18,000 procurement officers, 18,000 of them. On the Armed Services Committee, I asked them, I said, "Why are you getting involved with prime contractors if you have all these procurement officers?" And I heard some of the most incredible stories about things that have been going on. The problem is that very few congressional committees are willing to dig in and find out exactly what's going on. That's what we're doing with this Small Business Committee, that has very little jurisdiction, except the ability to raise lots of hell.

We got involved with those berets because no one else was willing to step up to the plate. Three congressional committees had requested information from the Defense Logistics Agency on those berets, and I soon learned that you don't request anything from those clowns. There are 17 members of Congress that have the powers

of subpoena. I'm one of them. And Tom, you're an attorney, you know what that means. I said, "Fine." They stonewalled three congressional committees, bringing documents in in five days, and—they must have worked all weekend putting together all these documents, backdated documents, legal opinions from people that must have graduated from law schools that are still working under the accreditation of 35 years ago.

I mean, I looked at this thing and I said, "What are these people doing? Why isn't anybody being held accountable?" That's why we've come to you. We're asking you to do your part. When you see these abuses occurring, get us a letter on the letterhead of that company, because I'm convinced we are not going to change this all at once. It's got to be led head by head. You can pass all the procurement laws that you want, but if you can't get sufficient quantity or quality for clothes or appliances—we are in the process of drafting this and serving notice on Congress. And you wouldn't believe the amount of federal procurement that's going offshore. We all pay taxes to the federal government. The federal government turns right around and buys stuff offshore to the exclusion of you that are paying taxes and making possible the jobs. I think I said that right. We have to be very diligent and hold their feet to the fire and don't be afraid to go forward with it. So please work with us on it. It helps. Let's stick some necks out, step on some toes, and we'll have some more fun.

Thank you very much for coming. This meeting is adjourned.

[Whereupon, at 4:24 p.m., the committee was adjourned.]

DONALD A. MANZULLO, ILLINOIS
CHAIRMAN

NYDIA M. VELÁZQUEZ, NEW YORK

Congress of the United States
House of Representatives
107th Congress
Committee on Small Business
2361 Rayburn House Office Building
Washington, DC 20515–6315

August 27, 2001

OPENING STATEMENT

CHAIRMAN DONALD A. MANZULLO
COMMITTEE ON SMALL BUSINESS

(Albuquerque, New Mexico)

Good morning and welcome to this hearing of the Committee on Small Business. A special welcome to those who have come some distance to participate and to attend this hearing.

Annually, the federal government spends approximately $200 billion on goods and services purchased from the private sector. This is a very large marketplace – one in which our Committee is committed to ensuring that the small business community is treated fairly and that the federal agencies obey the law.

In the past, small businesses have had major problems with the way Federal agencies do business. These problems include the failure to meet procurement goals, the bundling of contracts, and the diminished number of prime contracts going to small businesses.

These are key issues for the small business community. In the first session of the 107th Congress, the Committee has focused on making the procurement practices of the Pentagon more small business friendly because of the large dollar-volume of purchasing the Pentagon does annually. The Pentagon annually buys over $26 billion in goods and services from small businesses.

One of our hearings involved the purchase of Black Berets for the U.S. Army from Foreign Manufactures and not from U.S. Small Businesses. The hearing focused on the decision to by the Defense Supply Agency to purchase black berets for the U.S. Army from foreign sources.

This Committee has both legislative and oversight jurisdiction to insure that small businesses are not bypassed in the federal procurement process. The hearing uncovered a gross disregard of the procurement rules, severely impacting textile manufacturers and apparel and shoe manufacturers in this country who continue to dwindle.

The paramount issue in this hearing was why couldn't these black berets be manufactured in the United States? The result of the hearing was that the Pentagon the canceled the contracts with most foreign manufactures and the fact that no U.S. soldier will wear a black beret made in China.

There is a further result of this hearing – the Defense Logistics Agency has announced that the follow-on beret procurement will be set aside solely for small business.

You may be assured that as Chairman of this Committee I will use the subpoena power to bring Federal officials before the Committee to answer for why they have failed to follow the law or to treat small businesses fairly.

Again thank you all for participating in this hearing. And thank you in the audience for attending this hearing. I now yield for the opening statement by Congresswoman Heather Wilson.

TESTIMONY TO THE U.S. HOUSE OF REPRESENTATIVES SMALL BUSINESS COMMITTEE FIELD HEARING AUGUST 27, 2001 ALBUQUERQUE, NEW MEXICO

By

Tina M. Cordova
President
Queston Contruction, Inc.
7518 2nd Street NW
Albuquerque, NM 87107

And

Legislative Chair
United States Hispanic Chamber of Commerce
2175 K Street NW, Suite 100
Washington, DC 20037

And

Board of Directors
Executive Board
Albuquerque Hispano Chamber of Commerce
1309 4th Street
Albuquerque, NM 87102

And

Advisory Board
TVI Small Business Development Center
5600 Eagle Rock Road NE
Albuquerque, NM 87113

Honorable Chairman Congressman Manzullo, Honorable Congressional Members of the Small Business Committee, I am proud and honored to have this opportunity to testify before you today as a representative of the small business community of New Mexico and the United States. My name is Tina Cordova, and I am the founder and President of Queston Construction, Inc. I am a general commercial construction contractor with a division of my company devoted to roofing. I've been in business for 11 years and my company is a small woman owned, minority owned business. We work all over the state of New Mexico and have had contracts with most of the government agencies in New Mexico. I am currently working on my 8(a) application. We have always met the criteria for becoming 8(a) certified, but I wanted to feel comfortable that my company was ready. That is why I have waited, and we are indeed ready.

Aside from my work, I also serve on the board of directors of the United States Hispanic Chamber of Commerce (USHCC) where I am the Legislative Chair Person. Locally, I am on the Executive Board as well as the Board in general of the Albuquerque Hispano Chamber of Commerce and the Advisory Board to the TVI Small Business Development Center that is located in this building. I believe I am very much in touch with the business community at large and most specifically the minority business community as I spend most of my spare time in an advocacy role for the same.

I am passionately devoted to exploring the issue of procurement opportunities for small, woman and minority owned businesses. It is the lifeblood of our existence and yet there remains much to be done to reach parity.

In March, of this year the U.S. Department of Commerce Census Bureau released data that placed New Mexico as the per capita leader in the nation when it comes to the number of Hispanic owned businesses. 22 percent of the businesses in New Mexico are owned by Hispanics. This is not surprising when you take a look at the fact that the year 2000 Census figures place Hispanics at 42 percent of the total population of New Mexico.

However, the same Census Bureau data indicates that the 22 percent of businesses owned by Hispanic's in New Mexico only account for 5 percent of the state's business receipts. These numbers speak to the disparity that remains today, in the year 2001, across this great country of ours when it comes to opportunities for Hispanic business owners.

When you examine where the growth has been in the over all numbers of small businesses in the last ten years, the data indicates that the number of Hispanic owned businesses has grown 232 percent. Much of this growth can be attributed to the increase in Hispanic women owned businesses. There are well over 2 million Hispanic owned businesses in the U.S. today. From an economic standpoint, it only makes sense that we should protect the success of these businesses. We should reduce barriers and shore up programs that assist minority business in their quest for opportunities.

In that regard, and as the chair of the legislative committee of the USHCC, I present to you attached a copy of our legislative plan for the year 2001. It is a comprehensive plan assembled by the USHCC every two years. We poll our constituency and from the input we receive we address the areas of utmost concern. Many of you have seen the plan as the USHCC made every effort to distribute it widely to Congress. This is a great opportunity to more formally present it to you and I ask that it be made part of the record. Please, review it at your leisure. This year, the priorities of the plan focused on four main areas:

1) Access to Capital
2) Procurement
3) E-Commerce and
4) Business education and training

I want to focus on one area today and that is procurement. The 8(a) program as most of you know, has assisted many small Hispanic owned businesses in competing for Federal contract dollars. The program is essential, and I believe it should be protected as a vehicle to achieving the parity that I spoke of earlier. Attempts to circumvent or dilute the 8(a) program should be avoided. I believe the HUBZone program is an example of a plan that circumvents the 8(a) program.

There are problems within the 8(a) program. One problem is that Hispanic firms have been significantly under-represented in the 8(a) portfolio. This problem has existed since the inception of the program. Hispanic owned businesses account for well over 40

percent of the total minority population in this country yet we only account for 24 percent of the firms in the 8(a) portfolio and 21 percent of the total value of the 8(a) contracts. We must be equitably represented to reach parity. To resolve this problem, a thorough review of the 8(a) portfolio must be undertaken and a recruiting effort made to reach out to Hispanic owned businesses and most specifically Hispanic Woman owned businesses.

Finally, I would be remise if I didn't address the issue of contract bundling and the negative affect it has on ALL small business owners. Contract bundling takes away from small business period. The statistics are clear. As small business owners we have very little opportunity to participate in these bundled contracts. Contract bundling goes against all the efforts made to bring parity in the Federal-contracting arena. Make no mistake, it doesn't save money and it is wrong. The USHCC publishes a newsletter quarterly called "NETWORKING". The spring 2001, issue had an article I wrote on contract bundling. I have attached that article for your review and to be made part of the record.

I thank you for the opportunity to testify here today. I applaud your attention and interest in the small business community, and most specifically the small Hispanic business community. I ask you to continue to work hard on behalf of small business issues like those presented here today, and I personally look forward to future opportunities to provide this committee with input.

PREFACE

The United States Hispanic Chamber of Commerce's (USHCC) primary goal is to represent the interests of over 1.5 million Hispanic-owned businesses in the United States and Puerto Rico. With a network of over 200 Hispanic chambers of commerce across the country, the USHCC stands as the preeminent business organization that effectively promotes the economic growth and development of Hispanic entrepreneurs.

Toward this end, the USHCC recognizes that its advocacy on behalf of the Hispanic business community must be two-fold. It must work with the private sector to establish relationships with corporate America that will benefit Hispanic businesses and it must also work with the public sector, that is, The White House, Congress and the federal agencies to affect laws and policies that promote the growth and success of Hispanic businesses across the United States.

Each year, at the beginning of the legislative cycle, the USHCC organizes a legislative event, the USHCC Legislative Forums and Banquet (Legislative), to communicate with Congress and the executive branch, the needs of the Hispanic business community in this country. Legislative brings together the USHCC leadership and key government leaders to discuss issues of concern to the Hispanic business community. In this way, the USHCC forges working relationships with key government officials to affect changes in laws and policies, which will be beneficial to Hispanic businesses. During Legislative, the USHCC presents its legislative priorities on behalf of Hispanic entrepreneurs. The legislative priorities outline the challenges faced by Hispanic entrepreneurs, which must be addressed to ensure that Hispanic businesses have equal access to opportunities offered by the federal government.

The USHCC creates a legislative plan every other year and distributes it during that year's legislative event. In order to ensure that its legislative plan is all-inclusive of the needs of the Hispanic community across the United States, the USHCC relies on its member chambers, board members, and regional chairs to provide us with the legislative issues they intend to focus on during this time period. The Hispanic member chambers are divided by state into six (6) regions representative of the 50 states, as well as Puerto Rico and Washington, DC. Each regional chair works with the Hispanic chambers in their regions to identify the issues most pertinent to Hispanic businesses in these states.[1] The regional chairs are Hispanic business owners and members of the USHCC Board of Directors. The issues identified by the regional chairs are then compiled into this legislative agenda. This year's regional chairs are:

Region I.	Liliam Lujan-Hickey	Las Vegas, NV
Region II.	Scott Flores	Denver, CO
Region III.	Dan Perez	Kansas City, MO
Region IV	Nestor Fernandez	Miamisburg, OH
Region V.	Edgar Cintron	Holyoke, MA
Region VI.	Alex Chavez	Sarasota, FL

[1] For a list of states by region please refer to the Appendix.

I. INTRODUCTION

The Hispanic community has become the fastest growing segment of our nation's population. By the year 2010 Hispanics will become the largest minority group in the United States and by 2050 will comprise nearly 25% of the U.S population.[2] That is, by the year 2050, one in every four persons will be of Hispanic decent. Currently, the Hispanic population stands at 35.3[3] million, and is projected to grow to 97 million by 2050.[4] With these surging numbers it is hard to ignore that Hispanics have become a major component of the U.S. population and a major force in the economy as well.

With an increase in the population of Hispanics in this country, there has been an equal rise in the purchasing power of the Hispanic community. Hispanic purchasing power currently exceeds $400 billion and is not showing any signs of deceleration.[5] This increase in buying power can be attributed, not only to population expansion, but also the growing number of Hispanics entering the workforce. The increase in Hispanic buying power has lead to a higher influence of Latino/as on the U.S. economy. Latino/as are no longer seen as the sleeping giant. The community is here in big numbers and must work with the private and public sectors to ensure they succeed in all aspects of American life.

One sector within the Hispanic community that has been experiencing rapid growth over the past few years is the small business community. In 1992 there were 862,605 Hispanic owned firms, which generated revenues of $77 billion.[6] By 1996, that number had grown to an estimated 1.4 million firms with revenues exceeding $185 billion.[7] Currently, the USHCC estimates the number of Hispanic businesses to exceed 1.5 million. With revenues in the billions, the Hispanic market has become one of the largest business markets in the United States.

Despite the successes that Hispanic businesses have had over the past few years, they continue to lag behind their mainstream counterparts. Unfortunately, Hispanic businesses in this country are not on equal ground with larger, non-minority enterprises. The majority of Hispanic companies in the United States are first generation small businesses that have had to compete with more affluent, better-positioned non-minority firms. It is for this reason that the Hispanic business community finds it critical to advocate for policies and programs both within corporate America and Congress that promote the success and equality of Hispanic businesses in this country.

The United States Hispanic Chamber of Commerce (USHCC) has become the preeminent advocate on behalf of Hispanic businesses in this country. Since its inception in 1979, the USHCC has rendered support, shared information and worked side by side with Hispanic businesses to forward the goals of Hispanic entrepreneurs in the United States. It is the USHCC's mission to represent

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[2] United States Department of Commerce: Minority Business Development Agency, The Emerging Minority Marketplace: Minority Population Growth: 1995 to 2050 (1999) 2.
[3] U.S. Census Bureau, Figures released March 2001.
[4] MBDA, Population 2.
[5] Jeffrey M. Humphreys, "Buying Power At The Beginning of A New Century: Projections For 2000 and 2001" Georgia Business and Economic Conditions 60.4 (2000) 5.
[6] United States Department of Commerce: Bureau of the Census, Hispanic Owned Businesses: Reaching New Heights (1996) 1.
[7] United States Small Business Administration; Office of Advocacy, The Facts About Small Business (1996) 4.

the interests of those 1.5 million Hispanic businesses in the U.S. and Puerto Rico. With the help of the Hispanic chambers of commerce nationwide, we assist the Hispanic business community by addressing issues related to legislation, business development, and procurement opportunities offered by the public and private sectors.

The USHCC monitors all legislation, policies and programs that may impact the Hispanic business community across the country. It works with the President, members of Congress, and key government leaders to ensure the interests of Hispanic entrepreneurs are considered in all legislation and policies. The USHCC utilizes its Legislative Plan in moving forward with its policy agenda.

II. EXECUTIVE SUMMARY

The Hispanic community in the United States has grown enormously within the past few years. The latest Census figures show the community to be at 35.3 million in the United States alone.[8] The number of Hispanic businesses has also grown. In 1996, the U.S. Census Bureau estimated the Hispanic business community in the United States to have reached 1.4 million. The USHCC now estimates this figure to have grown to an excess of 1.5 million.

Despite its achievements, the Hispanic business community continues to face many obstacles. Mainly, Hispanic businesses do not have the access to business opportunities that its majority counterparts enjoy in this country. The USHCC recognizes the importance of helping the Hispanic business community overcome these challenges. With the help of its member Hispanic chambers of commerce across the country, the USHCC advocates to increase opportunities for the approximate 1.5 million Hispanic-owned businesses throughout the United States and Puerto Rico.

The USHCC understands that the best way to promote opportunities for Hispanic business is to develop relationships within the public and private sectors. By establishing working relationships with Congress and Corporate America, the USHCC is able to further the economic development and success of Hispanic businesses in the United States.

The USHCC Legislative Plan establishes the foundation to work with Congress in promoting the success of Hispanic businesses within the United States. The Plan, developed every two years, is a blueprint for the legislative work the organization will undertake on behalf of the Hispanic business community. With the help of its membership, the USHCC outlines its legislative priorities and communicates these to Congress at the beginning of the legislative cycle. The USHCC then works with congressional members to pass legislation, which addresses these priorities. The legislative priorities in the 2001-2002 plan include:

- Access to capital
- Procurement
- E-commerce and
- Business education and training.

A. Access to Capital

The success of the Hispanic business community has contributed greatly to the growth of our nation's economy. With an increase in the number and profits of Hispanic businesses in this country, the community has become a central figure within the country's financial markets. Despite its successes, the Hispanic business community continues to lag behind its majority counterparts. The main reason is that Hispanic businesses lack the access to capital necessary to better compete within mainstream America. For Hispanic businesses, capital means the ability to grow and expand their enterprises to become more competitive in the business world.

Unfortunately, venture capital is not readily available to Hispanic businesses. For many years, Hispanic businesses have carried the stigma of being high-risk investments. On the other hand,

[8] This figure does not include Hispanics in Puerto Rico and the other territories of the United States.

their majority counterparts have been able to avail themselves of the venture capital necessary to expand and grow their businesses. It is imperative that Hispanic businesses have the same access to compete for mainstream business opportunities. Policies to help Hispanic businesses access the capital necessary to grow and expand should focus on:

- Investing federal funds to stimulate business and job growth in depressed areas;
- Implementation and expansion of federal programs that provide venture capital funds for Hispanic businesses; and
- Licensing federal programs created to increase opportunities for economic development within low-income communities.

B. Procurement

Federal procurement has been and continues to be an important issue for Hispanic businesses. The federal government is one of the largest procurers of products and services in the country. Yet very few of the billions of dollars spent by the federal government on procurement actually go to Hispanic-owned businesses. Hispanic businesses are equally capable of providing the goods and services needed by the federal government. The problem is the lack of opportunities available for these Hispanic businesses to compete for federal contracts. Although there are programs within the federal government to provide procurement opportunities for Hispanic businesses, they have often been poorly funded and carry a negative stigma.

In addition, the federal government's practice of contract bundling has lead to a decrease in procurement opportunities for Hispanic businesses. Contract bundling is a process by which the federal government, in attempting to streamline its procurement process, combines smaller procurement contracts into one large contract. This large contract is then awarded to tier one contractors. Recipients of these contracts can subcontract with smaller firms to complete a part of that large contract. Unfortunately, these contractors are not subcontracting with minority, Hispanic or women-owned firms. Hispanic businesses are therefore limited in their ability to equitably compete in the federal procurement process.

These issues need to be addressed to ensure that Hispanic businesses are given equal opportunity to compete for contracts awarded by the federal government. Policies to increase opportunities for competition should focus on:

- Supporting the preservation and expansion of the 8A program within the SBA;
- Instituting incentive and enforcement measures to assist federal departments and agencies in meeting procurement goals geared toward minority, Hispanic and women-owned businesses; and
- Supporting legislation to examine contract bundling practices within the federal government.

C. E-commerce

The Internet and the World-Wide Web has transformed the way people do business not only in the United States but also around the world. It has opened markets and business opportunities across the country and internationally. The Internet has modernized the exchange of goods and services and has opened up opportunities for small businesses to engage in business-to-business and business-to-consumer e-commerce in this new economy. Unfortunately, many Hispanic businesses are unable to participate in this process. They do not have the funds or skills necessary to do business on the Internet. The Hispanic business community does not have the resources available to connect them to the Internet and e-commerce opportunities. They are either unable to make the necessary investments to purchase equipment and Internet access, or they do not have the requisite skills necessary to conduct business on the Internet. This digital divide is hurting Hispanic businesses and impeding them from making further and faster contributions to the current economy. Policies to ensure that the Hispanic business community has access to e-commerce business opportunities should focus on:

- Supporting federal programs geared toward increasing access to the Internet within Hispanic and underserved communities;

- Creating federal programs that increase access to e-commerce for Hispanic businesses; and

- Creating federal programs that create high-tech training opportunities for Hispanic businesses.

D. Business Education and Training

Business education is an important issue for Hispanic youth in underserved communities. Many school districts have recognized the importance of incorporating business education programs into school curriculums. Regrettably, the schools in low-income communities often do not have the resources available to establish programs that educate Hispanic students on business principles and entrepreneurship opportunities. It is important to teach Hispanic youth the skills necessary to help them succeed in the workforce. Policies to increase access to business education in low-income communities should focus on:

- Utilizing the assistance of the U.S. Department of Education in creating business education programs which educate Hispanic students on business and entrepreneurship opportunities;

- Augmenting programs within the U.S. Department of Education geared toward partnerships with small businesses to improve education initiatives for career development and training; and

- Supporting the creation and expansion of programs to provide training and technical assistance to students interested in pursuing entrepreneurship opportunities.

III. 2001-2002 USHCC LEGISLATIVE PLAN

The USHCC 2001-2002 Legislative Plan, based on information collected from regional chairs and local Hispanic chambers across the country, focuses on access to capital, procurement, e-commerce and business education and training.

A. Access to Capital

With the growing number of small businesses fueling the nation's economy and the growing Hispanic population, small Hispanic businesses have assumed center stage in the business world. Even though Hispanic businesses are seeing an increase in numbers and profits, they still lag behind majority enterprise. The reason for this is the lack of capital available for the expansion of Hispanic businesses already in existence. Minority businesses have always carried the stigma of being high-risk investments. Similarly, small Hispanic businesses have not been seen as profitable investments. With the recent rapid growth and success of Hispanic small business in this country, these trends must change. Hispanic businesses are the future of this country's economic prosperity and can no longer be ignored. Policy makers must therefore examine existing programs and initiatives to ensure they target and support Hispanic businesses in their growth and development. The Executive Branch, Congress and federal agencies, especially the United States Small Business Administration (SBA), the Department of Commerce (Commerce), the Department of Housing and Urban Development (HUD) and the Department of Labor, must ensure that economic opportunities for Hispanic businesses are a national priority. The USHCC makes the following policy recommendations:

- **Support and expand federal programs and policies that provide federal funds to stimulate business and job growth in depressed areas.** Under the Empowerment Zone and Enterprise Communities programs, employers and small business owners receive tax credits for any employees hired within assigned jurisdictions. These programs are therefore important in stimulating business and job growth within these empowerment districts. In many Latino communities, EZs and ECs have the potential to create jobs and strengthen small businesses. Distribution of EZ/EC funding should reflect the demographics of the Hispanic community within these empowerment zones.

- **Solicit the support of Congress and the Administration to implement and expand funding for federal programs within the SBA that provide venture capital funds for Hispanic-owned businesses.** Under the newly created New Markets Venture Capital Program, small enterprises in low-income communities will be able to obtain venture capital funds to grow and expand their businesses. The focus of this New Markets Initiative is to promote economic development and create job opportunities in underserved communities. Since many Hispanic individuals and businesses are in these low-income neighborhoods, the New Markets Initiative will be a tremendously important initiative for our Hispanic entrepreneurs.

- **Increased funding for SBA's Small Business Investment Company (SBIC) targeted toward Hispanic business.** The venture capital company created by SBA in 1999 is the first

SBIC to focus directly on Hispanic small business. Increased funding for this SBIC will ensure that Hispanic businesses have an opportunity for economic growth and expansion.

- **Solicit the support of Congress and the Administration to pass legislation to license American Private Investment Companies to aid in economic development for low-income communities.** The American Private Investment Program recently funded in HUD's FY2000 appropriations, expands the availability of investment funds for underserved communities and creates jobs in low-income areas. The Hispanic small business community will benefit from the implementation of American Private Investment Companies set up to extend equity loans to small enterprises in low-income communities. Legislation has been introduced to license development organizations within low-income communities as American Private Investment Companies in achieving these goals.

B. Procurement

Access to procurement opportunities is of paramount importance to the Hispanic business community. The federal government spends billions of dollars a year on procurement, yet very little of these contracting opportunities go to Hispanic-owned small businesses. It is imperative that procurement policies and practices take into account the lack of opportunities for Hispanic businesses. The USHCC makes the following policy recommendations:

- **Support the preservation and expansion of the 8A program within the SBA.** The 8A program has been very instrumental in increasing economic opportunities for minority businesses in the area of federal procurement. Unfortunately, in the last few years, the program has been put in jeopardy by those that do not recognize its importance in leveling the playing field for Hispanic businesses in this country. Hispanic businesses need the support and commitment of Congress and the SBA to ensure the 8A program's continued existence and expansion. Increased funding for the program is necessary to ensure minority businesses are being given the opportunity to compete for government contracts.

- **Enforce current legislative mandates to ensure federal departments meet their goals in awarding contracts to minority and women-owned firms.** It is important to offer support to federal agencies in increasing contracting opportunities for minority-owned businesses. This will ensure that Hispanic businesses are given a chance to compete for government contracts at all levels of the federal government.

- **Support legislation to examine contract bundling practices within the federal government.** Contract bundling practices have hurt government contracting opportunities for minority and women-owned firms. Contract bundling, the process by which smaller contracts are packaged into one large all-in-one contract, was originally designed to streamline government procurement practices. The government typically awards these contracts to large companies who in turn may subcontract a portion of the larger contract to smaller firms. Unfortunately, minority and women-owned firms have not been given many opportunities to compete for these subcontracts. Contract bundling has therefore taken contracting opportunities away from Hispanic businesses. Supporting legislation to examine contract bundling practices will

provide the necessary data to determine whether actual savings and benefits are taking place and what detrimental effects the practice has had on minority and women-owned firms.

C. E-Commerce

E-commerce has revolutionized the way we conduct business in this country. With access to the Internet and World-Wide Web, companies have been able to reach a broader consumer base both at home and abroad. Business-to-business and business-to-consumer e-commerce has lead to increased opportunities for big businesses and small businesses alike. Unfortunately, many Hispanic entrepreneurs do not have access to the Internet. A lack of capital to purchase equipment, coupled with a lack of training and skills necessary to properly navigate the web, has caused Hispanic businesses to miss out on many economic opportunities available via the Internet. The USHCC makes the following policy recommendations:

- **Support policies and programs to increase access to the Internet within Hispanic and underserved communities.** Instituting and funding policies and programs to help increase access to advanced technology will help decrease the digital gap that occurs within Hispanic communities. Closing this digital divide will allow Hispanics to take full advantage of the opportunities available through the World-Wide Web.

- **Support policies that create programs to increase access to e-commerce for Hispanic businesses.** The ability of our Hispanic businesses to access these e-commerce opportunities is critical if they are to compete in these high-tech markets. Congress and the Administration should create and support policies that increase access to the Internet and e-commerce opportunities.

- **Support policies and programs that create high-tech training opportunities for Hispanic entrepreneurs.** Many Hispanic small businesses do not have the requisite training to understand the process of conducting e-commerce on the Internet. With the creation and expansion of e-commerce technology training, Hispanic entrepreneurs will be in a better position to avail themselves of business opportunities within the World-Wide Web.

D. Business Education and Training

Business education and training should be an important part of the curriculum in elementary, secondary and college institutions across the United States. More and more schools are incorporating business and entrepreneurship education into their curriculums. Unfortunately, many students in Hispanic and low-income communities do not have access to these programs. It is important to ensure that Hispanic youth have the same business and entrepreneurship opportunities that exist in more affluent communities. The USHCC makes the following policy recommendations:

- **Solicit the help of Congress and the Administration to create and support business education programs at the state and local levels.** Soliciting the assistance of the U.S. Department of Education is instrumental to the creation and/or expansion of programs geared toward business education and career training within schools at the state and local levels.

Curriculums should be enhanced to ensure Hispanic students have access to career development and training.

- **Support efforts by Congress to augment programs within the U.S. Department of Education geared toward partnerships with small businesses to improve education initiatives for career development and training.** Partnerships with small businesses help schools carry forth programs instituted to assist students with career development and training. Supporting efforts by Congress aimed at increasing partnerships with the business community will ensure these educational initiatives will work toward helping Hispanic students achieve the necessary skills to succeed in the workplace.

- **Support the creation/expansion of programs intended to provide training and technical assistance to students interested in pursuing entrepreneurship opportunities.** It is important to encourage Hispanic youth interested in pursuing entrepreneurship opportunities. Creating and implementing programs, which provide training and technical support to Hispanic students, will ensure they take the appropriate steps necessary when starting their businesses.

CONTRACTbundling

What's it all about?

Recently the United States Hispanic Chamber of Commerce (USHCC) issued its Legislative Plan. One issue of importance addressed in the plan is contract bundling and its negative affect on small minority businesses.

Contract bundling is described as the grouping of two or more contracts into one large contract. Often, there are provisions in the bundled contract that are prohibitive of small business participation. These provisions are usually in the form of minimum qualifications and encompass items such as business size/revenues, and past experience/performance with like contracts.

The options available for small business participation in a bundled contract are limited. The primary option is to become a subcontractor to a large prime contractor. This option usually allows for the building of the prime contractors' portfolio and financial condition while the small business subcontractor does not have the same benefit. The subcontractor is often unprotected and may also be exposed to the risk of late payment or no payment at all.

The Small Business Administration (SBA) Office of Advocacy (*www.sba.gov*) commissioned a study in 1999 by Paul Murphy of Eagle Eye Publishers Inc. that demonstrates a reduction in the ability of small businesses to compete for bundled contracts. Large businesses received 67% of all prime contract dollars while securing 74% of all bundled contract dollars. Small businesses on the other hand received 18.7% of all prime contract dollars and 15% of all bundled contract dollars. The mandate by law for government procurement with small business is 23%. Contract bundling is a step in the wrong direction in achieving the mandate.

While there is no concrete evidence that contract bundling provides a cost savings to the government, states, county and city agencies as well as civilian organizations are indeed bundling contracts. This adversely affects small minority and women-owned businesses nationally and on the local level.

In its advocacy role, on July 26, 2000, the SBA issued a revision to the Federal Acquisition Regulations in an attempt to preclude federal contract bundling. The new regulation only allows for bundling if there are analyzed, documented and quantified benefits to the bundling. While the SBA and all other small minority business advocacy organizations are left to police the process, elected officials should also be cognizant of what agencies are bundling contracts and why.

While there is no concrete evidence that contract bundling provides a cost savings to the government, states, county and city agencies as well as civilian organizations are indeed bundling contracts.

Every legislator will consider voting for or against contract bundling during this session. With the resounding evidence of an adverse effect on small business and no associated cost savings to the government, the vote they choose to cast will be a clear indicator of the value they place on small business. We will wait and watch.

By Tina Cordova, USHCC Board Member/Chair of the Legislative Committee and President and CEO of Queston Construction, Inc. in Albuquerque, New Mexico.

TESTIMONY TO THE U.S. HOUSE OF REPRESENTATIVES SMALL BUSINESS COMMITTEE FIELD HEARING AUGUST 27, 2001 ALBUQUERQUE, NEW MEXICO

By

Anna Muller

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And

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And

Board of Directors
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And

Vice President
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Honorable Chairman Congressman Manzullo, Honorable Congressional Members of the Small Business Committee. I thank you for the opportunity to testify in front of this Committee on behalf of small businesses in New Mexico and the nation. My name is Anna Muller and I am the President of NEDA Business Consultants, Inc., a small woman owned, minority-owned consulting firm specializing in minority business, based in Albuquerque, New Mexico.

My firm is the Consultant to the New Mexico 8(a) & Minority Business Association. I serve as a national board member of the Latin American Management Association (LAMA) and I am Vice President of the National Alliance of Minority Business Associations (Washington D.C. Minority Trade Associations). I am going to confine my remarks to the major decline in Federal Contracts going to Certified 8(a) firms in fiscal year 2000. My colleagues from the New Mexico 8(a) & Minority Business Association will be eloquently and adequately addressing other issues that are negatively impacting on the minority business community.

The third annual report by the Federal Procurement Data Center (FPDC) in the General Services Administration recently issued the federal procurement report which clearly demonstrates that federal departments and agencies produced mediocre results during fiscal 2000 in meeting goals for contracting with small business generally, and women and minority owned small businesses specifically. For the first time in the three years the procurement data has been issued by the FPDC, the percentage of procurement dollars going to small businesses fell below the 23 percent statutory goal. The 8(a) procurement dollars took a precipitous drop.

We are submitting a chart of 8(a) Activity in New Mexico for the past six years that shows the decline in 8(a) procurement dollars. New Mexico is a microcosm of what is happening all over the country.

New Mexico 8(a) Contracting Activity

Fiscal Year	Number of Contracts	Amount of Contracts	Number of Modifications	Amount Modifications	Totals
1995	124	$96,486,839	901	$123,958,396	$220,445,235
1996	107	$97,396,206	728	$80,929,967	$178,326,173
1997	100	$33,873,947	625	$67,489,307	$101,363,254
1998	127	$82,562,693	566	$62,087,202	$144,649,895
1999	200	$38,748,110	650	$59,237,782	$97,237,782
2000	147	$25,442,518	642	$38,435,317	$63,877,835
2001-08/22	126	$32,933,633	228	$18,206,379	$51,140,012

There are a litany of reasons for this precipitous decline:

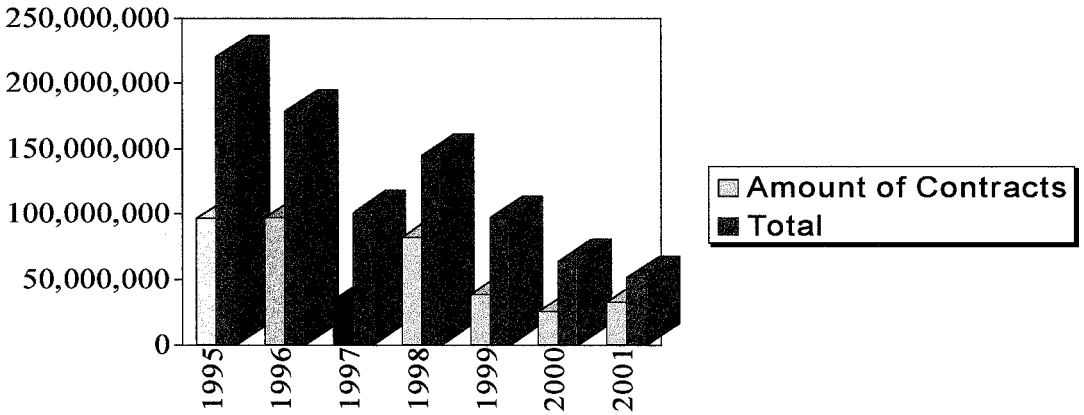
- Contract Bundling
- Government-Wide Acquisition Contracts (GWACS)
- Utilization of GSA Schedule
- Impact Cards
- Additional target categories. i.e. HUBZone and Veterans Programs are splitting the pie further.

There have been numerous changes in the procurement processes that are in competition with the 8(a) program. We used to be able to sell the fact that contracting under 8(a) significantly compressed the procurement time cycle. We can no longer claim that 8(a) contracting is invariably much faster than any other contract method. Contract Bundling and Government-Wide Acquisition Contracts (GWACS) are the most onerous of all contracting vehicles. GWACS specifically allows agencies to buy off of each others' contracts. In the Federal Acquisition Regulations (FARs) order to precedence, this type of contract is above commercial contracts. This means that an agency must order from a GWAC prior to issuing a contract to a small business. Due to the ease of placing orders off of existing contracts, this has made contracting with the 8(a) Program seem slow – whereas in the past, the 8(a) Program was often a faster procurement option. There is no tracking system in place to determine how many dollars are going to GWACs – or how many contracts were previously performed by small businesses that are now being performed on GWACs.

We make the following recommendations to the Committee of Small Business, U.S. House of Representatives, to increase 8(a) procurement dollars:

- Track dollars to GWACS to determine whether small business opportunities are being lost to GWACs.
- Increase the personal net worth standard for 8(a) firms. The standard has been $750,000 since 1988 - leaving no room for the growth of 8(a) firms - especially in light of increased dollar contracts such as bundles.
- House and Senate passage of H.R. 1234, the "Small Business Contract Equity Act of 2000." This legislation was introduced by Congressman Udall and Congresswoman Velazquez. This bill not only adds an important quality evaluation to contract bundling, but it puts teeth into small business goals by disallowing contract bundling for those agencies that don't meet their small business goals.
- The Federal Acquisition Streamlining Act of 1994 (FASA) allowed for minority business set-asides. This provision was never implemented because of fears of the Supreme Court's Adarand decision. Minority business set-asides should be allowed in those industries in which the Department of Commerce has determined that minority-owned businesses are under-represented. At a minimum, the Department of Defense's minority business set-aside program should be reinstated. A two-year moratorium was placed on this program in 1996.
- Establish a statutory government-wide 8(a) Program prime contracting goal of 5 percent.
- Immediate reversal of parity between the SBA's 8(a) Program and the SBA's HUBZone Program – with implementation of a clear preference for the 8(a) Program. These programs were designed for two different purposes and should not be placed in competition with each other.
- Increase in many small business size categories.
- Raise the competitive 8(a) threshold to $10 million.

NEW MEXICO 8(a) CONTRACTING ACTIVITY



TESTIMONY TO THE US HOUSE OF REPRESENTATIVES COMMITTEE ON SMALL BUSINESS FIELD HEARING AUGUST 27, 2001 ALBUQUERQUE, NEW MEXICO

By

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And

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Chairman Manzullo, Members of the Committee on Small Business. I thank you for the opportunity to testify before this Committee on behalf of small businesses in New Mexico and the nation. My name is Evaristo J. Bonano and I am the founder and President of Beta Corporation International, a small, minority-owned high technology company based here in Albuquerque. I am also the President of the New Mexico 8(a) & Minority Business Association and a national board member of the Latin American Management Association (LAMA). This testimony reflects my views and concerns both as the owner of a small minority business and as spokesperson for the New Mexico 8(a) & Minority Business Association.

There are numerous obstacles that small businesses, in general, and minority-owned businesses, in particular, need to overcome daily just to survive. With the passage of time, rather than disappearing, the nature and number of those obstacles seems to be increasing. Each day they seem to become more formidable, and therefore they are becoming a major threat to our country's economic well being. In the interest of time, I will address just one of those obstacles: "Contract Bundling."

Contract bundling is defined as "the aggregation of two or more contracts whose combined average annual value is $10 million." (*Federal Register*, 125/99, pp. 57366-70). Notwithstanding the regulation enacted in December 1999 implementing a portion of the Small Business Reauthorization Act of 1997 restricting bundling (Public Law 105-135),

contract bundling seems to be on the increase in Federal government procurement. In fact, the increase in contract bundling was the clear message sent to small businesses attending the 2001 Annual Small Business Conference by representatives of NASA, the Health and Human Services Department and the Veterans Administration. This conference is an annual event sponsored by the Jet Propulsion Laboratory in Pasadena, CA and was held this past February.

Contract bundling is not restricted to the Federal government. State and local governments are also embracing the practice. The on-going procurement for concession packages at the Albuquerque International Sunport is an excellent example of a local government using contract bundling to the detriment of small businesses. I will address this particular point later in my testimony. Contract bundling is affecting all small businesses independent of their type of business. In the recent past, we have seen bundled contracts in construction, professional services, staffing and high technology.

The argument employed contract bundling advocates is that it is a more efficient way of doing business that eventually will result in significant savings to the government. However, there seems to exist little evidence indicating that significant cost savings have been realized from bundled contracts. In some cases, the opposite may be true because the burden, and therefore the cost, of managing multiple first-tier subcontracts is now being passed down to prime contractors who must setup the needed infrastructure to manage a potentially large number of subcontractors and return the cost to the government and ultimately the taxpayer.

In the meantime, contract bundling is considered a key factor for the decline in the number of contracts awarded by the Federal government to small and minority-owned business, according to a report issued by Representative Velazquez, (D-NY) the ranking Democrat in this Committee, in July 2000 (*Federal Computer Week*, p. 12, July, 2000). Contract bundling is detrimental to small businesses in at least three ways: (1) preclusion of small businesses to bid as prime contractors, (2) weakened position of small businesses as subcontractors, and (3) demands for higher working capital. In practice, contract bundling could be considered a set-aside procurement program for large businesses because it effectively hinders competition.

Small businesses and small disadvantaged businesses are generally precluded from bidding as prime contractors for large bundled contracts because they cannot meet an often mandatory criterion contained in such contracts: demonstrated past experience in contracts of similar size and complexity. Take for example, contracts for the automation of supply chain and logistics management in the Federal government. In a recent article it was noted that contracts will triple in size over the next four years from just under $7 billion annually to about $21 billion. The Department of Defense is leading the pack, among Federal agencies, in awarding contracts for that type of services and products. There are numerous small businesses in the U.S. -- several of them based here in Albuquerque -- that have developed state of the art technology particularly suited for such contracts. However, DoD is awarding the contracts to giant companies as Lockheed Martin and Germany-based SAP for hundreds of millions of dollars. Small businesses simply cannot compete at that level with such large businesses.

Many of us started our businesses performing on small-value prime contracts with the dream and goal of building sound and viable companies that would eventually allow us to bid on

larger prime contracts. Contract bundling is undermining that dream and making the goal unattainable. Instead, we are being forced to team as subcontractors with larger companies that seldom have any interest in the long-term welfare of the small businesses in the team. The larger companies form teams because they have to meet subcontracting requirements stipulated in the prime contract, and not because they believe it is a sound business practice.

In some cases, government agencies are bundling smaller existing prime contracts held by small businesses into considerably larger contracts. Consequently, small businesses are being forced to step down from prime contractors into subcontractors. The result is that their negotiating position becomes dangerously weak, and they often have to accept terms and conditions that may not be particularly favorable, just to be able to participate in the procurement and retain at least some fraction of the business. The on-going Albuquerque Sunport Concession procurement illustrates this point clearly.

The City of Albuquerque, through its Aviation Department, issued a request for proposals that essentially bundled the existing concession contracts, initially, into two "mega concession packages" designed to attract big out-state vendors to the detriment of local small vendors that have operated their businesses at the airport, some for 10 years. After much criticism and debate, the two mega packages were restructured into three mega packages. However, the three mega packages are still too big for many of the local vendors at the airport to qualify. Notwithstanding the arguments put forth by many of the small vendors, the New Mexico 8(a) & Minority Business Association and the U.S. Hispanic Chamber of Commerce notwithstanding, the City of Albuquerque refused to further break down the three mega packages into smaller and still-manageable packages. Thus, many of the small vendors have been forced to enter into teaming negotiations with larger vendors and entrust their future to the latter. Not only are the small vendors hoping that they have teamed with "right" prime contractor, but also that the prime contractor will allocate to them adequate vending space and will them to sell profitable goods. Some estimates suggest that, even under these conditions, the operating costs to be borne by the small vendors will be higher than their present costs.

As mentioned above, when small businesses are forced into a subcontractor role in order for a large prime contractor to meet subcontracting requirements contained in its prime contract, the small businesses are often at the mercy of the prime contractor. Few large businesses truly help their small business subcontractors grow in capacity and experience by assigning them meaningful tasks that will allow the small business' accomplishments to be noticed and recognized by the client.

Some years ago, my company was approached by a large business to be a subcontractor in a prime contract with the U.S. Department of Energy, Albuquerque Operations Office. The prime contract required an 8(a) company to be included in the team and the large business was no complying with this requirement. We negotiated a two-year subcontract with the prime contractor that would have allowed us to significantly strengthen our existing experience and capabilities in safety and health assessment for nuclear facilities. Not a single work task was ever assigned to our company during the entire two-year period of performance in the subcontract. We understand that the prime contractor was penalized for not complying

with this prime contract requirement by being precluded from bidding on the follow-on contract. However, that penalty did not remedy the damage suffered by our company.

A similar situation happened to Enercorp Federal Services Corp. of Rockville, MD (Enercorp) in a contract with the U.S. Nuclear Regulatory Commission (NRC). The NRC issued a Request for Proposal for a large procurement that included criticality safety as one of the key technical areas. Enercorp, owned by Mr. Steve Ruffin, is an 8(a) company with less than 15 employees. Their expertise in criticality safety for nuclear facilities is second to none. For that reason Enercorp was approached by one of the Federal government largest contractors to join its team as a subcontractor to cover the criticality safety area in response to the NRC RFP. Enercorp successfully helped prepare the proposal submitted by this particular large company and win the contract from the NRC. When it came time to award Enercorp a subcontract to provide criticality safety professional services, the prime contractor had already hired, as its employees, individuals with this particular type of expertise and did not award the subcontract that Enercorp worked so hard for and was entitled to. Enercorp did not get any work under this prime contract from the NRC.

Finally, contract bundling increases the demand on small businesses to secure more working capital. It is a well-known fact that securing the needed working capital is becoming increasingly difficult for small businesses. The U.S. Small Business Administration fee structure for guaranteed loans is so high that many small businesses may be better off opting to obtain conventional loans from banks. The current onerous fee structure for SBA guaranteed loans is defeating the very purpose the SBA loan program was established: assist small businesses obtain loans for which they would otherwise not qualify. In addition, the documentation needed to obtain SBA-guaranteed loans is so voluminous that it is extraordinarily cumbersome and time consuming for both lenders and borrowers.

In order to raise the necessary working capital to perform in larger contracts, many small businesses have been left with no recourse but to sell equity in, and relinquish some of the control of, their companies to other parties. While this may help the business raise the needed working capital and can certainly have other advantages as well, it is a very difficult step to take for many small business owners. In addition, bringing in equity partners into a business is a lengthy and arduous undertaking. Choosing the right partner(s) must be done very carefully because the consequences of making the wrong choice can be disastrous.

Let me conclude by stating that I, personally, and the New Mexico 8(a) & Minority Business Association strongly oppose contract bundling. Contract bundling is a clear and present threat to all small businesses, particularly small disadvantaged businesses. The detrimental impacts from contract bundling on small businesses, and hence, on our nation's economic well-being are too great to ignore.

I am also a realist and accept the fact that some contract bundling is inevitable and, perhaps, even necessary. However, there need to be assurances that contract bundling should be the exception not the rule. To date, the anti-bundling regulation of December 1999 has had limited positive impact. Two factors seem to have contributed to this situation: (1) a lack of measurable and implementable criteria to decide when a bundled contract is justified, and (2)

a lack of adequate resources at SBA and other Federal agencies to ensure compliance with the regulation (*New Mexico 8(a) & Minority Business Association Newsletter*, Albuquerque, NM, June 2000).

There is an urgent need for transparent and meaningful criteria to measure the possible benefits that can be reaped from a bundled contract. Furthermore, when it has been clearly established that a bundled contract is justified, measures need to be implemented to ensure that the interests of small businesses are being factored in and protected. Factors that should be considered in this decision process should include, but not necessarily be limited to:

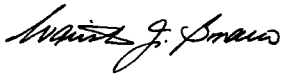
- Clear identification of critical programmatic requirements that necessitate bundling;
- Demonstrable cost savings to be realized from bundling;
- Meaningful and enforceable subcontracting goals for small and small disadvantaged businesses, including provisions for ensuring that the latter are being assigned technologically challenging tasks commensurate with their demonstrated experience and capabilities;
- Opportunities for small and small disadvantaged businesses to receive due credit for their achievements by the prime contractor's client;
- Opportunities for joint ventures among small and small disadvantaged businesses, and credit of their combined capabilities and experience to meet past performance requirements; and
- Opportunities for advanced payments to small and small disadvantaged businesses that otherwise meet all other selection criteria as prime contractor, minimizing the demand for more working capital.

I urge this Committee to take immediate action to halt the detrimental effect that contract bundling is having on small and small disadvantaged businesses and ensure that the anti-bundling regulation of December 1999 has the intended impact. A moratorium on contract bundling is needed now until a process can be established to:

- Decide whether a proposed bundled contract has been properly justified, and the interests of small and small disadvantaged businesses have been adequately protected; and
- SBA and the other Federal agencies have the necessary resources available to ensure enforcement of the anti-bundling regulation.

The New Mexico 8(a) & Minority Business Association stands ready to work with this Committee to tackle the contract bundling issue as well as others affecting our businesses. Once again, I thank you for the opportunity to offer this testimony.

Sincerely,



Evaristo J. Bonano, Ph.D.

EJBonano
08/25/01
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TESTIMONY OF

JOAN E. SCHLUETER

PRESIDENT AND CEO

ON SITE HIRING CONSULTANTS

BEFORE THE

U.S. HOUSE OF REPRESENTATIVES

COMMITTEE ON SMALL BUSINESS HEARING

ALBUQUERQUE, NM

AUGUST 27, 2001

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Good afternoon Chairman Manzullo, Congresswoman Wilson, Congressman Bartlett and Congressman Udall.

The women business owners of NM welcome you, Chairman Manzullo, and I appreciate this opportunity to speak with you.

I'm Joan Schlueter, owner of On Site Hiring Consultants, of Albuquerque. As a founding partner of Women Impacting Public Policy (WIPP), a national organization representing women business owners, and having just completed three years on the national board of the National Association of Women Business Owners (NAWBO), I have contact with women business owners across America. In the last 18 months, I have visited 30 NAWBO chapters. My numerous awards include the 1999 SBA Women in Business Advocate for NM and Region VI.

There are 9.1 million women business owners in the US that generate $3.6 trillion dollars and employ 27.5 million. NM, a state with only a million and a half population, has over 60,000 women business owners, which employ over 120,000, and generate over $11 billion.

My experiences put me face-to-face with many of their problems. I'd like to share some.

One of WIPP's members, Deb Naybor, owner of Naybor Land and Surveys in NY, who after working on government contracts for 13 years, recently made the choice of getting out of government programs because of time, effort and low profitability. Her allowable overhead on government projects is 25% lower than on private clients, her allowable fixed fee is10 to 20% lower, and it takes an average of 120 days to get paid whereas her private clients pay within 40 days. Can any of us blame her for her choice?

Another WIPP member, Lori DeVito, PhD, owner of AET Environmental in CO, has been running in circles since 1995 trying to solicit business from the Rocky Flats site in Golden, operated by Kaiser Hill. After several failed attempts, she gave up. When people at the DOE Marketing Conference in Denver in 2000 encouraged her to try again, she did, only to be told by the Kaiser project manager that they only deal with large companies.

Another example is Mary Kay Bruns, owner of Contractor Quality Management, who did construction contracting with the U.S. Navy and Army in NJ. The trend to pull together some contracts that had already been put out to bid and award them in a bundle, put her out of business in 2000.

Finally, there is Kathleen Diamond, who recently testified before you. As owner of a full service language company in D.C., she's been getting training contracts for over 20 years with the Pentagon and other DOD agencies. She was not successful when competing for a translation

needed to do paperwork and the low profitability.

Having presented you with some women business owner's experiences with government contacts, on behalf of WIPP, I offer you some solutions.

The interest of government and women business owners would be better served if procurement officials and contract officers were held accountable to current legislation already in place, such as the 5% goal established by the Federal Acquisitions Streamlining Act of 1994.

What you did, Chairman Manzullo, on the "Black Beret Procurement" issue that was brought to the committee's attention in May, is what should happen for all women seeking government contracts.

The Women in Contracting Act was passed by Congress last December. The SBA should have the rules ready in 3 to 6 months. I urge you to push congress to implement this act.

The time frame for Requests for Proposals must be shortened to 90 days for approval of proposals, with ramp-up of 30 days after submission deadline for fulfillment of contracts.

The Prompt Pay Act must include all contracts including "cost plus" contracts.

The approval process must to be streamlined.

Access to capital is another huge problem.

USA TODAY, August 14, 2001, focused on this issue commenting that a woman's work is rarely funded.

It continues, "Women received only 4.4% of the most important source of investor dollars last year—venture capital. That percentage has been flat or down since 1997, while VC funding has soared, says major research group VentureOne."

The article quotes Patricia Greene, a University of Missouri professor who studies women and financing, "...jump-starting women's entrepreneurship is critical. There's a lot of glowing embers here, we just need to fan those flames."

The SBA should be urged to work closely with more local banks to help women like NAWBO member Elissa Breitbard of Betty's Bath & Day Spa in Albuquerque, who even after getting pre-approved by the SBA, was rejected by 6 banks before finally getting her loan.

Thank you, Chairman, for your advocacy of Association Health Plans. We hope this ends up as final legislation.

Thank you Chairman Manzullo and Congressmen Udall and Bartlett for your time today. And a *special thank you to Congresswoman Wilson, who as a former woman business owner* understands and supports many of our issues, and for putting forth my name to speak to all of you today.

JOE A. POWDRELL
5209 FOURTH ST NW
ALBUQUERQUE, NM 87107

August 24, 2001

Dear Mr. Nelson Crowther

Please find an overview of the testimony I intend to give at Monday's US House of Representative Committee on Small Business.

We appreciate the opportunity to come before this Committee. We applaud the efforts of both Congresswoman Wilson and this Committee for holding in high regard the nature and value of the Small Business Community.

Small Business in America has evolved to become significant to the creation of numerous jobs. It has further stimulated the purchasing of a vast amount of commercial goods and services. Also of great significance is the contributions we make to this Country and this State's Tax base.

I would like simply to visit several areas that I feel comfortable attesting to . I would like to qualify my comments by reviewing our company's history with SBA. We have had (2) Loans at two different times in our company's history.

In so doing I would like to speak on the benefits derived from the initial loan, the difficulties incurred from this experience. Secondly I wish to expand on the experience of the second loan because it was uniquely different because of the time it occurred. The primary difference being the difference between the economies of the 70's versus the 80's.

Lastly share some basic "business lessons learned " and suggest to the Committee some issues to consider .These issues have to do with : Access to Capital., Incentives for Small Business that encourage employment of special populations. , Incentives for Corporations that increase business activity with Small Businesses.

Finally, share some thoughts on some of the ""Support Services" available to Small Businesses. Lastly some legislative considerations that provide potential incentives to stimulate private investors to participate in the development , support and sustaining of the Small Business Community. .

Respectfully submitted

Joe A. Powdrell
Mr. Powdrells Barbeque of NM

TESTIMONY

U. S. House of Representatives

Committee on Small Business

Don Furtivo
Commercial Loans
SBA Division

Matrix Capital Bank
2730 San Pedro, NE, #H-26
Albuquerque, NM 87110

Monday, August 27, 2001

Matrix Capital Bank's core business operations are conducted through several operating subsidiaries. With its main office in Las Cruces, NM, full service branches in Sun City, AZ and Las Cruces, NM, and loan offices in Phoenix, AZ and Denver and Evergreen, CO, Matrix Bank serves its local communities by providing a broad range of personal and business depository services, offering residential loans and providing consumer and commercial real estate loans, including Small Business Administration loans.

Matrix Capital Bank considers a SBA Guarantee, as a means of enhancing a credit that otherwise would not be obtainable by small businesspersons. Simply put, as a high ranking Federal Reserve Officer has stated "the SBA enhancement makes an otherwise 'doable deal' a 'bankable deal'". The SBA's loan programs have proven to be an exceptional public/private partnership. We thank the Committee for the opportunity to comment on the SBA programs.

The spirit of entrepreneurship, a large part of the American Dream for many people, is to start up and grow their own business. Small businesses form the backbone of the U. S. economy. Consider the following facts and data about the role of small business in the economy (data from SBA, Office of Advocacy).

- Small firms account for 99% of all employers.
- Small businesses employ 52% of private-sector workers.
- Small businesses account for 47% of sales in the nation.
- Small businesses contribute 51% of private gross domestic product.
- Small enterprises produce 55% of product innovations.
- Between 1990 and 1995, small business created 76.5% of net new jobs, while from 1996 and 1997, small enterprises created 75.8% of net new jobs.

There are many positive attributes of the SBA 7(a) loan program, including:

- SBA loan programs provide as much as 40% of all long-term loans to small businesses (maturities of three years or longer).
- SBA loans provide longer maturities than conventional loans to small businesses.
- Longer maturities mean substantially lower monthly payments for small business borrowers.
- SBA programs bridge the access to capital gap for small businesses.
- SBA appropriations are leveraged almost 99 to 1 by the private sector, making this one of the governments' best economic development instruments.
- SBA loan program helps qualified small businesses obtain the long-term capital needed for growth and expansion.
- SBA program means jobs and a "net return on investment" for our local communities and the U.S. Treasury.

Given the importance of small business, especially here in New Mexico, it makes sense to consider the impact of governmental policies on entrepreneurship and small businesses. According to the sixth annual Small Business Survival Index, as updated and expanded by the Small Business Survival Committee, New Mexico was rated 45th out of 51 States (includes District of Columbia). The lower the index numbers the lighter the governmental burdens, and the better the environment for entrepreneurship. Being rated 45th leaves plenty to be desired given the present economic climate.

The New Mexico small business communities are dependent on the SBA programs in obtaining long-term financing at a competitive interest rate. Each year, our small business concerns, which cannot obtain credit elsewhere, turn to the SBA programs for critical financing. New Mexico is comprised of 33 counties, many of them considered rural and access to capital is virtually unavailable if not for the SBA program. SBA serves a critical role in the New Mexico economy.

In behalf of our small businesses and our local economy, we respectfully request your support in the following areas:

- Support fee reductions on borrowers and lenders utilizing the SBA loan programs. The present fees are too high and increased fees for FY 2003 are simply not justified.

The U. S. General Accounting Office had reviewed the actual and original estimated defaults and recoveries, and on a cumulative basis since 1992, defaults were overestimated by approximately $2 billion and recoveries were overestimated by approximately $450 million. During this same period, SBA overestimated the cost of the 7(a) program by $958 million as evidenced from a trend of downward re-estimates. The majority of these downward reeestimates can be attributed to the overestimate of defaults. The Administration proposes to reduce the subsidy rate from the FY 2002 current services level of 1.07 to zero. Given the past performance of the SBA 7(a) loan program, fee increases simply are not justified. Continual over-estimates by OMB and SBA of defaults and recoveries is an indication the subsidy costs (for all practical purposes) have been inflated at the expense of borrowers and lenders. A recent survey of SBA 7(a) lenders indicated that the use of the 7(a) program would be greatly diminished if fees were increased. (These figures were taken from a GAO report dated August 21, 2001, Credit Subsidy Estimates).

- Oppose the proposed cuts in the SBDC program of approximately $10 million.

A funding cut in the Small Business Development Company program would dramatically impair not only the national program, but also the New Mexico SBDC program. Many New Mexico small businesses, especially those in our rural areas, significantly need this resource in order to prepare the individuals to be successful entrepreneurs. These "Centers" specialize in providing training, counseling, managerial and technical assistance to individuals desiring to start or expand their small business. To cut this program of its funding would be to sever the evolution of small business entrepreneurship and push the program into ambiguity.

- Oppose the proposed New Markets Venture Capital programs.

The formation of the New Markets Venture Capital program is redundant to those programs already available through other SBA programs. All this program will do is create additional venture capital companies with a license to compete with Banks and (licensed) Non-Bank lenders in providing financing to small businesses located in low-income areas. SBA already has programs for this category of assistance. With the $100 million, the Administration could fund the SBA with additional budget to expand their marketing role in the existing programs and provide access to capital to businesses located in low-income areas. If the SBA's existing program is not working, then it needs to be reviewed and adjustments made within the Agency to make them work. The SBA should be capable of delivering its loan programs with adequate funding for marketing and staff, and not rely as heavily on 3rd parties (lenders and other resource partners) to promote the available programs.

There are other items of concern, but those items mentioned here are the most significant at the present time.

Thank you Mr. Chairman for this opportunity to participate in this important hearing.

Testimony of Michael Canfield before the Congressional Committee on Small Business August 27, 2001

Thank you for inviting me here today to testify before this committee. I also wish to thank you for bringing this meeting to Albuquerque. I welcome all of you to our community.

I am here today as a Native American small business owner. My testimony will cover two areas. The first area will cover the impact any federal programs have had on my business or myself. The other area will address what challenges someone like myself faces today as a small business owner.

As for the first part of my testimony, I must go back to my post high school education. After high school entering college didn't seem to be an option for me. There was however a government operated school for Native Americans here in Albuquerque that was an option. I elected to take this option and attended Southwestern Indian Polytechnic Institute. This school gave me the basic education required to land a job with Xerox Corporation. I stayed with Xerox for 14 years where I learned many things about business and leadership. In 1989 I decided to become a small business owner. One might say I elected to leave the corporate cocoon. Although I had learned a great deal up to this point, I soon realized I had much more learning to do if I was to be successful as a business owner.

In 1993 we purchased a failing printing company. With hard work and dedication we were able to save the company. A significant achievement for us is when we purchased our building. We were able to accomplish this with the help of our local Small Business Administration office. The guaranteed loan program enabled us to qualify for the needed loan. We currently have a loan with great terms and look forward to paying it off within the next ten years.

We have also been accepted into the SBA's Minority 8(a) program. Unfortunately, as far as I can tell, this program or any other minority program is not helpful for obtaining printing business with the federal government. It is my understanding the Government Printing Office does not have any regulations or does not feel it is necessary to recognize any set aside programs for minority businesses. Even though the 8(a) program has not been helpful in the printing area of our business, we have been awarded a small 8(a) contract for document scanning work that our business is now getting into. We are counting on the 8(a) program to help us get established in this new area of our business.

It is apparent to me that the above mentioned federal programs have been beneficial and I am grateful for the assistance I have received in the past. I will contend however, that many hurdles still exist for me as a small business owner. In Chairman Manzullo's letter inviting me here, he recognized that small business has been a significant contributor to our economy. Mr. Chairman, you also mentioned in this letter that small businesses have been job-creators and have led the economy out of hard times. I certainly agree with you on these points. I would also contend that small business is responsible for providing a significant amount of the training that shapes our future workforce. Small business owners like myself also donate a significant amount of their time and expertise to non-profit organizations to help improve our communities. This list could go on and on. As a small business owner, I feel the burden of these contributions every day. I also feel the burden of paying taxes. I feel the burden of rising health care cost. I feel the burden of crime and I feel the burden of an ill-prepared workforce. Our government should get serious about looking for ways to ease this burden. I would like to site an example this committee should consider. I am a member of our state's Workforce Development Board. As a result of working on this board, I have learned that approximately $295 million of federal funds come to this state in one way or another for workforce development. Most of these funds go to provide training services to targeted populations. To my knowledge, none of those funds are targeted to go directly to small business owners for providing training to their workers. We hear of In-plant training dollars which have already been committed to larger companies, and special training programs at our community colleges to support companies like Intel. Maybe we should look for ways to provide incentives to small business employers for providing training, or maybe incentives could be established for small businesses to help address problems with targeted populations.

Two other recommendations I will leave you with as I close. Please think about investing your time and our money and look for federal programs and/or regulations that are outdated and unnecessary. I am talking about examples like the regulations on printing. The printing market has changed significantly over the past years. Our procurement regulations have not. I'm sure many other procurement regulations are outdated and could be updated or abolished.

Finally, I would like to leave you with my feelings regarding minority assistance programs. I believe the day will come that the business playing field will be level for everyone. I believe that the power of our diversity will be fully realized and equal business opportunities will be available for all Americans. Unfortunately that day has not arrived. Until it does, I urge you to continue to support affirmative action and minority assistance programs. We need programs that continue to assist the development of minority entrepreneurs as well as programs that groom minorities for leadership roles in private and government organizations.

Thank you again for inviting me here and allowing me to share some of my thoughts with you.

Michael Canfield began his professional career as an electronic technician with Xerox Corporation. He stayed with Xerox for 14 years until 1989 at which time he elected to become a small business owner. In 1993, Michael purchased the Valliant Company, which he then merged with his own small business. Over time this has resulted in today's Valliant Enterprises, Inc. Michael took a sabbatical from this company from 1996 to 1998 to manage Laguna Industries, Inc., a tribally owned manufacturing company. While there, he held positions of Board Member, Chairman of the Board and President/CEO. During his time with Laguna he assisted with company restructure and improved overall company performance and profitability.

Michael is now back as President and CEO of Valliant Enterprises, Inc. Since his return, the company has expanded to include two new divisions. The Consulting Division provides economic development and human resources consulting to Native American Tribes. The Imaging Division provides scanning and archiving products and services.

Michael is a product of Albuquerque Public schools. He attended Southwestern Indian Polytechnic Institute in Albuquerque and has a Bachelor of Science/Business Management degree from the University of Phoenix. Michael serves as the Vice-Chair of the New Mexico State Workforce Development Board. He is a current Albuquerque Chamber Board member and also serves as a member of the Indian Pueblo Cultural Center Board.

Michael is a native New Mexican and is a member of the Laguna Indian Tribe, which is located west of Albuquerque. He and his wife Becky and their four daughters live in Albuquerque.

U.S. HOUSE OF REPRESENTATIVES

Committee on Small Business
Donald A. Manzullo, Illinois,
Chairman

Public Hearing, Albuquerque, NM
27 August 2001

Testimony
of

Miguel Ríos, Jr., PhD,
Chief Executive Officer,
ORION International Technologies, Inc.

Good afternoon Mr. Chairman and Members of the Committee

My name is Miguel Ríos, Jr., and I thank you for the opportunity to share some experiences as a small businessman and some opinions and thoughts on the status of small business in this country. I am the founder and CEO of ORION International Technologies, Inc. and as of last October, also the founder of ORION Information Technologies, Inc. My background includes a doctorate in Physics, post-doctoral work, four years in Academia as an Assistant Professor of Physics and nine years as a member of the technical staff at Sandia National Laboratories. ORION International Technologies, Inc. is a high technology engineering services and R&D support firm with about 90% of our sales to the DoD and Sandia National Laboratories.

It is imperative that I state that I am here today as a successful small business entrepreneur because of the 8(a) program. ORION International Technologies, Inc. (ORION) was certified in the 8(a) program in 1985 and we completed our 8(a) tenure in June of 1994. During the period from 1985-1992, ORION prospered steadily, growing in annual revenues from zero to $14M in 1993. We leveled off at about $14M/year through 1995 and then declined precipitously in 1996 and 1997 to about $8M/year in revenues.

I am happy to report to you today that ORION is growing at a compound annual growth rate of 20% since 1998 and we completed FY2000 last September with revenues of $12M and acceptable profits. Further, in October of last year, we did a divisive reorganization of ORION under the IRS rules that allowed us to spin off our non-federal information technologies work as a tax-free transaction. We expect to complete the fiscal year with combined revenues of between $15M and $16M and project $18M-$20M for next year.

With the end of the cold war in 1989 it was certainly clear by 1990 that business would change dramatically for defense contractors. The subsequent budget reductions led to facilities' closures(even before the BRAC Act), elimination of contract requirements, consolidation of contract requirements into large omnibus contracts, and GSA schedules. Thus, the end of the Cold War, in conjunction with the

concomitant globalization fueled by the explosion of the Internet, has resulted in mega-mergers such that services and products are more and more dominated by a few very large companies. This, in my opinion, has caused a deep erosion of the small business legacy that has historically been a key element in the robustness and innovation in both the federal and commercial market sectors.

Based on my experience and observations over the past ten years, these are some of the key points that I respectfully offer:

- Small business suppliers to the federal government are under great duress to prosper and in all too many cases, to survive
- The 8(a) program is ineffective to help disadvantaged entrepreneurs enter the mainstream of American capitalism
- The size of what constitutes a small business is now much larger than it was before the end of the cold war and the precipitous globalization that is occurring (the problem is how do we get big enough to prosper and survive?)
- The federal market is not a hot bed of entrepreneurship and innovation, albeit the SBIR program has preserved a small vestige of innovation
- Tech transfer and partnership programs at the national labs are working much better than they were five years ago but probably not nearly as well as they could and should
- Conducting commercial work in a company that does federal work is very difficult, particularly if the company is focused on cost-reimbursable, high technology services to the DoD and DOE.
- The tax structure on small businesses appears to me to be very disadvantageous compared to large companies.

In summary, Mr. Chairman and Members of the Committee, I believe you should view the erosion of small business vitality in the federal sector with great concern; not because the government should be primarily responsible for developing small business, minority or otherwise, but because I believe our government, and perhaps the private sector, are losing the key benefits of a robust community of small businesses that provides the best quality, cost-effectiveness, innovativeness, responsiveness, and flexibility to quickly adopt to changing user requirements. It is these characteristics in

our small business sector that have been essential to making our country the economic and technological leader in the world. The globalization process is fostering emerging economies that have nascent entrepreneurial classes that will certainly challenge our economic and technological leadership in the future.

I respectfully submit, Mr. Chairman and Members of the Committee, that the health and vitality of American small business is so important to our long-term world leadership, that the Congress should look into the matter very broadly and in sufficient depth to make bold and comprehensive changes that will help insure our leadership in the long term.