AVAILABILITY OF CAPITAL AND FEDERAL PROCUREMENT OPPORTUNITIES TO MINORITY-OWNED BUSINESSES

FIELD HEARING

BEFORE THE

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HOUSE OF REPRESENTATIVES

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HEARING ON AVAILABILITY OF CAPITAL AND FEDERAL PROCUREMENT OPPORTUNITIES TO MINORITY-OWNED SMALL BUSINESS

TUESDAY, FEBRUARY 17, 2004

HOUSE OF REPRESENTATIVES
COMMITTEE ON SMALL BUSINESS
Washington, D.C.

The Committee met, pursuant to call, at 9:40 a.m., at 3333 West Arthington Street, Chicago, Illinois, Hon. Donald A. Manzullo [chairman of the Committee] presiding.

Members present: Representative Manzullo and Representative Davis.

Chairman MANZULLO. Small businesses drive the economy. Small businesses have led the nation out of periods of recession, are far more innovative than large businesses producing more patents per employee than large businesses. Small businesses have generated 60 to 80 percent of the net new jobs annually and employ more than half of all private sector employees.

I'm telling you, what you already know, small business is where the action is. However, no business, large or small, can exist or grow without ready access to capital. One of our daily cash flow needs are for capital improvements. The small business community has resorted to a number of funding methods, such as savings and loans, credit cards, and bank lendings.

The private sector has been the primary source of capital for the small business community. Venture capital programs administered by the Small Business Administration, supplement private sector financing. The Committee is holding this hearing today in Chicago to hear from you as to the availability of capital to small businesses for sustaining day-to-day operations and for growth. We welcome your suggestions for improving the present system.

There's also been concern in the past that the SBA and federal agencies have not provided enough assistance to small businesses that want to do business with the federal government for the first time or to increase their present sales. The hearing will provide overview as to the value of present programs to help small businesses successfully compete in the federal contract arena, taking advantage of domestic and export business opportunities.

Your suggestions and ideas for improving contract opportunities for small businesses are most helpful to the Committee.

We welcome your participation in the hearing. I'll turn it over to Danny Davis for opening remarks, and then I'll come back with a few of the rules on how we are going to run the hearing.

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

Chairman MANZULLO. Oh, but before that, let me tell you why I'm here. We get invitations to have hearings all over the place. Now, we could have been in Las Vegas, or Florida, where it's warm, or New Mexico, but all kidding aside, we are here because of Danny Davis. Danny has been—has become a very dear friend of mine. I don't know of a person from this area that understands or works harder for small business people, and I talked to Danny a couple of months ago and said, "Danny, it's time that we do a field hearing for the Full Committee out in your congressional district."

And, Danny said, "Let's work on it."

And so, we are here today because we believe in what Danny is doing, and we believe in what you are doing. We are here to hear the pulse of the people you represent, Danny.

[Chairman Manzullo's statement may be found in the appendix]

Mr. DAVIS. Well, thank you very much, Mr. Chairman, and let me first of all thank you, not only for bringing this hearing to Chicago, but I really want to thank you for the tremendous advocacy and leadership that you provide for small businesses as Chairman of the House Small Business Committee. It is one of the committees that is a truly bipartisan committee, one that I have enjoyed serving on, and continue to look forward to working with it and with you, as we struggle with questions of how we really handle a global economy.

And so again, I thank you for coming and for bringing this hearing to Chicago.

I also want to thank all of you, because even though wherever you would have been in Chicago it would have been cold, but there are other things that you could have been doing.

And, although we've heard rosy reports recently about our country's economic situation, local communities like this one, and others throughout the Nation, are still suffering.

Right here in Illinois, there are over 400,000 individuals out of work, and we've lost more than 125,000 manufacturing jobs since the start of 2001.

The one sector that can turn unemployment lines into job opportunities is small businesses. Small businesses, as you know, are the backbone of the American economy, and of the Illinois economy in particular. The more than 275,000 small businesses here employ almost 50 percent of our workforce. They provide the fuel and the jobs that drive our metropolitan area, our state, and yes, indeed, our country.

The real trail blazers of small business growth are minority-owned firms. Across the country, minority-owned businesses are employing millions of people and contribute billions of dollars in revenue. In fact, Illinois is among the top five states that account for the majority of minority-owned businesses in the United States.

Yet, given all their accomplishments and successes, minority-owned business firms in the Nation, and in Illinois, continue to face an array of barriers. These barriers impede their growth, preventing them from reaching their full potential and, ultimately, hinder the number of jobs they are able to create. That is where the Small Business Administration programs come in.

The SBA's programs fill an important gap providing small firms with assistance in gaining access to capital of federal contracts when they have often times no place else to turn.

Given all these good programs, and all the good that they do for businesses, I'm sorry to say that the SBA was one of the hardest hit agencies by budget cuts in the proposed 2005 budget. The funding request for the agency declined by almost $120 million from last year's request, and is less than half of what was requested during President Clinton's last year in office.

The SBA loan programs were among the most affected by the latest budget, but it is the SBA loan portfolio that provides small businesses in our area with the capital they need to start up and grow. These programs are especially important, since many traditional lending institutions are less likely to provide capital to minority-owned businesses.

And so, Mr. Chairman, we thank you for bringing, again, this opportunity for those of us here in the metropolitan area of Chicago to analyze, discuss, and display what our experiences have been, with the idea that hopefully, even if it's only one idea, if it's only one approach, if it's only one technique, that provides another level of opportunity for small businesses, then, not only will this day have been important and worthwhile, but all of the continued advocacy that you provide would have made tremendous sense.

And so, I thank you again, thank all of those who have come to participate, and look forward to a very worthwhile hearing. Thank you very much.

[Representative Davis' statement may be found in the appendix]

Chairman MANZULLO. Thank you, Danny.

The, I don't want to call it, ground rules, because that sounds like a football game, but what we are going to do is, we are going to have the hearing in two panels. We are going to combine the second and third panel so we have more time. Then I'm going to need somebody to help me keep time, but we are going to try to limit your testimony to five minutes.

And now, when I sort of go like this, you know, that means you've got about 30 seconds left, or like this your time has expired. If I pick this up and get real excited, that means, you know, it's time to sum up.

I think what we'll do is, I'm going to start with Obie. Obie Wordlaw, Chairman & CEO of the JERO Medical Equipment & Supplies, and, Mr. Wordlaw, we look forward to your testimony.

STATEMENT OF OBIE WORDLAW, CHAIRMAN & CEO, JERO MEDICAL EQUIPMENT & SUPPLIES

Mr. WORDLAW. Good morning, Mr. Chairman, and Members of the Small Business Committee. My name is Obie Wordlaw, CEO of JERO Medical Equipment & Supplies. Can everybody hear me? Okay.

JERO is a manufacturer of disposable wearing apparel and a distributor of medical/surgical supplies and equipment. We were established in 1987, we're certified with the City of Chicago, Cook County, State of Illinois and SBA, and we are also an MBE enterprise. We are also a small disadvantaged business. We are also a veteran-owned business, which is located in the Illinois medical

district, and we are also in a HUBZone, Enterprise Zone, and Labor Surplus area, as do 95 percent of our employees, and we hire from our community.

Today, we'd like to discuss the failure of the private and public sectors to meet the capital needs of African-American small businesses and their contracting opportunities.

SBA was established to protect the small businesses, their mission: Maintaining and strengthening the Nation's economy by aiding, counseling, assisting and protecting the interests of small businesses and by helping families and businesses recover from national disasters.

SBA defines a small business as one that is independently owned and operated, and not dominant in its field, and meets the employment sales standard. I won't list all of those, but I have down here wholesale, retail, it tells you what the criteria is within those guidelines for a small business, manufacturing, construction, et cetera.

According to SBA, over the past ten years it has helped 435,000 small businesses to secure financing totaling over $94 billion. That is very impressive, however, in the African-American community we have not reaped any of those benefits. I think SBA's definition should include the social and economic disadvantaged small business in its loan eligibility.

The 7[a] Loan Guaranty serves as SBA's primary business loan, their most flexible business loan program. The 7[a] Loan Guaranty Program is somewhat deceptive. It is called a Guaranty Loan Program, but if the lender is not willing to provide you the loan, even with SBA's guaranty, you are out of luck. Then you ask yourself why would we ask the same lending institution that has been redlining the African-American communities for decades to be a participant?

Solution—SBA should be able to make direct loans, if you can guarantee a loan, you should be able to make a loan. Access to capital is a direct link to contracting opportunities and growth.

Jero is a recent graduate of the 8[a] program, I support the 8[a] program, the HUBZone program, the veteran-owned, and women-owned programs 100 percent.

During my nine years as an 8[a] firm, a veteran-owned, HUBZone, and a Small Disadvantaged Business and a minority-owned business, Jero received excellent technical assistance, marketing plan, excellent technical assistance, which includes an array of things, from SBA. The contracting opportunities were not successful. Jero was awarded one 8[a] contract. Most recently awarded a HUBZsone contract. I would think that an 8[a] HUBZone, veteran-owned small business contract, SBA should be trying to determine my eligibility as a small company because of all my contracts.

Instead, one 8[a] contract in nine years, and the most disturbing is that SBA had to do a Notice of Appeal on that one contract, not because the contract exceeded its threshold in dollar amount, it was a very small contract. The Agencies/contracting officers were not 8[a] friendly.

When we were marketing the federal government prior to becoming an 8[a] company, we were told that from the government and agencies that we needed to be a 8[a] company. Then I was told that

we needed to have a Federal Supply Schedule after we got the 8[a] designation. Then we were told we had to have a DAPA Agreement, so now we are told with the Federal Supply Schedule, the DAPA Agreement in hand, then we were told that if you had a standardized contract based on the products that you sell, that we would make sure that all the federal agencies would buy from the mandatory source, which would be us. Then once we got the standardized contract we were told that we needed to work closely with the prime vendors, which caused Jero an additional fee.

I'm jumping around so I can stay within the five minutes.

Chairman MANZULLO. Tell us your story.

Mr. WORDLAW. Okay.

Jero was awarded the 8[a] standardized contract and the compliance of a federal agency. We were awarded an 8[a] standardized contract. The compliance on that contract was only utilized by 20 percent.

After contracting with some of the VA mandatory contracts, and promised that we were told that we that they had to buy from us, we received several reasons why they could not buy from us. One being, and I'll just quote one, my team is involved with open market procurements. We require over $25,000—we were advised up to $25,000, we are establishing a BPA on our own. Now, this is after we were told all these different things that we needed to have, standardized BPA, Federal Supply Schedule and the works. It is not according to Mr. Wordlaw, this is one of the reports from one of the businesses, which was specifically VISN 21, which is in this area. Mr. Wordlaw, according to the National Accusation Center that the isolation gowns are standardized under the specified contract, but for now we are not currently using your product, and we must go through the prime vendor.

Chairman MANZULLO. Okay, now we are approaching the hand mark.

Mr. WORDLAW. Okay.

I got a call yesterday from Mr.—okay, let me jump over here then.

In closing, SBA was very supportive of Jero during its nine years as an 8[a] and is still working with us as a HUBZone firm. Jero strongly supports SBA in its efforts to assist disadvantaged businesses with business development and contracting opportunities. I feel that they have no real authority in the lenders programs, or the contracting programs. I think the language is, "We can't force the agencies [lending & contracting] to loan you money or give you a contract," even if you meet all the qualifications. Instead of cutting SBA's budget, it should be increased with some real authority.

I shared the above stories to say that this isn't SBA's failure, but a failure of SBA's procurement partners, the federal buying agencies.

Mr. DAVIS. Okay, Obie, I don't like to cut you off here, but Scott Denniston is here, and he's the Director of the Department of Veterans Affairs. Scott, where are you?

Mr. DENNISTON. Right here.

Mr. WORDLAW. Okay, and we talk to Mr. Denniston on a regular basis. In fact, I make regular trips to Washington to meet with Mr.

Denniston and to meet with his office, and I think I know just about everybody in his office.

And, thanks to Congressman Davis, he allows me to come and sit down and get my tools ready to go and fight the battle.

Chairman MANZULLO. All right.

Mr. WORDLAW. So, I do know these people. But, what is happening, they don't seem to have enough piece in the process to make the contracting agencies do what they say they are going to do. So, all the socioeconomic programs we run into obstacles on a continual basis, in terms of being able to receive contracts, or being able to get the funds necessary to do the business.

Chairman MANZULLO. Okay, that's it, Obie. You've made your point here. Okay?

Mr. WORDLAW. Thank you very much.

Chairman MANZULLO. You bet.

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

Chairman MANZULLO. Now, Neli, you are substituting for———.

Ms. VASQUEZ-ROWLAND. Theresa Jamison.

Chairman MANZULLO. Let's see.

Ms. VASQUEZ-ROWLAND. Theresa Jamison is from Smart Technology.

Chairman MANZULLO. All right, why don't you introduce yourself and your organization, and put forward your testimony.

Ms. VASQUEZ-ROWLAND. Okay.

Chairman MANZULLO. Are you going to give your own testimony or are you going to be working from hers?

Ms. VASQUEZ-ROWLAND. No, no, I had the pleasure of having Theresa Jamison on my Board.

Chairman MANZULLO. Okay.

Ms. VASQUEZ-ROWLAND. Also Richard Jeffries.

STATEMENT OF NELI VAZQUEZ-ROWLAND, GREATER ILLINOIS 8(a) PROCUREMENT ASSOCIATION

Ms. VASQUEZ-ROWLAND. We are an association called the Greater Illinois 8[a] Procurement Association.

My theme is, basically, federal contracting with small business means big business for Illinois, and I thank you for inviting the Greater Illinois 8[a] Association, known as GIPA, to speak on behalf of the issues that impact small business, particularly, those in the 8[a] program.

Not only do we represent the 8[a] issues in Illinois, but we are also part of a council that represents 8[a]s from coast to coast, encompassing over 5,000 8[a] companies in the U.S. GIPA also serves on your Small Business Task Force on the Small Business Committee in Washington, D.C.

Mainly, there are two issues that we're discussing today that affect 8[a], listed as access to capital and access to revenue. The obstacles that face small business today preclude small business from participating in the federal contracting arena.

Not unlike Mr. Wordlaw's story, it's pretty common across 8[a] companies to find it very difficult to do contracting with federal agencies. This has basically been the result of the changes over the years that have diluted the 8[a] program's effectiveness.

Access to capital. The purpose of getting access to capital for small business is to provide a tool to finance small business and to increase capacity so that small business would qualify for contracting opportunities in both the private and public sectors. The SBA lending program allows companies who would otherwise not qualify for a typical loan to have access to capital.

With the proposed budget cuts, and potential reduction in the SBA loan program, many small businesses will never get started.

Already small businesses are reeling from years of a weak economy in the advent of 9/11, which has taken its toll on small business. Cutting funding programs will be a significant blow to the creative spirit of entrepreneurs in the U.S., who provide the majority, as you said, of job growth today.

Historically, small business has led to growth in the economy whenever there's been recessions. Without SBA bank loans the banking industry would be subject to potentially redlining small minority-owned businesses.

Small business also faces the same obstacles in the areas of finding insurance.

A solution? Well, ideally small business is given access to revenue in federal contracting, and small business is given firm payments, provisions that would minimize the risk and need for significant amounts of capital. The life's blood of any business is cash flow. The cash flow created by prompt payment would provide the necessary requirement that allows small business to qualify for less costly conventional loans and will open up the arenas for insurance and bonding companies alike.

Access to revenue. The SBA was created with a charge to develop small business in the U.S. Once successful, and credited with having originally funded many of our Fortune 500 companies, unfortunately, the climate has changed significantly for small business. For example, today the SBA is operating under a series of memoranda of understanding, otherwise known as MOUs, with other federal agencies. In our view, the SBA has antiquated its role with respect to business development for the firms participating in the 8[a] program. Our understanding is the delegation of duty is in direct violation of the intent, as we understand the Small Business Act and as amended in Public Law 10656 that requires small business to enter into contracts on behalf of the subcontracts to 8[a] firms.

Prior to the SBA entrance into these MOUs of the mid–1990s, SBA was involved in the 8[a] contracting process. The SBA accepted contracts under the program to be performed by 8[a] firms. The SBA assisted the firms with proposal preparation, contract negotiation, and contract administration.

The SBA was even a party to the contract, as the SBA contracting officers were signatory to the contract. The SBA had the ability at the time to direct work to 8[a] programs that had not previously had contracts.

The 8[a] firms knew then that the 8[a] program's focus was on business development. The SBA is painfully aware that goal of the agency is to meet the equitable distribution of contracts requirement. Due to this, the SBA has implemented business matchmaking programs to introduce local 8[a]s to the agencies. It's been

stated by the SBA matchmaking programs that 80 percent of all federal contracts are awarded to firms within 50 miles of D.C. Their stated objective in this matchmaking program was to be able to distribute contracts throughout the states.

The mission of the SBA is to develop small business, and these types of programs intend to meet their stated objectives. However, without the authority there's virtually no possibility of success. Furthermore, without the authority, funding, and staff required to execute the mission of the SBA under the current structure of the MOU programs, the SBA is set up to fail.

Consequently, under the MOU structure, small business, specifically 8{a]s, will continue to go without representation——

Chairman MANZULLO. How are you doing on time, Neli?

Ms. VASQUEZ-ROWLAND [CONTINUING] Consequently, under MOU structure, small business, particularly 8[a]s, will continue to go without representation, contracting opportunities. The bottom line is that more business matchmaking programs will not work under the current MOU structure. There is an appeal process by the SBA that mainly questions contracting opportunities that could be directed to small business, yet there's no enforcement.

Alternatively, for example, the Office of Advocacy could be appointed as intermediary on issues between agencies and independent agencies alike, like this to resolve areas of disagreement. As a result, the MOU's implementation and lack of SBA involvement in the contracting process, federal contracting is experiencing more instances of bundling of contracts, falling short of the small business utilization goals, bypassing local buys, a weak appeal process by the SBA, and lack of accountability on the part of agencies.

The MOUs have been——

Chairman MANZULLO. We've got to be out of here by noon for a giant procurement conference, so I'm going to hold you to the clock.

Ms. VASQUEZ-ROWLAND [CONTINUING] Okay.

Chairman MANZULLO. All right, and the clock has ticked down.

Ms. VASQUEZ-ROWLAND. Okay.

Chairman MANZULLO. So, we'll have time for some questions. Okay?

Ms. VASQUEZ-ROWLAND. All right. Well, thank you, but in summary——

Chairman MANZULLO. What I would suggest, you guys have a story. You don't have to read the script.

Ms. VASQUEZ-ROWLAND [CONTINUING] Okay.

Chairman MANZULLO. All right? You know, get right to it. You've got a problem, let's get right to the problem. You got it?

Ms. VASQUEZ-ROWLAND. Okay.

Chairman MANZULLO. All right. It took over five minutes to get there, but at least somebody's got to start. That's all right.

Ms. VASQUEZ-ROWLAND. Let me——

Chairman MANZULLO. Your time is done. Give it to Charlotte. We'll get back to you.

Ms. VASQUEZ-ROWLAND [CONTINUING] Okay.

[Ms. Vasquez-Rowland's statement may be found in the appendix.]

STATEMENT OF CHARLOTTE HARRISON, PRESIDENT AND CEO, MILLENNIUM DATA SYSTEMS

Ms. HARRISON. I wanted to express my thanks to Congressman Davis for his engagement in, support of, and sincere concern for the small business community, and I want to thank his office for its tireless efforts in support of the small businesses.

I'm going to get to the meat of it right now.

Chairman MANZULLO. Introduce yourself first, though.

Ms. HARRISON. My name is Charlotte Harrison-Smith. I'm the President and CEO of Millennium Data Systems.

This is the second time that I've been given an opportunity to testify. The first time that I testified I was really full of fire, trying to find a fair playing field. Since then I've mellowed, but the fight has grown much more intensive, and it is difficult to choose a topic today.

We have pending litigation that I'm not able to speak on, so we chose a matter that was dear to our hearts.

Since 1999, we provided temporary clerical support to a naval command in the Great Lakes Region. In 2003, this command underwent an 876 study. The 876 study was designated as a small business set aside. We spent countless hours screening, hiring, and developing an employee base at this location over the years.

This contract represented a significant portion of our organization's revenue. We thought that based upon our experience we would have an excellent opportunity to secure the business. We felt secure in our line of thought, because we had given our very best effort with this account. We worked tirelessly to raise the bar with regard to the skill level of our personnel, so much so that at each and every change of command the commanders received accolades for projects where our personnel had played a key role.

So confident were we in our personnel's ability that as they rolled off assignments from time to time, we promoted personnel to positions without our corporate office location. We truly worked hard, we believe in an honest day's effort for an honest day's pay, and we had every right to be excited about our chances in the 876. We even took the extra step of taking specific training on how to respond to an 876 RFP. We had 38 employees in every facet of the command performing clerical functions, and we were fully capable of running the entire command, and that's why we were so feared.

But, we couldn't have been further from the reality on the ground. Certain individuals at the command, in very powerful positions, did everything in their control to prevent us from having a viable opportunity to bid and compete. They made every effort to intimidate us.

One of the examples of this comes to mind, they refused to allow us to contact our employees, even after working hours, to update their resumes with the experience that they had earned over the past four years. We were threatened and told that if we did we would be changed immediately. We were told by the officer in charge that our Vice President could not visit the site without a military guard escorting him at all times, and his normal routine had been to visit the site twice a week for all the years that we managed those people without a military escort.

At the same time, while we were under escort, the officer in charge granted full and unfettered access to the firm that eventually won the 876 competition. We felt overwhelmed by the very intense, concerted and obvious efforts to prevent us from competing fairly.

More importantly, because this account represented a significant portion of our overall revenue, we needed to show caution with our most important customers. Without the ability to update our personnel's resumes we knew that we could not submit a viable bid. Other firms vigorously protested the award because it was a well-known fact that the company that apparently won the award had a parent relationship with a multi-billion dollar firm and did not qualify as a small business. In fact, the company that won has an estimated 3,000 employees with revenue of $225 million. A true small business could not weather the economic consequences of the unreasonably low bid that they submitted. And franchising has become a dirty little loophole that large businesses are using to masquerade within the small business community and win contracts. This needs to stop.

The sad irony of it is that this billion dollar firm will inherit the people that we cultivated over the last five years, and what about the civil servants that have served their government for many years, do you think that they even had a fair shot at winning the 876 study?

Should base level commanders' unusual interest in seeing a private sector firm win a particular contract be the overwhelming factor in awarding a contract funded by taxpayers? And why doesn't the SBA have the authority to recommend cases to the GAO or the Inspector General of the command if it's brought to their attention? There should be a policy implemented to allow the SBA to investigate a company if it is brought to their attention by any other means than a protest.

We submitted a Freedom of Information request to gain the names of the parties to the protest, but we were told that the information could not be released until after the award. The awards were made, and we still don't have the information. It's a mockery of the system that a company with the strength of a large business behind them is allowed to compete as a small business and be misrepresented as a small business.

Congress must give the SBA enforcement authority regarding small business procurements. I believe that once these matters are thoroughly examined, the shameful outcome will compel Congress to grant more resources, authority, and tools to the SBA, so that they can work with other agencies like the GAO to enforce the laws of fairness.

Most small businesses are in this to make a difference. Some are greedy and will give the whole barrel a bad taste, but some of us still believe that the best way to show our patriotism is to help create jobs for those who are not so well connected. We believe that when prosperity grows and flourishes the members of the community feel a sense of worth that the Nation as a whole improves. The expansion of the tax base and the positive effects on the economy are just wonderful byproducts of doing the right thing.

The men and women who work in the SBA and the GSA also care. It's unfortunate that the SBA, as a whole, has received such a smear on their reputation over the years. I can tell you first hand that they are wonderful people who genuinely care about creating a fair playing field for small businesses, but like an electric lamp without a cord placed in a darkened room without a plug to provide light so, too, is the SBA in the procurement arena. They have no source from which to draw upon bringing in light.

There are those of us who still believe that the system can work if we abide by the rule of law. We believe that if we strive to make a positive difference in the lives of others, our Nation and the world becomes a better place, but we are searching for the right word, the spark, the catalyst, that compels us to speak out and demand some change.

I can only offer you this, when you look in the eyes of your loved ones, and your wives, and husbands, and daughters, and mothers, remember, they have to live here too, just like us, and this system needs to be fixed for the next generations.

The abuse of the 8{a] businesses is in full bloom, from large businesses parading as small businesses, to the banks that refuse to lend even after receiving an SBA guarantee, only because they'd rather offer higher-priced terms to shamelessly enrich their bottom line. And, oh, yes, I was approved for a $250,000 loan by the SBA, but my bank preferred to keep me and my $3.6 million in a factoring arrangement so that they could make more than $100,000 in loan fees. Thank God for the SBA and my business opportunity specialist, she certainly did a thorough job of making sure that I explained why I had never accepted a $250,000 loan. If it hadn't been for her efforts I would have never even known that the bank had received the approval.

To add injury to insult, they made up an ill-conceived story that I had asked for the funds for equipment financing, and they offered an alternative solution. The only problem with the explanation is that we had ceased equipment tax in September of 2002. Even now they continue with their bold behavior, miscalculating that we neither have the funds, nor the wherewithal, to fight them.

And last, but not least, let me touch on MUCI. You'd think that since we were the incumbents of the command, with many detachments at Great Lakes Naval base, that EES would have responded to our efforts to become one of their subcontractors. Even they have a new winning strategy, promise the government they'll take all the small business incumbents and just sit back and wait for the government to downsize.

When the command closes, the computers still need to run, but because the head agency has technically closed, and their detachments are streamlined to another activity, they are not obligated to extend the subcontract to the previous small business incumbent.

Everyone has the system wired to work according to their will, everyone except the small disadvantaged business. Never before have we needed your intervention more than now.

Chairman MANZULLO. I've got to intervene on the time here.

Ms. HARRISON. I only have one thing left, we need you to strengthen the SBA and the 8[a] program with greater vigilance,

compliance support from all sides of the aisle. We hope and pray that you'll heed the call.

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

Chairman MANZULLO. Thank you, Charlotte.

Okay. Our next witness is Frankie, is it Redditt?

Ms. REDDITT. Redditt, yes.

Chairman MANZULLO. Redditt, President and CEO of Ashley's Quality Care, Incorporated, and we look forward to your testimony.

STATEMENT OF FRANKIE REDDITT, PRESIDENT AND CEO, ASHLEY'S QUALITY CARE, INC.

Ms. REDDITT. Thank you.

Chairman MANZULLO. You'll have to pick up the mike there, speak from your heart.

Ms. REDDITT. Okay.

Chairman MANZULLO. Tell us about the nature of your business, and then speak from your heart.

Ms. REDDITT. Okay, thank you.

Ashley's Quality Care provides in-home services to non-elderly, handicapped persons throughout the city and suburbs of Chicago.

However, well, also, we have over 400 workers, and our workers come throughout the city and the suburbs, we have experienced in the last two years slow payments because our contracts come from the Department of Rehab through the State of Illinois. We have not been getting paid on time, so, therefore, I've been losing quite a few clients, quite a few homemakers, because if you cannot make your payroll you cannot pay, and the homemakers will not stay there. They take our clients away from us and take them back to the state where they will get $7.00 an hour.

We have been fighting this for the last two years. Ashley's was established in 1991, when we only had four workers, four homemakers, and two staff persons, now we have well over 400.

We have experienced tremendous defeat from the banks. Banks would not give us a line of credit. I have to take my same contracts over to the banks in the minority communities, in order to get a line of credit, in order to pay. However, I still cannot get enough money to make payroll from month to month. Therefore, I'm going back and forth with the state, saying could you please release funds. I'm also asking them to-we must submit a letter, I believe that's another grievance letter, we must submit a letter of where we actually need this money, and each month, each month we have to go through the same thing, sending out letters saying that we need money in order to make payroll, in order to pay our employees, and this has been going on since 9/11.

We cannot grow, because there is no money to grow, there is no room to grow. We cannot accept other state contracts, because there is no money to pay the employees once we get a contract, so, therefore, we have to refuse contracts, and we cannot hire any more workers.

Over the last ten years, we find that we are helping the state by keeping the clients in their homes and out of institutions, out of hospitals, and keeping them in a safe environment in their homes where they are familiar with. Therefore, the clients get better at

a rapid rate, and they are able to function because they are familiar with their surroundings.

We cannot pay our workers, we lose our clients, our clients are dissatisfied, and they are going without services, and this is due to the fact that the whole thing is not being paid in a timely manner.

We have a lot of homemakers that have stuck with us down through the years, worked with us, continue to go to provide services for these clients. Some of our conditions, the conditions that the homemakers are actually going into are deplorable conditions. The clients cannot do for themselves, they cannot clean themselves, they cannot feed themselves, they cannot shop for themselves, they cannot cook, so our homemakers provide all of these services, and yet we cannot pay them in a timely manner.

And, this is why we are coming—have gone to the Harris Bank, some of the large banks downtown, and they said we must have SBA backing. We get an SBA backing, and they still refuse to provide payments or provide us with a line of credit. We have to, therefore, take our business back into the community where they cannot afford to give us the line of credit that we need in order to grow, and, therefore, we are stuck with what we have.

Our ambition is to grow. We want to grow. We want to provide services to more individuals who badly need the services, but we cannot do it because of lack of funds, and this is where we stand today.

Thank you.

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

Chairman MANZULLO. Thank you, Frankie.

Our next witness is Bruce Montgomery, President of Montgomery Company, and we look forward to your testimony.

STATEMENT OF BRUCE MONTGOMERY, PRESIDENT, MONTGOMERY & COMPANY

Mr. MONTGOMERY. Thank you, Chairman, and again, I'd like to thank Congressman Davis and you for holding this forum in our community. It is one that's obviously necessary by the statements of the entrepreneurs that have spoken before me.

My name is Bruce Montgomery, and I'm Founder and President of Montgomery & Company, which is an information technology and systems innovation company that I founded in 1989. My company was established to provide technology and information management services to business, education, government, and the nonprofit sector. The company manages IT projects and computer hardware and software systems design and implementation, local and wide area networking, mobile computing, document imaging systems, desktop graphics, multimedia applications, and Internet and e-commerce.

Chairman MANZULLO. How many employees do you have, Bruce?

Mr. MONTGOMERY. I have five.

Chairman MANZULLO. Okay.

Mr. MONTGOMERY. I am not going to talk today about my own trials and tribulations as an entrepreneur, that's too much fun to talk about in five minutes, but what I will talk about, again, some ideas, and like you say, speak from the heart. Certainly it's been a pleasure to work with Congressman Davis, to talk about eco-

nomic revitalization and job creation in this community, and I think a lot of hard work was done by the Congressman and others when they established the plans called "New Market Initiatives." They looked at the disparities of capital access and availability of capital markets.

In the New Market plan some great ideas and concepts were raised. Unfortunately, they were not implemented to the full extent, because while the ideas and the plans were there, they weren't given the money and teeth, as we've heard before, to make a difference in effecting change to solve some of the problems that have been previously stated.

So, my first statement would be to blow the dust off of the ideas that were raised and well documented in New Market Initiatives, and it's obvious that banks and the current institutions cannot be the only providers of capital that our businesses so sorely need.

The Kaufman Foundation, the Ford Foundation, and so many others have well documented the need for equity capital, and the disparity, and the availability of equity capital to our businesses, and we've not even been allowed under the SBIC rules to be a part of that game.

If you look at the SBA's own records in regards to what's going on in SBIC funding, small business investment corporations, there are some grave concerns about that program and the ability that minorities become certified as SBICs and do their job of providing equity capital to minority-owned businesses that will create jobs.

Now, the truth is that once African Americans have been allowed to participate in the venture capital game, that they've been very successful. In fact, regardless of all the horror stories that we've heard, minorities, and women, and African Americans, have started businesses at a faster clip in the last ten years than ever before. They are creating jobs, despite all of the horror stories that we've previously heard. They are doing this with two arms tied behind their back because they haven't been able to get equity capital, and have equity events, and do IPOs, and access the capital markets.

The problem is, the best and the brightest in our financial institutions have moved from the banking community into the realm of investment banks, and that's why a company like Comcast can make an untendered $50 billion offer to buy Disney.

Chairman MANZULLO. $56 billion.

Mr. MONTGOMERY. $56 billion, because all of the financial geniuses in America are more concerned about these mergers and acquisitions to provide capital, and schemes that allow them to have the capital to make these huge deals, but there's no opportunity for minority businesses to get access to equity capital. So, I say we need to look at the disparities in the availability of equity capital, and the SBA, again, needs to be empowered to move quickly to make sure that minorities get a chance to be certified SBICs, we need new vehicles in our community.

We have this idea of community development financial institutions. We need new vehicles. Again, I would say that the Black Caucus has had tremendous success with their WOW initiative, recognizing that home ownership is a key to wealth. Well, the next initiative ought to be one for small businesses, and just like we would not have the tremendous movement in home ownership

without creating vehicles like Fannie Mae, that are allowed to securitize the great mortgage pools and make money available for people to own homes which are the number one asset in America that makes a difference in people's wealth.

We need to have that same type of availability that can securitize monies to really clean up this gobbledy-gook of weak programs that are under funding the opportunities for small businesses to grow and create jobs. So, we need to review how these securitization models can make a difference in capital available for minority businesses, and we need to do that right now.

Your committee needs to hold their feet to the fire when somebody comes up with a scheme to create a new agency in the government, such as the Agency of Homeland Security, and say, hey, you know, we need to do this. We need to fund this. We need to move now, and we need to move quickly.

Well, that agency, Tom Ridge needs to come before your department, and before he runs out and does whatever he feels he needs to tomorrow, he needs to show you how he's going to include small business in the process. They can find a way to do everything, bend the rules, do it tomorrow when they want to do it, but then there's no call to watch and monitor the contract, go think about what it needs to look like, they can give everybody else a contract to think about what needs to be done, there's no way all of the desperate IT systems are going to be galvanized in one new agency.

I'll tell you this, though, they don't have an effective model of how to include small business in the process, and they need to have one.

Chairman MANZULLO. Bruce, it looks as though we are almost out of time here.

Mr. MONTGOMERY. Well, I've just got two more comments to make.

One, certainly you've heard the problems with contract bundling. This is a terrible problem and speaks to the issue that I'm talking about.

And again, I'd just like to say that there is well documentation, again, Kaufman, the Milliken Foundation, Ford and others, have done study, after study, after study, to show that venture capital, equity capital, access to capital markets, and new thinking, needs to be brought into models to create capital, make a difference, so that our businesses can be engaged.

And, I would also say that technology adoption by small businesses can make a very big difference in their ability to be effective, and also, we've been locked out of the ability to provide our services into the very agency that we are here to talk about today, and that's the SBA. I would encourage the SBA to be very inclusive, to continue the SBIR program that allows small businesses to get innovation dollars to bring new ideas to the visibility of the United States, and again, I would encourage you to continue to hold these types of hearings all around Illinois, because Illinois is sending too many tax dollars to the federal government, we are not getting them back, and small businesses can make a big difference in our ability to employ and make a difference in our community.

And again, I thank you.

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

Chairman MANZULLO. Thank you, Bruce.

Our next witness is Emmett Vaughn and—you're not Emmett?

Mr. VAUGHN. I am Emmett.

Chairman MANZULLO. That's right, you're on this panel, here.

Mr. VAUGHN. Change type———.

Chairman MANZULLO. President and CEO of Diversity Supply Company.

Mr. VAUGHN. No. I have no idea what that company is, but I am Emmett Vaughn.

Chairman MANZULLO. You are Emmett Vaughn. Was that a typo?

Mr. VAUGHN. It's a large typo.

Chairman MANZULLO. It's just a $100 million company we thought that you were the President of.

Mr. VAUGHN. What if that were true?

Chairman MANZULLO. Well, Emmett, why don't you tell us who you are and your company, if any, that you are representing.

STATEMENT OF EMMETT VAUGHN, NATIONAL DIVERSITY SOURCING RELATIONS

Mr. VAUGHN. Right. The other Congressman invited me as something of an independent subject matter expert. I am in charge of minority business development and ethnic marketing for Albertson's, which is——

Chairman MANZULLO. Oh, a grocery store chain.

Mr. VAUGHN [CONTINUING] Right, the second largest grocery retailer in the United States.

The other thing, just by way of background and resume, in the past five years, I want to say I have probably been involved in just under a half a billion dollars of transactions from the private sector through corporate supply and grocery programs. I've been very involved with Congressman's economic development initiatives.

So, you know, the last guy on the panel is always the easiest guy to speak, because we can summarize all the fine commentary that's gone on before now.

Statistical growth of small business in urban and rural areas speaks for itself. I think also the downsizing of companies has been clearly offset by a lot of what has been done by small business growth, and that's something that does not often get talked about, the relationship of small businesses to large businesses.

The one thing that I'm clear on is that small businesses are among the best customers for large businesses. And, I think this Administration has clearly been very short sighted about what is going to happen to a minority customer base for some of its larger taxable agencies that are large corporations. Large corporations need to be further also incentivized to figure out ways to invest, and when we talk about access to capital, some of the largest holders of capital in the best pockets are clearly in the hands of Fortune 500s, and not nearly enough pressure has been put on Fortune 500s to get involved in the process, yet they are weakened——

Chairman MANZULLO. Emmett, would you tell us what your company is doing? Give us some life experiences as to what you are doing in these areas.

Mr. VAUGHN [CONTINUED] Well, we are simply, traditional supply diversity programs.

Chairman MANZULLO. Well, just explain. There are some folks who may be interested in working with Albertson's. Some people are shaking their heads back there. They are looking for contracts. Tell us what you are doing, or tell us what Albertson's is doing, obviously, a step ahead of other large corporations.

Mr. VAUGHN. I would actually say just the opposite, Mr. Chairman. Albertson's hired me a year ago to address this issue, so we are not a cutting-edge company. I think we've got a very forward thinking strategy, but candidly, I would say that if anything the company has taken a step to address its place in the economy, trying to create solutions. At this point, we are not the benchmark.

Chairman MANZULLO. Okay, go ahead.

Mr. VAUGHN. I think that a lot has been said about the banking environment, which is largely in favor of the small business. Private capital offerings are scarce for these enterprises, and I am so unclear, the one thing that I think as we talk about what banks have and have not done, I am not well versed on the Community Reinvestment Act, but the one thing that I do know is that the CRA is not—I think banks have mistaken supply diversity and diversity sourcing initiatives for fulfilling their commitments around community reinvestment. A lot of those things have been masked as being interchangeable, and they really are not.

The SBA community is a significant contributor to the growth of small businesses has really just, in many ways, historically contributed to what little economic stability could really be claimed in urban areas, and I think that's something that, again, when you talk about the total face of the sub-economy that belongs to Brown America or Urban America the SBA has been the prime investor, has been a key investor. And so, any slowdown, and we talk about the big economy, can only be felt probably three or fourfold in the sub-economy that belongs in our cities.

The SBA, really, I don't know, supply chains in corporate America, you want to talk about that or ask me about that. Supply chains in corporate America are being downsized even faster than corporate org charts. It is now a game of scale and now a game of big businesses trying to source to large companies, but small businesses are rapidly being cut out.

In my mind, the SBA should not seek just to get back to a break even point, which would really only be still the tail sort of wagging the dog relative to what's going on in the economy. The SBA has really got to think beyond break even and find its way into developing new tools, new products, really revitalize models that matches itself with the needs of the struggling part of the sub-economy that's been affected by the SBA.

I think that also given the fact that you've got more and more ethnic minorities that are finishing college education, pursuing corporate careers, getting downsized, and turning to entrepreneurship to maintain employment, there's not a lot of statistical data that supports that. But, what you are also talking about is some of the best and brightest minds that are available that have been causal to this growth in small business also being shut out, not only shut out of mainstream employment, but now having the channel of

small business start-up derail, and I just shudder to think, really, what type of potential economic ambience we are creating that have not been seen before by the short sightedness of how the SBA is being funded and also being strategized, not only around stabilization but towards growth.

I would like the rest of the panels to encourage the body to explore rigorous exploration of how to accelerate this funding, encouraging more small business starts, encouraging overt inventions, for lack of a better term, to continue to develop brilliant ideas in inventions, and do anything that can help to sort of replenish and stabilize and grow communities that are struggling right now.

Thank you.

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

Chairman MANZULLO. Thank you for that excellent testimony.

I've just got a couple comments and then I want to ask a couple of questions.

First of all, there is a big problem. We have a manufacturer in our district that was bumped on a very important defense contract, because originally they were told that they were a large business. I'm sorry, the company that got the contract was told it was a small business. It was an office front, huge, multi-national. I call it multi-national. It's the Alaskan Native Corporation, which carries out contracts in Guam, Florida, all over the country, and has been bumping small businesses. And the small business in our district appealed the size to the Native Alaskan Corporation. The appeal was carried out within the Small Business Administration, but there is no authority to impose that upon the Department of Defense. And really, that's where SBA is really frustrated.

There's a bill, Congressman Velazquez and I are co-sponsors on it. In a situation like this, the Office of Management and Budget would be empowered to make a determination and take that contract out of the hands of somebody else if it's found out that the small business has, in fact, been discriminated against. This is not even disadvantaged or 8[a]s but just regular small businesses.

A second thing is, Emmett, you talked about what some of the large businesses are doing. We've held three hearings on outsourcing, and one of our witnesses was Natasha Humphreys, remember that, Danny? Natasha is from the West Coast, African American, exemplifies the upward mobility that is absolutely necessary in order for the spirit of entrepreneurship to flourish in this country. She was forced to go to India by Palm Corporation, to train her successors, and she and 12 of her colleagues we thought were laid off from Palm. I'm mentioning Palm because you need accountability. One has found a job, and ironically one of those that lost her job was born and raised in India, came to the United States and was 7 months pregnant at the time that she was terminated, so they could outsource some of that type of software work to India.

With respect to the supply chains, we've been working with several minority business people who do business with large companies. What the large companies are doing now is that they want to narrow down the number of what they call manageable sources, and I can understand where they are coming from. So, instead of ordering from six or seven, or eight different people, they'll order

from one, and hire a new person to go ahead and make the component.

What happens is, the little guy at the end of the line that ends up having a difficult time. We've asked for and got an investigation by the General Accounting Office of the Joint Strike Force fighter, to determine whether or not the small businesses were, in fact, being ordered to participate according to the projected goal of 29 percent. They came up with a software program, I don't know if you are aware of this, down to the third tier, for purposes of accountability.

So, a lot has been going on. We've been working really hard. What you've been bringing to us is an example of the frustration that continues, but we've been working on this in cases—Bill, if you want to make a comment.

Mr. LEGGETT. Well, the only comment that I'll make is that there seems to be an overwhelming direction in terms of suggesting that SBA, as an advocate entity, needs to have more power.

Chairman MANZULLO. Yes, it's true.

Mr. LEGGETT. I mean, it's frustrating anyway for people to feel that they are going to get certain kinds of help, and they get the advocacy, but then those who can make the decisions often times discount or discard all of the work-up. And so, certainly there's going to be a great deal of resistance, but resistance does not necessarily mean that there will not be movement in that direction, and I would assure those of you who have expressed that position and that point of view that at least I, as one member of the Small Business Committee, and one member of the Congress, will advocate your position and your point of view relative to this matter.

And so, thank you, Mr. Chairman.

Chairman MANZULLO. Yes, I've got a question, Emmett, to ask you.

What does Albertson's, and I don't want you to get in trouble with your employer, because obviously there's a vision of where you want to take it.

Mr. VAUGHN. Thank you.

Chairman MANZULLO. No, no, you are here because you are concerned about it, and, obviously, Albertson's is concerned because they hired somebody of your competence, but what is it going to take for Albertson's to become a benchmark? Where do you want to see them go and what is your vision?

Mr. VAUGHN. Very good question. I think relative to what the body of the House of Representatives can do, I think there's got to be more and more incentives that protect large corporations or encourage them to take some risk with some of the available capital that are ours that can be put back into—particularly, where companies have multiple markets where there is the need for economic catalysts to take place.

Albertson's serves probably 11 of the top U.S. 25 metropolitan markets, with Chicago being our—Chicago and Los Angeles being our two largest metropolitan markets. I mean, there is a tremendous amount of, perhaps, marketplace growth incentives for us to—for a company like ours to do things relative to gaining market share, however, I think in some cases we buy on both the sellable goods side and on the non-sellable goods side, particularly, because

I know there's companies that are represented here on the sellable goods side, there's a lot of capital needs because most of those companies are locked directly in with manufacturers. The relationships of some of our small vendors, relative to their manufacturers, is largely tainted because of the lack of capital that they have to create lines of credit and things with actual manufacturers of food services.

So, there's no reason to answer that, Mr. Chairman, I appreciate you asked, it's just, I would say probably incentives for investment in a certain level of tier of our supply chain that's occupied by minorities and small businesses.

Chairman MANZULLO. Okay.

Mr. WORDLAW. Mr. Chairman.

Chairman MANZULLO. Go ahead, do you want to give him the mike?

Mr. WORDLAW. Thank you.

We went to the Iraqi Conference in Washington here last month, and one of the criteria that in order for the companies to bid on Iraqi contracts was that they should have at least 23 percent of all their purchases done through minority companies. That's the criteria that we think should be put in place to make sure that African Americans and minority companies do that.

I'd like to think that we are, I mean, maybe not necessarily, but we are in competition with a $55 billion corporation that literally tells all of its—they are the prime vendor for all the VA hospitals. They tell them that they are buying our products, so there's no teeth in that process. So, we need you all to give a penalty or some kind of point system for the large corporations to suffer if they don't include us.

Chairman MANZULLO. Comment, Neli?

Okay.

Ms. HARRISON. I did have one comment.

Chairman MANZULLO. Oh, I'm sorry, go ahead, Charlotte.

Ms. HARRISON. Yes. I had a comment, too, that, you know, we've had several legal actions where we've protested and gone, you know, both the SBA and GAO route.

Nobody has the power, even if you win, and the agencies don't want to listen, you know, the SBA has no power. So, what good is it to fight? The SBA needs to have, they can, they fight with us side by side with all their heart, you know, and they are in it to win it, just like we are, but at the end of the day when they've done their duty, nobody has listened to them.

Chairman MANZULLO. Charlotte, the problem is the politics of it. The small business people have various organizations in Washington, but none of them have the lobbying power of the big guys. If you think for one second the big guys are going to put us small people in a position where we could knock out one of the contracts, because they haven't been following the rules on it, it's extremely difficult. And the big problem with the Alaska Native Corporation, the purpose of which was, you know, to employ Alaskan Natives, excuse me, in Guam, and Florida. But, on comes their senator, and they just put provisions in the laws, and we find out six months later that somebody has done that.

So, we've got an ongoing controversy with that particular corporation, because it does damage to all small businesses.

Ms. HARRISON. Yes, and we have large businesses now, because of the economy, large businesses are coming down to the small business arena, taking work from small businesses, and parading as if they are a small business, knowing full well that they are not a small business, competing against us and winning, and being awarded, when the procurement is designated as a small business———.

Chairman MANZULLO. Neli, let's take your comment, we can finish the panel.

Ms. VASQUEZ-ROWLAND. Well, I guess out of that comment that you said, the fact that we don't have the lobbying power, is what spurred on the founding of the Greater Illinois Procurement Association, that we're getting together with other associations around the country to represent 8[a] companies and support you and your efforts in trying to assist our businesses in participation with federal contracting. We truly appreciate that, and I just wanted to share a quick story.

I attended one of your congressional meetings in Washington one day where a small group did organize, I believe it was an office products supply company.

Chairman MANZULLO. Yes.

Ms. VASQUEZ-ROWLAND. Where the Department of the Army, I believe, the U.S. Army Corps of Engineers, had decided they wanted to consolidate the procurement to these and direct all of their purchases to Boise Cascade.

I was there to witness Chairman Manzullo, pretty much hearing out the U.S. Army Corps of Engineers, in terms of what study did they have that showed that they were saving money in terms of directing all of their purchases to Boise Cascade, they had no background, no support, to, I guess, support that decision.

There was lobbying, or the Association of Office Practices organization got together and did indicate that they have the buying power and, you know, cost savings for the government. At that point, Chairman Manzullo offered the U.S. Army Corps of Engineers to reconsider their decision and to once again refer back to small business in buying their office supply products.

Mr. DAVIS. Mr. Chairman, let me just note the presence of Cook County Commissioner Bobby Steele, who has joined us. The lady in the back who is very interested in these matters

And also, the one point, Charlotte and Obie both have indicated a serious willingness to fight, I mean, they've protested, protested. There are more small businesses, though, that are fearful. I mean, people come to us all the time, and often they will weigh whether or not there should be a complaint or whether or not we should try and intercede on their behalf, because they are afraid that the agency that they are dealing with will retrench, and that they will suffer punishment, I mean, as a result.

But, somebody will say, you know, the Congressman called up here on your behalf, and we don't like that, or you can just about forget it.

So, my question to both of them is, do you feel that you've had any backlash from agencies that you've attempted to do business

with, as a result of your willingness to protest their inaction or inability to grant you business opportunity that you felt should rightfully have been yours?

Ms. HARRISON. They are not paying me anyway, what do I have to lose? I mean, no, as long as there's breath in my body, and I can feel, and think, and breathe, I'm going to go down fighting. I'm not going to—I'm not going out with a whimper. They are going to have to—you know, grind me into the ground, I'm fighting to the death, because this is our livelihood. This is what we do. I don't know how to do anything else, and I know that I'm right, I'm not wrong, I have rightness behind me. So, I'm fighting to the end.

You know, they are not going to like it, I've had comments, and you know some of the comments that they've said, yeah, they don't like it.

Unidentified. SPEAKER. She had the Congressman call, and they said that's why we couldn't do our work.

Ms. HARRISON. They weren't going to do their work anyway, you know, take them to the wall, that's what I say.

Mr. WORDLAW. Just briefly, I'll say ditto, but in the meantime it feels good to battle. We are not getting anything anyway.

Ms. HARRISON. That's right.

Mr. WORDLAW. So, let's see where it takes us.

Ms. HARRISON. I mean, and while we're battling, you know, we are not making that our only work, we are still getting other business and diversifying, because we've got to eat. We have to eat, and pay our bills, and keep our employees paid, and do those things, but the fight is part of the job.

Chairman MANZULLO. Okay. I want to get a second opinion

Mr. DAVIS. I'm done, but since this is Black History Month, Frederick Douglass would be very proud of both of you, because one of his favorite comments was, "He who is whipped the easiest is whipped the most often," and that if you find the level of oppression that a people or a person will accept, that is exactly what they will get. So, you are my Black History heroes.

Chairman MANZULLO. Bruce, thank you for being up here on the panel.

Mr. MONTGOMERY. And I would say that because it's so hard to change the inherent behavior of organizations that have operated a certain way for a long time, that when there are opportunities where new entities are created, such as creating a so-called new Department of Homeland Security, and there's an opportunity to include in these new processes new ways of doing business that are inclusive of minority business utilization, small business utilization, that you may ask some of these organizations at the outset of these things, when there's a lot of fanfare, to create some goals and objectives that pass the muster of your panel, and then come back a year later and ask them, as they move to rebuild Iraq, and as they move to do things in the United States, have they met the goals that they told you when they wanted your support to move these things through very quickly.

Sometimes it's an opportunity, at the outset of establishing these new entities, that they can do business in a new way, and ultimately provide a benchmark that can show, as previous comments have been made, that there actually is some viability and cost sav-

ings in doing business with small businesses that really bring the ideas and bring the productivity to the federal government.

Chairman MANZULLO. Okay.

Let's thank the first panel here.

[Recess.]

Chairman MANZULLO. What I'd like you to do, since most of you are with government agencies, is in the course of your testimony to try to address, if you can, some of the questions and frustrations that were raised with regard to the first panel.

Our first witness is Judy Roussel, District Director of the Small Business Administration, who had the pleasure of eating at our family restaurant in New Milford, Illinois, and, Judy, we had a great time there, didn't we?

Ms. ROUSSEL. We sure did.

Chairman MANZULLO. The SBA doesn't come anywhere near northern Illinois unless they build a family restaurant, so, Judy, we look forward to your testimony. I think your mike is live.

STATEMENT OF JUDITH ROUSSEL, DISTRICT DIRECTOR, SMALL BUSINESS ADMINISTRATION

Ms. ROUSSEL. Good morning, Mr. Chairman, Congressman Davis, thank you for inviting me today to discuss the U.S. Small Business Administration's SBA programs to assist America's small business communities with access to capital and finding federal procurement opportunities.

The President's Fiscal Year 2005 budget request for SBA reflects his commitment to maximizing opportunities for small businesses and the millions of people they employ.

Last March, the President announced his Small Business Agenda to reduce regulations and taxes, and to expand opportunities for small business. A prominent feature of the President's agenda is ensuring full and open competition in government contracts and avoiding unnecessary contract bundling. This measure will create opportunities for small businesses and save taxpayer dollars.

As you know, SBA is submitting legislation that is a long-term solution for the 7[a] program and will have immediate benefits. Our proposal will put approximately $3 billion in additional loans into the economy and help more small businesses and create more jobs. We urge your support for this proposal.

As announced by SBA Administrator, Hector Barreto recently, "The SBA guaranteed a record number of loans last year, with double digit increases in the percentage of loans to women, Hispanics, African Americans and Asian Americans." The Fiscal Year 2005 budget request of $12.5 billion in loan guarantee authority for the 7[a] program will allow the SBA to provide more businesses with the capital needed to start-up and to expand. With our proposal we intend to have another record-breaking year.

The Agency's main objectives related to Government Contracting are first to increase prime and subcontracting awards by securing top level commitment from the agencies to achieve their goals, to promote procurement opportunities through a Nationwide Matchmaking Event, and to improve customer service. Secondly, to modernize the 8[a] Business Development Program through restructuring, through the development of an automated on-line 8[a] ap-

plication, and through implementation of a Procurement Academy, and thirdly, to facilitate community economic development and job creation through the HUBZone Program.

I'll talk a bit about access to capital. As you are aware, SBA submitted its 2005 budget request on February 2nd of this year. This budget will ensure continuity in SBA's programs, while reducing SBA cost to the taxpayer by approximately $120 million. Through improved management and program reforms, SBA will better serve America's small businesses by reaching the communities where our programs have had little market penetration.

One of the most recognizable services SBA provides is financial assistance. Last year, a record number of small businesses turned for credit assistance to SBA, producing a 29 percent increase in the total number of loans backed by the Agency. Nationally, the increase in loan approvals under SBA's three major loan programs came to 29.8 percent. This reflected a rise from 59,500 loans in 2002 to 76,465 loans in Fiscal Year 2003.

The loans demonstrate our commitment to meeting the unique financing needs of small businesses, and the impressive increase posted for the year validates our approach to making smaller loans more readily available to the real job creation engine of our economy. By focusing on a smaller average loan size, we are leveraging our resources to assist more small businesses and create more jobs. Based on statements from borrowers, our financial backing helped small businesses create or retain more than 526,000 jobs.

Ironically, our success in promoting these programs hurt us earlier this year, as SBA was forced to suspend its operations of the 7[a] program. Now, unprecedented demand and a series of short-term continuing resolutions caused the program to run out of budget authority under the last Continuing Resolution. SBA reopened the program as quickly as possible, but we did place some restrictions on the program to keep it running until a more permanent solution can be reached.

Chairman MANZULLO. You have one minute, Judy.

Ms. ROUSSEL. In our 2005 budget, SBA requested a 30 percent increase for the program to $12.5 billion, and has proposed legislation to adopt a permanent zero subsidy rate for the program that will allow SBA to ensure that funds remain available for small businesses seeking financial backing.

SBA has requested $4.5 billion in lending authorities for the 504 loan program, which has no cost to the taxpayers. This program, of course, was established to increase small businesses' access to real estate and other long-term fixed financing.

[Ms. Judith Roussel's statement may be found in the appendix.]

Chairman MANZULLO. Now I've got a fixed clock here, so I've got to cut you off at that point. Thank you.

Our next witness is Linda Oliver, Deputy Director, Small & Disadvantaged Business Utilization, of the Office of the Secretary of Defense, and, Linda, we look forward to your testimony.

STATEMENT OF LINDA OLIVER, DEPUTY DIRECTOR, SMALL AND DISADVANTAGED BUSINESS UTILIZATION, SECRETARY OF DEFENSE

Ms. OLIVER. Thank you. Thank you, Chairman Manzullo and Mr. Davis. It's a pleasure to be here.

I've heard what you have been saying, which is abbreviate, abbreviate, so I will do that. There are two things that I definitely want to say, more to the people who are here at the hearing than to you two, which is, to commend your good judgment for having two, from the same state, two such capable people so truly interested in small business. They are, both of them, so good, and they work so well together, that it's been a pleasure for me to listen to them, to take their lessons.

And, to my second point that I do insist on making is, how fortunate I feel to be coming to a hearing in Chicago. Chicago was the first big city I ever learned to love. I came here as a—I think I'm gone.

Chairman MANZULLO. Hold on a second.

For somebody who doesn't like Chicago—hold on one second.

Ms. OLIVER. Okay.

Chairman MANZULLO. Well, Linda, just belt it out.

Ms. OLIVER. Okay. I will just speak loudly.

This is a wonderful city. I first came here when I was 16, to a big meeting which I had wanted to come to forever, and Chicago over the years has simply made me delight in this city more rather than less. There are so many wonderful things about Chicago, so it's great to be here, even if it's a cold day, and even if it's for a brief amount of time.

In my written testimony, which you can pick up and read so I will not go over it in any sort of detail, is a little discussion on what the Department of Defense is trying to do to better understand what we can do better for small business. This really has amounted to our trying to do analysis of what works and what doesn't work.

The first thing that's worked is, we are surely understanding better what it is we are doing which we think is leading, hope is leading, to better decisions.

The second thing I touch on in my testimony is, my written testimony, the service disabled veteran-owned small business goals. We have not done nearly as well as we had wanted, and we are very pleased that Congress has given us a tool, because it was clear to us that where we were heading was not working. We think—we appreciate Congress' sensitivity, and we think that we will start to turn these numbers around.

The next thing I touch on in my testimony is improved processing of small disadvantaged business certification. This has been a tremendous problem for small disadvantaged businesses, a requirement for certification came in after the Ataran decision, and it has caused small businesses, small disadvantaged businesses enormous problems for two reasons. One is because it's a painful process to go through with, apparently, very little reward, while trying to solve this problem. And, I think that is particularly in keeping with both Congressman Davis and Congressman

Manzullo's direction to us, to make things easier, not harder, for small businesses.

The next area that my testimony touches on is improved small business training, and that happens to fit with much of the testimony that we have heard this morning.

We heard Mr. Wordlaw testify about contracting officers not being 8[a] friendly, and that we don't seem to be able to make the contracting officers do what he believes, and I do too, needs to be done.

Well, it's really hard to push a noodle, but it isn't so hard to pull a noodle, and we truly believe that more and better training will make a very big difference. We are excited——

Chairman MANZULLO. You have about 30 seconds.

Ms. OLIVER[CONTINUING] Okay, thank you, I appreciate that.

You can read the other things I have to say in my testimony. I appreciate being able to be here, and I wish I'd done it even more quickly, because what you say is more valuable than what I say.

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

Chairman MANZULLO. We appreciate it. The complete statements of all the witnesses will become part of the permanent record.

Our next witness is Sean Moss, with the Department of Transportation, Director of Small and Disadvantaged Business Utilization. Sean, I look forward to your testimony.

STATEMENT OF SEAN MOSS, DIRECTOR, SMALL AND DISADVANTAGED BUSINESS UTILIZATION, DEPARTMENT OF TRANSPORTATION

Mr. MOSS. Thank you, Mr. Chairman, I might as well say thank you on behalf of Secretary Mineta that we can be here this morning to testify, and also, Mr. Davis, thank you so much.

DOT is a lead in government procurement. It's developed a culture, has demonstrated its commitment to small disadvantaged businesses.

To give you an idea, over the last three years DOT has awarded $3.476 billion to small women and disadvantaged businesses, and represents about 42 percent of DOT's total direct contracting dollars.

Now, last year, nearly 20 percent of that went to women and disadvantaged businesses, that's both SDB and 8[a].

Now, although we made some progress and advances in small business interests in the Department, there are a lot of obstacles we realize that still exist. So, we've defined those challenges as access to information, access to capital, and also access to advocacy. So, to better address those concerns, our office has been aligned to address those challenges.

I'm just going to talk very quickly on these three issues. One is outreach. Now, obtaining information about how to be visible to government is very overwhelming, especially for a small business. So, we have three solutions in place. Firstly, we have what we call a National Information Clearinghouse, which really provides a single point of contact for all small businesses to reach us.

Chairman MANZULLO. That's the entire government, isn't it, or just DOT?

Mr. MOSS. This is DOT, sir.

Chairman MANZULLO. Okay, go ahead.

Mr. MOSS. We have customer service reps that respond to inquiries, and questions, through a dedicated toll free line, e-mail and written correspondence. Also, our NIC, as we call it, is equipped with a state-of-the-art web site that provides small businesses about information about how to do business with us. Just to give you an idea, we have about 750,000 hits per month.

Secondly, we've established 13 cooperative agreements with business organizations and minority-serving institutions across the country to assist small business. Now, these partners are responsible for increasing the number of small disadvantaged businesses that enter into both direct and federally-assisted transportation-related contracts.

Now, right here in Chicago, we have one of our partners, it's the Business Resource Group, and what they are doing currently is helping small disadvantaged firms on projects like the Dan Ryan Expressway rehab, and also the CTA Greenline Project. So, without their involvement, many of these firms would not have the opportunity to compete.

And, the third area that we outreach is that we sponsor and attend a variety of conferences that teach how to do business with DOT. Last year, we attended 46 of these conferences. Last month, we held a conference in D.C., that targeted HUBZone companies, and next month we will go to Oakland, California, and focus on federal highway contracting opportunities in that area. And also, our procurement office is very involved, too, and they work with organizations like AEA, that train our memberships, including small businesses, on how to gain access to federal procurement.

The second area I want to talk about is financial services. You've heard a lot about that this morning. We at DOT are very sensitive to the challenges that exist within the credit and capital markets for small businesses. It's even more acute for minority firms. So, we support and applaud the efforts of the U.S. Department of Commerce and other organizations that, the research that shows that it's not fair out here.

So, in order to increase participation for all firms, the Department provides two credit programs to address the capital issues. The first one is called the Short-term Loan Program, and basically what it is, it's an accounts receivable finance program where credit lines are provided by banks that we select to assist these companies to finance these contracts. And, we've partly had success with providing working capital financing for firms that otherwise would not receive it from a bank. Approximately 35 percent of our loans have been made to African American firms over the last two years.

The second program is called our Bonding Assistance Program. Again, it's for certified minority disadvantaged firms that participate on our transportation projects. This is a real issue in the bonding community, the inability to access surety bonding is often a primary factor that keeps these small and minority firms from our public projects. So, even as subcontractors, minority firms need bonding.

The last area is the area of advocacy, and our office is dedicated to supporting legislation that reflects the interests of small minority firms. Now, our efforts range from supporting a government-

wide initiative to unbundle contracts, that was talked about earlier today, and also subcontracting.

And also, our Department supports our own disadvantaged business enterprise program, which was first enacted in 1983 as part of the Highway Bill, and what it does, it encourages the participation of disadvantaged businesses in highway and federal transit projects.

Just to give you an idea, in Fiscal Year 2003 we awarded $3.16 billion to DBE firms, which represent about 10 percent of our total federal dollars.

So, I'd like to conclude my remarks and I'll be happy to answer any questions later on.

[Mr. Moss' statement may be found in the appendix.]

Chairman MANZULLO. Thank you very much.

The next witness is Patricia Bamford, Chief of Acquisition and Assistance Branch, Resources Management Division, with the Environmental Protection Agency, and, Patricia, we look forward to your testimony.

STATEMENT OF PATRICIA BAMFORD, CHIEF OF THE ACQUISITION AND ASSISTANCE BRANCH, RESOURCE MANAGEMENT DIVISION, ENVIRONMENTAL PROTECTION AGENCY

Ms. BAMFORD. Good morning, Chairman Manzullo and Congressman Davis. I want to thank you for the opportunity to appear today to discuss the work of the Agency in assisting small business enterprises in our region.

I want to take this opportunity to highlight EPA's efforts to include small businesses in the procurement process.

The Office of Small and Disadvantaged Business Utilization partners with the Agency's contracting activities to support the protection of the environment and human health by fostering opportunities for small and economically-disadvantaged concerns.

Small businesses play an important role in helping the Agency to protect human health and the environment.

In Region 5, we have awarded three major emergency and rapid response services contracts, also known as ERRS contracts. Two of these contracts have been awarded to small business concerns. In Fiscal Year 2003, small businesses received 71 percent of the total dollars obligated for ERRS contracts. If we include the subcontracts awarded by the large business contractor, small businesses received 83 percent of the total dollars obligated under the ERRS contracts. Small businesses supply us with many of the items needed to carry out our environmental and counter-terrorism missions on a daily basis.

Over the last few years, we have tried to develop a good understanding of the major problems facing small businesses in their efforts to obtain contracts with the Agency. We have worked hard to increase the number of procurement opportunities available to small businesses. In Fiscal Year 2003, the Agency's small business goal was 23.5 percent. The Agency awarded over 31 percent of our net obligations to small business concerns. In the same year, Region 5 awarded over 34 percent of our net obligations to small businesses. EPA's goal for Fiscal Year 2004 is to award 27 percent of

the available procurement dollars to small businesses. We are confident we will continue to surpass that goal.

The President's Small Business Initiative calls for the Agency to improve small business access to government contracts. The Agency is taking several steps to address this initiative. We are reviewing acquisitions in excess of $2 million to determine if our needs are being bundled. This also includes reviewing proposed orders to be placed against other Agency contracts, including multiple award schedules. These reviews will enable our small and disadvantaged business utilization specialists to propose alternative contract strategies to ensure that small businesses are considered. We are also working with our program offices to break out work that is suitable for small businesses. For example, in Region 5 we have broken out Superfund sampling work from our Remedial Action Contracts.

Weston Solutions, one of our prime Remedial Action Contractors, has a Mentor-Protege agreement with Environmental Design International, EDI, a Chicago firm. EDI is participating in the SBA's 8[a] program and has been certified as a small, disadvantaged, woman-owned business that is located in a HUBZone. When Region 5 was reviewing environmental work that would be suitable for small business participation, environmental sampling was chosen as a candidate. We developed a requirement and were able to negotiate and award a new contract to EDI because of the experience and knowledge they had gained under their Mentor-Protege relationship with Weston. This contract is currently being utilized by our Superfund program personnel and is a great success.

Headquarters, along with our regional offices, have Small and Disadvantaged Business Utilization Representatives assigned to assist small businesses in their pursuit of Agency contracts. These specialists coordinate business presentations with our procurement and program personnel. They conduct on-site business fairs and are the advocates for small businesses in the Agency. We have worked hard to ensure that small businesses have the opportunity to contribute their skills, talents, and expertise to furthering our mission to protect human health and the environment, and we are pleased to report that we have exceeded our small business goals in recent years. Moreover, we expect our recently implemented programs to help us achieve even greater participation by small businesses in EPA's procurement process in the years to come.

I want to reiterate EPA's commitment to ensuring that small businesses have equal opportunities to participate in the Agency's procurement process. I look forward to playing a key role in working with the small business community in Region 5, to ensure that they become active participants in assisting us to fulfill our environmental mission.

Thank you for the opportunity to speak today. I will be pleased to answer any questions you may have.

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

Chairman MANZULLO. Thank you very much.

Our next witness is Scott Denniston, Director of Small and Disadvantaged Business Utilization, Department of Veterans Affairs, look forward to your testimony, Scott.

STATEMENT OF SCOTT DENNISTON, DIRECTOR, SMALL AND DISADVANTAGED BUSINESS UTILIZATION, DEPARTMENT OF VETERANS AFFAIRS

Mr. DENNISTON. Mr. Chairman, thank you, and, Congressman Davis, thank you for the opportunity to be here today.

On behalf of Secretary Principi I bring you greetings from the Department of Veterans Affairs. VA has a long history of supporting small business programs. We consistently meet our goals for awards to small business, to small disadvantaged business, and we're one of the few agencies that meets the HUBZone 3 percent goal. Last year, over $2.6 billion, a little over 30 percent, went to small business.

You asked that we address two issues today, one being access to capital. That is not our field of expertise. VA does not do small business loans. Anecdotally we hear from veteran small businesses all the time the difficulty of obtaining capital and equity financing to grow businesses.

The other area that I'd like to address is the area of contracting, federal procurement opportunities, and I'd like to digress, if I can, from my testimony, as you suggested.

We, as a number of agencies, are in the process of changing the way that we do business. As an example, when Secretary Principi came on board, realizing that we were having an exponential growth in our veteran populations coming to the VA for healthcare services, but yet we were doing it at the same budget, there was a realization that we had to improve our processes.

One of the things that we did as a way of improving was we said that we need to standardize, and we need to be more efficient and effective in the way that we buy the products and services that we need to treat veterans. And, to some extent we've been successful in doing that. You heard testimony this morning from Obie Wordlaw of JERO Medical, and Obie is absolutely correct, he did all of the steps that we asked him to do, to do business with the Department of Veterans Affairs. He got his 8[a] certification, he got his Federal Supply Schedule contract, and then he became one of our standardized vendors.

One of the dilemmas that we have faced in this transformation of the way that we do business is that we were very good at putting out front the tools necessary, but what we lacked was the back end compliance and review, how we make sure that all the 5,000 contracting officers that we have in VA at the 200 facilities actually do what we wanted them to do.

And, we are getting better at that. Congressman Davis, you asked Obie about being a fighter. Obie is a fighter, but compared to some of the businesses that we do business with he's a wimp.

And, we are having some successes. As an example, as you know, the Federal Supply Schedules are a preferred way of doing business right now with the federal government. We, at the VA, run the Federal Supply Schedules for healthcare government-wide, and, currently, 72 percent of all of the businesses that are on Federal Supply Schedule are small businesses.

Now, the dollars that they get don't equate to those numbers, but we've got to get the companies on the Federal Supply Schedule in order to do business with them first.

We are in the process now of establishing a new Federal Supply Schedule for healthcare and allied services. As you know, small businesses are very much engaged in the industry of services, and we have great hopes that we are going to be in a position to even improve our small business numbers even greater.

The next thing that we've done, our folks here in Chicago at the National Acquisition Center, have established an online computerized database, so that contracting officers throughout the government can go on to this database, identify all Federal Supply Schedule holders for different products and services, and identify those by small and socioeconomic disadvantaged category. So now, we've given contracting officers around the country a tool.

Linda Oliver mentioned it's a lot easier to pull a noodle than push it, this is one of the ways that we think that we can help pull those noodles, by giving them the tools necessary to identify the small businesses and the minority-owned small businesses that we're all trying to help.

And, it's having some effect. If we look at the total sales under the Federal Supply Schedule to small businesses, they've more than doubled in the last two years. We think that process will continue. Now what we have to do is, we have to continue to bring more discipline to the system, so that when companies like JERO Medical do what we ask them to do, get the certifications, get the tools that we ask them to get. Now, we can have an opportunity to make sure that the sales that they get are commiserate with the effort that they put forth.

We have realized that that's an issue within the VA. We now have a management team that's addressing that issue. I meet with them on a monthly basis to review the accomplishments, and I work with a lot of small businesses, like JERO, through their sales reports to actually identify what the sales are that they are getting, and who are the facilities that are buying and consequently who are those that aren't, and then go and try to identify those that aren't, why not, what are the impediments that are still there in the process that we need to break down in order to make them more successful.

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

Chairman MANZULLO. Okay, thank you.

The next witness is Tracye Smith. Tracye Smith is the Executive Director of the Chicago Minority Business Development Council, we look forward to your testimony, Tracye.

STATEMENT OF TRACYE SMITH, EXECUTIVE DIRECTOR, CHICAGO MINORITY BUSINESS DEVELOPMENT COUNCIL

Ms. SMITH. Thank you, Chairman, and thank you, Congressman Davis, for inviting me to speak today.

The Chicago Minority Business Development Council is part of 39 councils nationally dedicated to creating buying opportunities for minority-owned businesses and major buyers in corporate America and in government, and we do that, primarily, through supply diversity programs. In Chicago, we have over 100 corporate members and over 1,000 minority business affiliates.

I'd like to get right into the commentary of both capital assets to minorities, as well as access to government contracting, and this

is a particular critical issue as minorities continue to become a greater percentage of the American population. It's projected to be over 50 percent by 2050, so I believe it's critical to our Country's economic stability, job creation and global competitiveness that we really address these issues effectively.

The SBA 7[a] and 504 loan programs are working fine. I think the government should stop trying to change them and reduce the funds available under them. However, what is needed and is not currently being provided is working capital for ongoing operations.

Businesses need cash to grow their businesses. Private banking is not actually filling that need either. And, what's happening is, minority-owned firms are turning to factoring and other high-cost methods of financing just to grow their businesses and finance their receivables. And, a lot of businesses go out of business because of the lack of cash, and otherwise that business would have been successful.

We also need more structured professional technical assistance offered by the SBA. The Small Business Development Centers are, while helpful, the technical assistance provided on a volunteer basis really does not get at the critical needs of cash management advice and other strategic management consultants that businesses need, particularly, in the first one to five years of operation.

Chicago Community Ventures, this is a non-profit operating in Chicago, has a $2 million loan fund with an average loan size of $250,000. They have a zero percent default rate, which is unheard of. I'm a former banker, too. And, that's because they provide management consulting to all of their borrowers.

Chairman MANZULLO. Tracye, could you go into that?

Ms. SMITH. The loan fund?

Chairman MANZULLO. Yes, with the zero default rate.

Ms. SMITH. Yes. Basically, they have former bankers and very qualified technical assistants on their staff, that provide strategic management consulting to growth-oriented companies. Their services are targeted towards companies in the Empowerment Zone, as well as minority-owned businesses.

Chairman MANZULLO. And, how many loans are out there?

Ms. SMITH. The loan fund is fully depleted, all $2 million are out, although one loan has been repaid already.

Chairman MANZULLO. Okay.

Ms. SMITH. And, they have been—they restructured from the one stop just capital shots, they were one of the ones that survived. And, in the past, the loan fund has been operating for about two years, and it's been very successful.

Chairman MANZULLO. Let me interrupt you here and I'll give you more time on it.

Ms. SMITH. Okay.

Chairman MANZULLO. We've got a group of business people back in Rockford, thank you, that are interested in putting together—thank you—a company to make PA systems, that's right, that want to do it on an informal basis, and where is Brian. Brian, would you stand up, Brian Davis. Tracye, if you could work with Brian to get that information to him, to help serve as a model.

Ms. SMITH. Sure.

Chairman MANZULLO. Thank you, go ahead.

Ms. SMITH. Our solution, one proposed solution is that a new form of financing should be offered by the SBA, in addition to the 7[a] and the 504 term loans, there should be a revolving line of credit instrument offered by the SBA, financing between $100,000 and $500,000.

And, to help fund this loan, it should be offered to community banks or organizations like Chicago Community Ventures, that have more expertise and success in lending to entrepreneurs.

Also, in the private venue streams, we've heard that is not being made available, lines of credit like that, revolving lines of credit, but I think those banks should contribute to a loan fund that makes these kinds of loans to non-profit organizations or community banks that have a proven track record of lending successfully to entrepreneurs, and they can get CRA credit for that. And, they talk about they confuse CRA with the supplier diversity programs, they are totally different. So, they should be required to do that.

And, the banks that receive funds to lend in this manner should be held accountable also for fair lending practices, which is still a problem for minority-owned businesses. And particularly those banks that have branches in minority communities and take their deposits.

Now, let's move into government contracting. There are four critical areas that have adversely impacted access to government contracting by African American and other minority-owned businesses. One would be the size standard contract bundling, flow down or second tier programs, and the dilution or elimination of NBE as the Federal stand alone classification.

The minority firms are required to remain small in order to be certified as a small, disadvantaged business. This practice completely eliminates their ability to compete for contracts that have been bundled. They are competing against multi-million dollar companies and multi-billion dollar firms for the same contracts. They don't have the size or the scope to be able to compete on a national basis, and they certainly don't have the economies of scale to price their contracts competitively in that environment.

Also, the size limitation in no way allows them to grow. Corporate America has a very effective contract bundling or national account strategy that includes and, in fact, requires diverse suppliers, because they don't have a size standard. NBEs are able to grow, and, in fact, if they had that size standard they would not be able to integrate them into their supply chain. They have a problem as a prior contract in doing that.

Chairman MANZULLO. I took some of your time, but how are you?

Ms. SMITH. Okay, I can just skip, we know the problem of contract bundling.

Chairman MANZULLO. All right.

Ms. SMITH. Flow down has the same problem.

Chairman MANZULLO. Money, it's about money.

Ms. SMITH. It's about money, but then you have to decide, limitation limits companies from being able to grow, so the very—they still have the same problem with discrimination, but they can't grow enough to be able to service the contracts. So, the solution is, break some of those contracts down, you know, don't bundle them all.

And the other issue, even the $2 million low bid contracts, just because they are on the Federal Registry doesn't mean they'll be invited to bid. So, you still have that relationship ongoing.

Chairman MANZULLO. Let's go on to Eric.

Ms. SMITH. Okay.

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

Chairman MANZULLO. Eric, how do you pronounce the last name?

Mr. DOBYNE. Dobyne.

Chairman MANZULLO. Dobyne?

Mr. DOBYNE. Yes.

Chairman MANZULLO. Eric Dobyne is the Regional Director of Minority Business Development Agency, Eric, we look forward to your testimony. You know you can take your coats off if you want, I mean, that's fine.

STATEMENT OF ERIC DOBYNE, REGIONAL DIRECTOR, MINORITY BUSINESS DEVELOPMENT AGENCY

Mr. DOBYNE. Thank you, Chairman. Thank you, Congressman Davis, for the opportunity to speak here.

The Minority Business Development Agency was established in 1969. We are part of the U.S. Department of Commerce. We are actually the only Federal agency that was created specifically to foster the establishment and growth of minority-owned businesses in America.

The Agency's mission is to actively promote the growth and competitiveness of large, medium, and small minority businesses. Our target minority groups include American Indian, Asian, African American, Hispanic, Pacific Islander, and Hasidic Jew.

MBDA actively coordinates and leverages public and private sector resources that facilitate strategic alliances in support of this mission. We are set up such that we are headquartered in Washington, D.C. We have five national enterprise centers, those are in Atlanta, Chicago, Dallas, New York, and San Francisco.

One of the big pushes for our Agency now is to move from an administrative agency to more of an entrepreneurial focused and innovative organization, so we've developed programs around just that aspect of our organization.

We provide funding for a network of minority business development centers, Native American business development centers, and minority business opportunity committees.

The business development centers offer a wide range of business services to minority entrepreneurs. The centers are staffed by business specialists, who have the knowledge and practical experience needed to run successful and profitable businesses. Their main focus as the business development centers is helping minority businesses secure contracts and/or financing.

The MBOCs are designed to coordinate Federal, state, and local business resources to benefit minority business development. They identify business and economic opportunities in the community, and leverage those opportunities to meet the needs of the minority business enterprises.

These are the two main programs that we utilize, and both of them are measured by amount of financial

transactions, as well as contracts that are verified that they created for minority businesses.

Another tool that we use that's critical in support of minority businesses is our internet portal. The portal has several tools that are very useful for MBEs in helping them secure contracts, as well as financial assistance. There is a Phoenix Database of minority-owned businesses, which allows large contractors to come onto our portal and identify minority businesses in the areas where they are looking to contract.

We also have an opportunity contract matching system, which matches MBEs to contract opportunities, and actually forwards those opportunities to them on a regular basis.

We have a resource locator, which allows MBEs to locate financial and contract resources in their general area of expertise.

There's a business plan ladder that helps small or minority businesses to construct business plans, so that they can efficiently locate contract opportunities, as well as financing opportunities.

We provide a GIAS software as well for a system of funded projects, which actually provides valuable marketing information for MBEs that are going to banks for financing or putting together business plans.

As part of MBDA's strategic growth initiative, we shifted the focus of our organization. We are now focused more on high growth MBEs, or MBEs that are in high growth industries, generally MBEs with $500,000 in revenue and above. They are not necessarily $500,00 and above, but more of the focus is on, if it's start-up, just high growth companies. We are looking for an opportunity to make the biggest impact, and we felt like traditionally we've had some of our focus on large-style businesses, and we felt that moving to high-growth industries and companies in high-growth industries could generate more of an impact.

The Chicago center is responsible for a ten-state region, which includes the entire Midwest. There are four business development centers and three MBOCs located in this area. Currently, we fund both MBDC and MBOC in the Chicago area. Over the past three years, they've generated over $148 million in verified contracts and financial transactions for minority businesses, and over $17 million of this has come in financial assistance packages.

And, as part of our move to become more of an entrepreneurial type organization, we've also now assigned a regional goal to our regional staff to create $36 million transactions in financial.

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

Chairman MANZULLO. Very good, great timing.

Our next and last witness, James has been very patient down there, is Jim Handley. Jim is the Regional Administrator for the General Services Administration, which is one of the largest utilizers of small business procurement. Jim, look forward to your testimony.

STATEMENT OF JAMES HANDLEY, REGIONAL ADMINISTRATOR, GENERAL SERVICES ADMINISTRATION

Mr. HANDLEY. Thank you, Mr. Chairman, Congressman Davis. We appreciate the opportunity to speak to you today.

As you mentioned, I am Jim Handley, the Regional Administrator for the General Services Great Lakes Region. With me today is Mary Kennedy. Mary is a Procurement Manager of our Public Building Service.

Let me begin by saying that this Administration remains committed to the health of our Nation's small businesses. The prosperity of the Nation's 25 million small businesses, including nearly 700,000 in this region, is a top priority of the Bush Administration.

As mandated by Federal law, GSA ensures that Federal procurement opportunities are available to small businesses. According to preliminary figures for Fiscal Year 2003, $6 billion of the $15 billion GSA spent in procuring goods and services went to small businesses. This meets our internal Agency goal of 40 percent, and nearly doubles the government-wide goal of 23 percent.

As part of this effort, the Great Lakes Region awarded small business contracts representing more than $271 million worth of goods and services.

In addition to our own procurement opportunities, GSA establishes contracts with suppliers of commonly used goods and services through the Multiple Award Schedules Program. This program offers small businesses another avenue of potential work with the Federal Government. Of the 14,700 contracts currently on the GSA schedules, nearly 12,000, or 80 percent, have been awarded to small businesses.

Outreach programs established by GSA, SBA and other agencies, enable the small business community to meet key contracting officials, and receive one-on-one counseling from a team of business specialists.

In Fiscal Year 2003 alone, the Great Lakes Region conducted 21 such outreach events, including two here in the 7th District, the 2003 Business Procurement Expo, and the 7th District Town Hall meeting, and one in the 16th District for the new Rockford Courthouse. These 21 events drew over 8,500 participants.

A special note, the Chicago Business Matchmaking Event, jointly sponsored by the U.S. Chamber of Commerce in June of 2003, attempted to match up 1,300 small businesses with counselors and potential customers.

We also conduct workshops at conferences to teach small business owners how to do business with GSA, and we encourage these businesses to come to talk with our contracting officers, allowing them to learn more about possible opportunities with our Agency, and allowing us to learn more about those companies.

GSA offers many resources to provide small businesses with useful information. One such resource, a booklet entitled, "Doing Business With GSA," gives practical advice and helpful websites, including the redesigned gsa.gov site. The GSA website provides points of contact, information on upcoming conferences, and links that help small businesses get started on government contracts.

One such link, fedbizopps, lists federal and military procurement opportunities larger than $25,000.

Finally, we distribute a local procurement directory and a list of toll free telephone numbers so small businesses can contact us with questions. These efforts have led to many small business success stories, including our efforts on five recent construction projects in

the Great Lakes Region. Of nearly $260 million in contracts for these projects since 1998, we have awarded or targeted nearly $70 million to small businesses.

Current renovation work at 536 South Clark here in Chicago, for example, has targeted nearly $11 million of the $54 million in projected contracts.

In our experiences with small business procurements, we have designed several programs that we believe can improve the procurement process. One initiative involves changing the turnaround time for paying small contractors from 23 days to within 14 days of completion. Potentially, this can provide contractors with more on-hand capital.

Other ideas that help small businesses include encouraging small contractors to join a mentoring program and dissecting large projects to see what smaller portions of the work can be contracted out to small businesses.

Mr. Chairman, the General Services Administration, and specifically, the Great Lakes Region that I oversee, are proud of our relationship with small businesses. We share President Bush's view that a healthy small business community contributes mightily to the Nation's economy.

We thank you for this opportunity and would be happy to answer any questions you might have.

[Mr. Handley's may be found in the appendix.]

Chairman MANZULLO. Who is Bill Leggett? You came in late? Bill, come on up here, I'm going to give you two minutes.

Mr. LEGGETT. Two minutes?

Chairman MANZULLO. Yes, we are running late.

Just come up here. Bill, start talking, you've got two minutes, because we are running out of time.

Go ahead.

Mr. LEGGETT. Okay.

STATEMENT OF WILLIAM LEGGETT, PRESIDENT, COLLECTORS TRAINING INSTITUTE

Mr. LEGGETT. I'd like to thank you, Mr. Chairman

I'd like to thank you, Mr. Chairman, and Danny Davis, and this fine panel. My name again is Bill Leggett, and I know I'm tardy, and I'm a small business owner. I started out, my partner and I started out, in his living room. We started out with two people, we had just a table in the middle of his living room floor, and we started collecting money, because that's what we do, we started a collection agency.

The reason we started a collection agency was to give people the opportunity that were unemployed, under-employed, people who were displaced, an opportunity to make some money. People laugh at collection agencies, but one thing about it, they are making money. They are hiring people right now today, and we knew that we could employ people that make an average of $28,000. You won't be rich. However, you can make a decent living.

Chairman MANZULLO. How many employees do you have, Bill?

Mr. LEGGETT. Right now we have 60, and that's in this building.

Chairman MANZULLO. Oh, this building?

Mr. LEGGETT. Yes.

Chairman MANZULLO. And, you were late.

Mr. LEGGETT. Yes, that's the truth.

One of the problems we have, and this is—now, we both live in the suburbs, he lived in Oak Park, I lived in Downing Road, we applied for an SBA loan, $50,000. He had excellent credit, I had excellent credit. We both were making above $56,000. We were rejected. We were rejected.

They told us to go to South Shore Bank, and it just so happened we were living in the far-western suburbs, why would we go to South Shore Bank? Unfortunately, they didn't know that my partner was an ex-banker, so we realized that that was redlining. So, what we did, we approached—the next day we approached, contacted the company, wrote a letter. The next thing we know we got the loan, and we got another loan. Okay?

But, what has happened is, since that time we're in the midst of growing. We've obtained probably about three Fortune 500 companies. We can grow. The current clients have access to expand our business double, and we can do it, but we don't have the capital, we can't get the capital. It's not reality that we can possibly get the capital, because the industry itself says that you don't have a lot of assets. We have a computer, okay. And, you don't have——

Chairman MANZULLO. Human assets.

Mr. LEGGETT[CONTINUING] Yes, human assets. I mean, most of our employees are local employees from the community, and we just don't have those assets. Accounts receivable, delinquent debts, we tried that. The bankers laughed us out the door. Would you finance these delinquent debts, no. Would you loan anything on a delinquent debt?

Chairman MANZULLO. You are probably collecting on their debts.

Mr. LEGGETT. Right, but it doesn't work, I mean, you know, and it's unfortunate because like, you know, the spirit was right to employ people—we moved along there because of the mere fact that, number one, we wanted to give people in Londale an opportunity to gain some type of employment, and we have done that, and we are going to continue to do that, but we have to be very, very creative, and, you know, as far as privatizing, the government possibility, they are going to privatize the IRS, they are still privatizing the Department of Education, but the possibility of me getting one of those contracts is one in 10 million, it won't happen, because, number one, if I'm in business and I grow, I still don't have the assets and the capital that I would need in order to be considered for that type of loan.

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

Chairman MANZULLO. Okay, thank you.

One question, and this is—Judy, if a small business person wants to do business with Defense, EPA, Transportation, GSA, Veterans, i.e., small businesses want to do business with the government, what do you tell them, the Small Business Development Center, what's available?

Ms. ROUSSEL. Well, if they go to a PTAC, which, you know, are part of the Small Business Development Center——

Chairman MANZULLO. Procurement Technical Assistance Center.

Ms. ROUSSEL[CONTINUING] Absolutely.

Chairman MANZULLO. All right.

Ms. ROUSSEL. And, they can provide assistance in terms of taking them through the process.

Chairman MANZULLO. For all the agencies?

Ms. ROUSSEL. That is correct.

Also, I might mention to you sitting behind me, this gentleman, Bob Murphy, runs our Government Contracting Office in SBA, and we also have people who will work with the small business to help them get a foot in the door, figure out who buys what they are trying to sell, and assists them in approaching Federal agencies for Federal procurement.

Chairman MANZULLO. First level, would that be the SBDC, or would it be the SBIC?

Ms. ROUSSEL. I would say that is a viable approach.

Chairman MANZULLO. All right.

Ms. ROUSSEL. Because there are various——

Chairman MANZULLO. I want to do business, I want to go to one live body, and say, help us to access all the different portals.

Ms. ROUSSEL[CONTINUING] Sure, and they want to go to where that's convenient to them.

Chairman MANZULLO. Well, Mark, where is the nearest SBDC in this area, do you know?

MARK. [Off mike.] We have an SBDC up at the Latin American Chamber of Commerce. We also have one at the Greater Northern Pulaski Development Council. We also have one at the Hispanic Chamber of Commerce on Western, and we have several, you know, in the surrounding area. There's one a little bit to the west at Titan College, and we also have them up on the north side. We have a couple as well down——

Chairman MANZULLO. So, we just go to small business development centers, SBDCs?

MARK[CONTINUING] [Off mike.] They could go either to the sba.gov site, or to our Agency's site, illinoisbiz.biz. (Ph.). I mean, you can go to just about any of those sites and you can get linked up to the nearest——

Chairman MANZULLO. Sba.gov will tie people into getting the resources.

MARK[CONTINUING] [Off mike.] Right, right. There's an 800 number they can also call and get information on all the resources.

Chairman MANZULLO. All right.

Ms. ROUSSEL. And, if they contact us directly we'll get them to the assistance that they need.

Mr. DAVIS. Eric, you mentioned your Agency's coordinated efforts. If I was a small business person and came to you, what could you do for me?

Mr. DOBYNE. Well, we service small businesses, typically, through our minority business development centers. I think we provide a couple things. We can provide you with technical assistance, so that you are prepared to enter into the Federal contracting arena, as well as we have minority business opportunity committees that will provide you with the contacts and the resources that you need in order to be successful.

We find that with our focus on MBEs and high growth industries, that we find that the contacts and the brokering services that we provide are more valuable than even the technical assistance.

Mr. DAVIS. Pam, as I listened to your testimony, I was reminded of Abraham Lincoln and Ulysses Grant, that when Grant was in charge of the Army he got a lot of criticism, and people would come to Lincoln and would tell him all kinds of things. And finally, you know, he drinks a lot of whiskey, he's an alcoholic, but he kept winning wars, I mean battles.

Chairman MANZULLO. I think he was from my District.

Mr. DAVIS. Yes, well, they are both, so he says—finally, Lincoln says, "Well, tell me what brand of liquor does he drink?"

And, I wanted to know, what makes the Environmental Protection Agency seemingly so good, in terms of what you are doing that others can easily. I mean, it seems like EPA has a great record.

Ms. BAMFORD. Well, we have a lot of people that are dedicated to this mission, but there's always further to go. And, you know, thinking about the testimony here today, and some of the impediments that I heard something just occurred to me as we were talking about getting contracting officers to buy into this and support the program. I actually come from a contracting background, I've done Federal procurement for more than a quarter of a century, believe it or not, and I started thinking about a situation that rose to my level earlier in the summer. There are sometimes conflicts in the Federal Acquisition Regulation. For instance, we read Part 19 with the Small Business Programs, and they say these program don't apply to Part 8, which is the General Services Administration guidance on how to use multiple award schedules. You know, I was amazed to find out that I couldn't have a contracting officer set aside a procurement under multiple award schedules.

Somebody needs to take a look at that and make those parts of the FAR coincide so that contracting officers have good tools to support this program better.

I know I've deviated from your question here, but I think one of the things we need to do is give our contracting officers tools.

Mr. DAVIS. Well, she didn't have to drink as long as she—Thank you very much.

One other question. Tracye, the Federal government, obviously, guarantees to lenders that they are going to recoup their resources, and it would seem as though that would be stimulation, you know, in a sense, to them. Is there something else that we need to do to try and make resources available to small businesses?

Ms. SMITH. Yes, two things. I think all banks are not created equal. I don't think SBA loans should not go to all banks, because all banks are not interested in lending to entrepreneurs of small businesses. You find the most effective lenders, he mentioned Shore Bank, I used to actually work for Shore Bank, but they do—they focus on entrepreneurs, Cole Taylor, you know, the smaller banks, and their loan appetites are smaller, so they may have more experience lending to entrepreneurs different than lending to a major corporation or middle market company.

I think, though, that large banks should contribute money, because, apparently, I know that SBA, in general, does a grand job when you talk about the funding issue. They should contribute money to loan funds to make available to lend to entrepreneurs in many minority-owned businesses and small businesses.

Chairman MANZULLO. As part of the CRA?

Ms. SMITH. Yes, yes, and hold them accountable, because we talked about the issue being money, the money should come from them. They take deposits from everybody, you know, so I think the CRA, that would be one way to utilize it, and then I think one thing that's critical, as the gentleman talked about his collection company, is cash, but cash for ongoing operations in a firm with a revolving line of credit, as you grow you are going to continue to need more cash, and that's not currently available.

Chairman MANZULLO. Thank you.

Sean, can we go to you? Your organization has a revolving line of credit.

Mr. MOSS. Yes, that's true, Chairman.

Chairman MANZULLO. Can you explain that, how that works?

Mr. MOSS. Absolutely.

We have six banks across the country. Hopefully, by the end of the year we'll have 12. Basically, the bank does the analysis, they do the underwriting, and what they do is, the government will come in and provide the guarantee. DOT will guarantee to 75 percent of the value of the contract. And again, it's accounts receivable financing.

You know, a lot of the small banks just don't have the labor and the wherewithal to really do that, so it's been a challenge for us to find the right banks. But it works perfectly well for us. But for this kind of program a lot of these small minority contractors, you know, that work on large public works projects, would not be able to pay the payroll.

I heard that, that was the issue earlier, you've got to meet payroll. Every thirty days these contractors have to lay out the cash, so, but for our program, the contractors are able to do that.

Just to give you an idea. You know, we guaranteed about $9 million last year, and the average size of our transactions is about $300,000, and we'll support up to three quarters of a million. So, it works.

Chairman MANZULLO. Sean, could you see Nelson when we, before we leave here?

Mr. MOSS. Sure.

Chairman MANZULLO. And then you're the Washington office, aren't you?

Mr. MOSS. Yes, sir.

Chairman MANZULLO. Well, listen, thank you for the invitation to come up to Chicago. I don't know who thought it was cold here now. Oh, my gosh, what was it, close to thirty degrees? There's a heat wave going on here.

But, the testimony has just been stunning, both from the folks that are out there fighting for whatever dollars are possible, and then the second panel here, with the folks from the government agencies that are working very, very hard on it. This is my 11th year in Congress, and I can tell you, even in the past three years since I've been Chairman, there's been a tremendous improvement in terms of the tremendous outreach to the community, trying to coordinate people doing business with the Federal Government. It's not where we want it to be yet, but you folks agree also. I mean, obviously, it's not by way of criticism, but simply by way of getting everybody involved in the process.

So, again, I want to thank you all for coming, and, Danny, if you have any concluding remarks, and then we can go ahead and adjourn the hearing.

Mr. DAVIS. The only thing, Mr. Chairman, and I agree with you that there has been tremendous progress. One of the reasons has been because of your stewardship, and I make no bones in saying that, because of your willingness to take positions that are sometimes contrary.

Chairman MANZULLO. I used a subpoena a couple times.

Mr. DAVIS. Yes, many of your colleagues in your party on your side of the aisle. As a matter of fact, you will even disagree with the President.

And, I think that's the true mark of a public servant, that is, one who advocates a cause based upon what they have taken as their responsibility. And, one of the responsibilities of the Small Business Committee, no matter who sits in the White House, no matter who sits in the Senate, no matter who sits wherever, is to advocate on behalf of small businesses, and you have done that.

And so, I thank you very much, and I thank you for bringing this hearing to Chicago, and thank all of the witnesses who have come to testify, and those who have come to participate.

Chairman MANZULLO. Thank you, Danny.

The hearing is adjourned.

[Whereupon, at 12:03 p.m., the committee was adjourned.]

OPENING STATEMENT
CHAIRMAN DONALD A. MANZULLO
COMMITTEE ON SMALL BUSINESS

"Availability of Capital and Federal Procurement Opportunities to Minority-owned Small Businesses"

February 17, 2004 9:30AM 3333 W. Arthington St., 2nd Flr. Chicago, IL

Good morning and welcome to this field hearing of the Committee on Small Business.

Small businesses are the engine that drives the economy. Small businesses have led this Nation out of periods of recession. They are far more innovative than large businesses – producing more patents per employee than large businesses. Small businesses have generated 60 to 80 percent of the net new jobs annually and employ more than half of all private sector employees. I am not telling you what you don't already know. Small Business is where the action is.

However, no business large or small can exist or grow without ready access to capital – whether for daily cash flow needs or for capital improvements. The small business community has resorted to number of funding methods such as – savings, family loans, credit cards and bank lending. The private sector has been the primary source of capital for the small business community. Loan and venture capital programs administered by the Small Business Administration supplement private sector financing.

The Committee is holding this hearing today in Chicago to hear from you as to the availability of capital to small businesses for sustaining day-to-day operations and for growth. I welcome your suggestions for improving the present system.

There has also been concern, in the past, that the SBA and federal agencies have not provided enough assistance to small businesses that want to do business with the federal government for the first time or to increase their present sales. The hearing will provide overview as to the value of present programs to help small businesses successfully compete in the federal contract arena and to take advantage of domestic and export business opportunities. Your suggestions and ideas for improving contract opportunities for small businesses are most helpful to the Committee.

Again, I welcome your participation in this hearing. I now yield to my colleague from the great State of Illinois, Representative Danny Davis.

STATEMENT OF THE HONORABLE DANNY K. DAVIS
AT THE Field Hearing—Chicago, House Committee on Small Business
HEARING ON

Availability of Capital and Federal Procurement Opportunities to Minority-Owned Businesses

February 17, 2004

Thank you, Mr. Chairman. Even though there have been rosy reports recently about our country's economic situation, our local communities are still suffering. Right here in Illinois, there are over 400,000 individuals out of work, and we have lost more than 125,000 manufacturing jobs since the start of 2001.

The one sector that can turn unemployment lines into job opportunities is small business. Small businesses are the backbone of the American economy overall, and of the Illinois economy in particular. The more than 275,000 small businesses here employ almost 50 percent of our workforce. They provide the fuel – and the jobs – that drive our city – our state – and our country.

The real trailblazers of small business growth are minority-owned firms. Across the country, minority-owned businesses are employing millions of people and contribute billions of dollars in revenue. In fact,

Illinois is among the top five states that account for the majority of minority-owned businesses in the U.S.

Yet given all their accomplishments and successes, minority-owned firms in the nation – and in Illinois – still face an array of barriers. These barriers impede their growth, preventing them from reaching their full potential, and ultimately hinder the number of jobs they are able to create.

That is where the Small Business Administration (SBA) programs come in. The SBA's programs fill an important gap, providing small firms with assistance in gaining access to capital or federal contracts when they have nowhere else to turn.

Given all the good these programs do for Illinois small businesses, I am sorry to say that the SBA was one of the agencies hardest hit by cuts in President Bush's FY 2005 budget. The funding request for the agency declined by almost $120 million from last year's request, and is less than half of what was requested during President Clinton's last year in office. The SBA's loan programs were among the most affected by the latest budget.

But it is the SBA loan portfolio that provides small businesses in our area with the capital they need to start-up and grow. These programs are especially important since many traditional lending institutions are less likely to provide capital to minority-owned businesses.

My colleagues on the Committee and I strongly believe in these programs. We believe that access to capital is access to opportunity for all small businesses. That is why we must keep these programs strong – we must keep them fully funded – and we must make sure that information about them reaches local businesses so they can tap into them. While access to capital helps minority businesses to expand and create jobs, having the federal government as a customer is another way for these firms to grow. Today, the federal government is a $235 billion marketplace, buying everything from planes and spacecraft to office products, clothing and food. This market should hold vast potential for small businesses, yet it remains more closed than ever. Even though federal procurement dollars are on the rise, the number of small business contract actions is declining. In Illinois for example, less than 2 percent of federal contracts went to minority-owned firms in 2002. A reason for this is because, year after year, the federal government fails to meet a single one of its small business goals. In 2002,

this failure cost small businesses almost $14 billion in lost contracting opportunities.

The SBA has contracting programs to help small businesses get a foot in the door of the federal marketplace, which is certainly no easy task. These programs are meant to give small businesses the right assistance – and support – so they can better sell their products to federal agencies, like the ones that are here testifying before us today. And it is critical that federal agencies do their part to reach out to local small businesses and make real opportunities available to them. Small businesses are key to creating jobs and getting our economy back on track. Two important components of their success is finding capital – and finding customers – which is why we are here today to discuss how we can work together to achieve this objective. Then small businesses in Illinois and our local economy will be in a better position to create jobs, which is what we need right now.

Thank you and I look forward to hearing the testimony from our witnesses.

Good Morning, Mr. Chairman and members on the Small Business Committee. My name is Obie Wordlaw, CEO of JERO MEDICAL EQUIPMENT & SUPPLIES, INC.

JERO is a manufacturer of disposable wearing apparels and a distributor of medical/surgical supplies and equipment. Established in 1987, certified with City of Chicago, Cook County, State of Illinois & SBA as a MBE (minority business enterprise) & SDB (small disadvantage business). Jero is veteran-owned, located in a HUBZone, Enterprise Zone and a Labor Surplus area, as do 95% of our employees live. We hire from the community in which we are located.

Today, I would like to discuss the failure of the private and public sectors to meet the capital needs of African-American small businesses and contracting opportunities.

SBA was established to protect the small business, there mission: Maintain and strengthen the nation's economy by aiding, counseling, assisting and protecting the interests of small businesses and by helping families and businesses recover from national disasters.

SBA defines a small business as one that is independently owned and operated and not dominant in its field; and meets the employment or sales standard.

- Wholesale – not more than 100 employees
- Retail or Service – Average (3 year) annual sales or receipts of not more than $6 million to $29 million, depending on business type.
- Manufacturing – Generally not more than 500 employees, but in some cases up to 1,500 employees **(1,500 is a very large number to be considered a small business)**
- Construction – Average (3 years) annual sales or receipts of not more than $12 million to $28.5 million, depending on the specific business type.

According to SBA, over the past 10 years (FY 1991-2000) it has helped 435,000 small businesses to secure financing totaling over $94 billion. That is very impressive, however, in the African-American community we have not reaped any of those benefits. I think SBA definition should include the social and economic disadvantage small business in its loan eligibility.

The 7(a) Loan Guaranty serves as SBA's primary business loan, their most flexible business loan program. The 7(a) Loan Guaranty Program is somewhat deceptive. It is called a Guaranty Loan Program, but if the lender is not willing to provide you the loan, even with SBA guaranty you are out of luck, then you ask yourself why would we ask the same lending institutions that have been redlining the African-American communities for decades to be a participant?

Solution – SBA should be able to make direct loans, if you can guarantee a loan, you should be able to make a loan. Access to capital is a direct link to contracting opportunities and growth.

Jero is a recent graduate of the 8(a) program (February 2003), I support the 8(a) program, HUBZone, veteran-owned, and women owned programs 100%.

During my 9 years as a 8(a) firm, Veteran-owned, HUBZone, and a Small Disadvantaged Business & minority owned business, Jero received excellent Technical Assistance (marketing plan, business executive classes, search & requirement letters & others) through SBA, those business development tools; would have cost a fortune if I had to do it on my own. The contracting opportunities were not successful. Jero was awarded one 8(a) contract. Most recently awarded a HUBZone contract. I would think that being an 8(a), HUBZone, veteran, small disadvantaged company, SBA should be trying to determine my eligibility as a small company because of all my contracts.

Instead, one 8(a) contract in 9 years and the most disturbing is that SBA had to do a Notice of Appeal on that one contract, not because the contract exceed its threshold in dollar amount it was a very small contract. The Agency/contracting officer was not 8(a) friendly.

When I was marketing the federal government prior to becoming an 8(a) company, I was told by federal agencies "if you were an 8(a) company we would have to do business with you". In 1994, Jero began marketing the federal agencies as an 8(a) firm. Then I was told if you had a Federal Supply Schedule or DAPA Agreement then we can do business with you. It was a long and difficult process but we got the Federal Supply Schedule and DAPA agreement, in the mean time my 9 years are ticking away, with FSS & DAPA in hands ready to do business. Then we were told that if we had a standardized contract based on the products that we had on the FSS & DAPA, that's a sure thing, because standardization is a mandatory process and all federal agencies would have to buy from the mandatory source. Now that we have a mandatory contract, we are being told that we must go through the Prime Vendor and going through a Prime Vendor is an additional fee for Jero.

November 2001, Jero was awarded the 8(a) standardized contract and compliance of Federal agencies was maybe 20%.

After contacting some of the VAs with the mandatory contract and products, here are a few quotes from some of the VAs:

1. **Reply**: VISN 21 "Mr. Wordlaw, as we discussed with you, the purchase of isolation gowns under a Federal Supply Schedule (FSS) when required are procured by each facility within VISN 21. My team is involved with open market procurement requirements over $25,000. We are also involved in establishing

BPAs against a FSS contract where there is potential for additional savings based on usage and commitment. VISN 21 representatives, "please note that according to Mr. Wordlaw the isolation gowns are a standardized item under contract V797-MS-001 with his company".
From Jero: We have a contract with you on isolation gowns; we would like to know your annual usage; and when will you begin ordering?

It is not according to Mr. Wordlaw, it is according to the National Acquisition Center that the isolation gowns are standardized under the specified contract#.

2. Per our telephone conversation I've checked with my staff on whether we stock isolation gowns. We currently use the VA mandatory standardized item that is purchase from contract#???. We are mandated to use this item. Thank you for your inquiry and your interest in doing business with the VA. **How is possible for them to be using the mandatory contract, when I am the contractor?**

3. Dear Dr. Bowens: I want to share with you feedback I have received as a result of my inquiry in response to our telephone conversation and the inquiry from Congressman Davis' office. As I understand from our National Acquisition Center (NAC) in Hines, IL, although Jero Medical is a Medical/Surgical Prime Vendor participant, the NAC has been unable to finalize Jero's inclusion in the program, as Jero needs to be set-up as a product supplier with Cardinal". FSS price submissions are required from FSS participating contractors in order to make the prices available on the Internet to Medical/Surgical Prime Vendor customers.
Reply Jero: I do agree, we are not currently participating in the Prime Vendor for VAs. However, Prime Vendor should not have anything to do with Jeros BPA. Before Jero negotiate its BPA, it was understood that Prime Vendor is optional for standardized products. I think we are dealing with two separate issues, Prime Vendor & National BPA.
VA Reply: Thank you for your prompt reply. We are continuing to look into this matter and will provide you with a further response once I obtain additional information from our logistics folk". **The last correspondent was June 18, 2003 6:03AM, we are still waiting on a reply. You would think an inquiry from a Congressman would prompt a more timely response.**

4. I got a call yesterday from Mr. Obie Wordlaw at Jero Medical. He says his Company has the VA standardized contract for disposable gowns. Apparently, he isn't getting much business from VISN 13 facilities. I didn't verify his claim but would appreciate it if everyone would check to see if they use that item and if so be sure you are buying it from the correct source. If he isn't the right source please let me know who is. **This response is an improvement but not very encouraging, he said he had a contract, I didn't verify it, but if you check and see, I would appreciate it. There is nothing screaming mandatory!!!**

Jero has many, many more responses but I find these to be the most disturbing.

In closing SBA was very supportive of Jero during its 9 years as an 8(a) and is still working with us as a HUBZone firm. Jero strongly support SBA in its effort to assist disadvantage businesses with business development and contracting opportunities. I feel that has no real authority in the lending programs, or the contracting programs. I think the language is **"we can't force the agencies (lending & contracting) to loan your money or give you a contract"** even if you meet all the qualification. Instead of cutting SBA budget it should be increased with some real authority.

I shared the above stories to say this isn't a SBA failure, but a failure of SBAs procurement partners, the federal buying agencies.

A sincere commitment must be made through true partnership with federal (buying) agencies and SBA in order for these programs to work. SBA must get the bandits on the train.

Recommendations:

- You must hire people to administer and monitor these programs, with authority to ensure the success of them.
- You must get the federal buying agencies on board with SBA, to ensure success.
- SBA must create a 9(a) Direct Loan Program to assist the African-American community and small disadvantage businesses.
- Large contracts must be monitored for subcontracting plans and implementation.
- Some one must be made accountable to the community, to ensure that these programs actually benefit the economic group that it is intended.
- 8(a) firms must have those field visit, in order to be effectively marketed.

Thank you for giving me this opportunity to discuss the US Small Business Administration in administering procurement, loan and other programs designed to assist person to start or grow an established business.

Feb-13-2004 04:18pm From-ABS ETHNIC MARKETING AND SPECIALTY FOODS +708 531 6131 T-251 P.002/005 F-814

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Memo from the desk of:

Emmett T. Vaughn
National Diversity Sourcing Relations

February 12, 2004

To the members of the 108th US Congress:

I respectfully submit to you my expressions of concern of the discussion of lessening the availability of Small Business Administration Funding. I offer this testimony as an independent subject matter expert on minority business and small business/entrepreneurial development. I appear at the request of The Office of the Honorable Danny K. Davis, United States Congressman, 7th congressional district in the state of Illinois.

Statistical growth of small businesses in urban and rural areas alike over the past decade speaks for itself. Clearly to the positive small business growth has offset the streamlining and downsizing that has taken place with larger employers. The opportunities that occur in a free market economy are such that competition serves to forward prosperity. The challenges in that same economy however are distinctly defined by the glaring disparity that exists in the capitalization of small businesses.

A deeper dive into the topic of disparity in capitalization will reveal the same specter of economic disparity, which impacts many minority men and women of non- European descent in this country.

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Given that there are no easy answers to broad economic disparity questions, focusing on capitalizing small businesses seems appropriate. The countries banking environment is largely unfavorable to small businesses, private capital offerings are also scarce for these same enterprises. Historically the SBA has been the source by which any degree of optimism could be cultivated by an aspiring entrepreneur. The SBA has been a significant contributor to the growth of businesses that started small, but ended up becoming significant to what little economic stability minority communities could participate in.

I realize that I am back and forth in my references to small and minority owned businesses. They are in some ways interchangeable. As we gather today to hear testimony of the significance of SBA funding relevant to economic growth, it is the subset of small business that is minority business that I am most impassioned about. I see first hand the struggles of MWBE's competing in private sector contracting. The sourcing culture of corporations and industry is impacting minority business like never before. Supply chains are being downsized as fast as internal organization charts. Technology is helping to keep MWBE's in the game, but even with that degree of cost assist, start-up capital, mezzanine capital for existing companies, and the bridge loan remain critical to the survival of these emerging enterprises. These emerging enterprises do employ more minority personnel in a relative sense than their larger competitors, they are often more likely to be located in areas experiencing economic revitalization, like the urban core of US cities where corporate offices tend to be void. A reduction in resources, which has been fundamental to even hints of growth or promise in the sub economy that is "brown America" could be the precursor to economic UN-doings, the likes of which have yet to be seen. Consider that more ethnic minorities are finishing school, pursuing corporate careers, getting downsized, and turning to entrepreneur-ship to maintain employment. Where will the next outlet be when the entrepreneurial well begins to dry up? What happens when federal start up capital, the only capital perhaps universally accessible to historically economically disenfranchised individuals erodes to insignificance? I am fearful of a time when the spirit of minority entrepreneurs is quieted because a new channel of economic disparity arises from the lessening of SBA and other federal programmatic funding sources.

I urge this body to continue rigorous exploration of ways to accelerate SBA funding. Encourage small business starts, encourage urban inventors to continually develop witty inventions, new services, and visions of economic replenishing in communities that other wise may perpetuate the re-occurring themes of stagnation, and continual haunting by the specters of economic disparity.

Respectfully Submitted

Emmett T. Vaughn
February 2004

Statement of Judith Roussel
Region V District Director
Chicago District Office
U.S. Small Business Administration
February 17, 2004

Good Morning, Mr. Chairman and Congressman Davis. Thank you for inviting me to discuss the U.S. Small Business Administration's (SBA) programs to assist America's small business communities, including minority-owned business communities, with access to capital and finding federal procurement opportunities. The President's fiscal year 2005 budget request for SBA reflects his commitment to maximizing opportunities for small businesses and the millions of people they employ.

Last March, the President announced his Small Business Agenda to reduce regulations and taxes, and to expand opportunities for small business. A prominent feature of the President's agenda is ensuring full and open competition in government contracts and avoiding unnecessary contract bundling. This measure will create opportunities for small businesses and save taxpayer dollars.

As you know, SBA is submitting legislation that is a long-term solution for the 7(a) program and will have immediate benefits. Our proposal will put approximately $3 billion in additional loans into the economy and help more small businesses and create more jobs. I urge your support of this proposal.

Additionally, SBA Administrator Hector Barreto recently announced that, "The SBA guaranteed a record number of loans last year, with double digit increases in the percentage of loans to women, Hispanics, African Americans and Asian Americans." The fiscal year 2005 budget request of $12.5 billion in loan guarantee authority for the 7(a) program will allow the SBA to provide more businesses with the capital needed to start-up and expand. With our proposal we intend to have another record-breaking year.

The Agency's main objectives related to Government Contracting are (1) to increase prime and subcontracting awards by securing top level commitment from the agencies to achieve their goals, promote procurement opportunities through Nationwide Matchmaking Events, and improve customer service; (2) modernize the 8(a) Business Development Program through restructuring, the development of an automated on-line 8(a) application, and the implementation of a Procurement Academy; and (3) facilitate community economic development and job creation through the HUBZone Program.

Access to Capital

As you are aware SBA submitted its FY 2005 budget request on February 2, 2004. This budget will ensure continuity in SBA's programs for America's small businesses while reducing SBA costs to the taxpayer by approximately $120 million. Through improved management and program reforms SBA will better serve America's small businesses by reaching into communities where our programs have had little market penetration.

One of the most recognizable services SBA provides small business is financial assistance. Last year, a record number of small businesses turned for credit assistance to the SBA, producing a 29 percent increase in the total number of loans backed by the Agency. Nationally, the increase in loan approvals under the SBA's three major loan programs came to 29.8 percent, reflecting a rise from 59,563 loans in FY 2002 to 76,465 loans in FY 2003.

These loans demonstrate our commitment to meeting the unique financing needs of small businesses everywhere, and the impressive increase posted for the past year validates our approach to making smaller loans more readily available to the real job creation engine of our economy. By focusing on a smaller average loan size we are leveraging our resources to assist more small businesses and create more jobs. Based on statements from borrowers, our financial backing helped America's small businesses create or retain more than 526,000 jobs.

Ironically, our success in promoting these programs hurt us earlier this year, as SBA was forced to suspend its operations on the 7(a) loan program. Unprecedented demand and a series of short-term continuing resolutions caused the program to run out of budget authority under the last Continuing Resolution. SBA reopened the program as quickly as it could, though we did place some restrictions on the program to keep it running until a more permanent solution can be reached. Let me assure you, Mr. Chairman, SBA does not want to close down this crucial program.

In our FY 2005 budget, SBA has requested a 30% increase for this program to $12.5 billion. In addition, SBA has proposed legislation to adopt a permanent zero subsidy rate for the program, allowing SBA to adjust fees based on demand and ensure it will remain available to those small businesses seeking SBA financial assistance.

The zero subsidy rate will put the 7(a) loan program in line with our other major financing programs (504 and SBIC). This subsidy rate is a result of improvements in the program, management of the program, as well as development of an econometric model. The two year fee reduction, designed to help small businesses during the recession, will expire at the end of FY2004 and the fees will return to their previous statutory level. The resumption to the statutory fee level will result in savings of nearly $100 million to the taxpayer, and also allow for an affordable program that will be able to meet the demand of small businesses without being dependent on appropriated funds.

SBA has requested $4.5 billion in lending authority through its 504 Certified Development Company program with no cost to the taxpayers. The 504 program, which was established to increase small businesses' access to real estate and other long-term fixed asset financing, has always had job creation as a program goal. SBA has taken steps to increase small businesses' access to 504 loans by encouraging competition and by streamlining processing.

Over the course of SBA's Microloan program's 12 year history, the private sector lending community has recognized that micro-borrowers are creditworthy and that they represent substantial future growth opportunities. As a result, private sector lenders are far more willing to lend to very small and to start-up businesses and are able to offer more competitive interest rates than SBA's microloan intermediaries. SBA should not be competing with private sector lenders interested in developing this market, and has not requested funding for this program in FY 2005. The well established 7(a) program provides an adequate incentive to lenders that feel risk mitigation is required to make smaller loans. In FY 2003, the 7(a) program made over 23,000 loans under $35,000, while the Microloan program only made 2,442 loans in that same period.

Government Contracting and Business Development (GC-BD)

The Office of Government Contracting assists small businesses in obtaining a larger share of federal procurement through a variety of programs and services. The prime and subcontracting programs benefit small businesses by assisting them to obtain procurement opportunities. Federal agencies spend about $53 billion in prime contract awards to small businesses and $34 billion in subcontracting awards to small businesses. We estimate that each $133,500 dollars spent supports one small business job. Thus, for fiscal year 2002, prime contract dollars supported 398,000 jobs and subcontract dollars supported 257,000 jobs within small businesses.

Through the Government Contracting (GC) prime and subcontracting programs, SBA provides policy direction and guidance to Federal agencies and works with them to develop acquisition strategies that will help to increase opportunities for small businesses in Federal procurement. The GC Headquarters staff also negotiates prime contracting and subcontracting goals with Federal agencies, monitors progress and submits reports to the President and Congress. Additional GC functions include providing contract assistance to small businesses, including women-owned small businesses; managing the Natural Resources Sales Assistance Program; performing formal size determinations on firms in connection with Federal government prime contracts; and administering the Certificate of Competency (COC) Program that allows an apparent successful small business to demonstrate that it has the capability to perform on a specific Federal prime government contract.

Our GC Area Offices deliver the prime and subcontracting small business programs. A staff of Procurement Center Representatives (PCRs), located at major Federal buying activities are responsible for reviewing all unrestricted and bundled procurements and assisting small businesses to participate in Federal procurements as both prime

contractors and subcontractors. We also have a staff of Commercial Market Representatives (CMRs) located in the GC Area Offices, that implement the Subcontracting Assistance Program by conducting compliance reviews of large business prime contractors and various other activities, such as counseling small businesses and matchmaking. CMRs monitor the large prime contractors to ensure that they are meeting the small business goals in their subcontracting plans, and make recommendations to prime contractors on how to strengthen their small business programs.

Through our prime and subcontracting program, we also leverage our PCR and CMR resources by working with federal agencies' small business directors to identify unnecessary contract bundling and develop acquisition strategies that will provide maximum opportunities for small businesses. We use technology to help provide broader coverage of our resources.

Contract Bundling

In March 2002, the President announced his Small Business Agenda which, among other things, requested OMB to develop a strategy for unbundling contracts. When contracts are bundled together, small businesses are at a disadvantage because they are unable to compete for contract requirements that they have or could have previously provided to the government.

In October 2002, the Administration's Strategy outlined 9 specific steps to eliminate unnecessary contract bundling and mitigate the effects of necessary contract bundling. The steps included:

Clean-up Regulatory Loopholes

- Require contract bundling reviews for task and delivery orders under multiple award contract vehicles.
- Require agency review of proposed acquisitions above specified thresholds for unnecessary and unjustified contract bundling.
- Require identification of alternative acquisition strategies for the proposed bundling of contracts above specified thresholds and written justification when alternatives involving less bundling are not used.

Mitigate the Effects of Contract Bundling

- Mitigate the effects of contract bundling by strengthening compliance with subcontracting plans.

- Mitigate the effects of contract bundling by facilitating the development of small business teams and joint ventures.

The final regulations were published on October 20, 2003. The regulations, among other things:

- Revise the definition of contract bundling to include multiple award contract vehicles and task and delivery orders.

- Require contract bundling reviews for contracts and orders under multiple award contracts above established thresholds for unnecessary and unjustified bundling ($7 million for DOD, $5 million for GSA, NASA, and DOE, and $2 million for all other agencies).

- Require procuring activities to coordinate with their small business specialist proposed acquisition strategies for contracts and orders above the established thresholds. Require the small business specialist to coordinate with the OSDBU when those strategies include bundling that is unnecessary and unjustified or not identified.

- Reduce the threshold for substantial bundling (from $10 million annually) to the above established thresholds and revise the documentation to the agency OSDBU.

- Require agencies to identify alternative strategies that involve less bundling when they contemplate a bundled contract.

- Require agencies to strengthen compliance with subcontracting plans.

- Requires the OSDBU to perform certain oversight functions and submit a report annually to the Agency Head and the SBA Administrator. Conduct periodic reviews to assess:

  -- the extent to which small businesses are receiving their fair share of Federal procurement;

  -- the adequacy of contract bundling documentation and justification; and

  -- the adequacy of actions taken to mitigate the effects of necessary contract bundling on small business (e.g. Review agency oversight of prime contractor subcontracting plan compliance).

8(a) Business Development Program

The 8(a) Business Development Program assists firms owned and controlled by socially and economically disadvantaged individuals. SBA helps eligible small businesses in a structured developmental process over a 9-year program participation term. SBA provides access to business development opportunities authorized under section 8(a) of the Small Business Act, including access to sole source and limited competition Federal contract opportunities. SBA works with Federal agencies to develop contract opportunities for program participants and assists firms with partnering, teaming, and joint venture arrangements in support of their business development plans.

Since the inception of the Program in 1968, 8(a) companies have been awarded more than 600,444 contracting actions worth about $94 billion. The 7,585 current 8(a) firms provided employment for an estimated 171,524 people in small businesses during FY 2002.

Central Contract Registry (CCR)

On December 17, 2003, PRO-Net was integrated with the Department of Defense's Central Contractor Registry (CCR), as part of the President's Electronic Government Initiative for an Integrated Acquisition Environment (IAE). In brief, for each registrant in CCR/PRO-Net, common data elements are collected in the CCR database. Data elements unique to SBA are captured at a 'supplemental page' residing at SBA. Therefore, the integration eliminated redundant data entry for small businesses.

The use of CCR is mandated in the Federal Acquisition Regulation (FAR) for identification of eligible firms under procurement preference programs. Each week, Internet users visit PRO-Net approximately 21,321 times. The PRO-Net database is managed collaboratively by GC/BD and SBA's Chief Information Officer.

Government Contracting Initiatives for Fiscal Year 2004 and 2005

SBA continues to use the best practices of the marketplace to improve and modernize our programs. Some of our current initiatives include:

- Developing an approach to track contracts awarded as a result of the Nationwide Matchmaking events, which match the capabilities of small businesses with the needs of Federal agencies, state and local agencies, and Federal prime contractors;
- Implementing the President's strategy to avoid unnecessary contract bundling;
- Automating the 8(a) application to streamline and simplify the process;
- Simplifying the size standards to make them more useful to small businesses and agencies
- Automating and centralizing the 8(a) annual review process to achieve consistency and efficiency; and
- Developing a Procurement Academy to provide training on Marketing and Federal Procurement to 7(j)-eligible companies.

When fully implemented, these initiatives will help to create an environment where small businesses have better access to Federal procurement opportunities.

SBA is committed to the President's Small Business Agenda and his proposals to create jobs and growth through the small business sector. We must ensure that small businesses receive their fair share of contract opportunities. Increased opportunities for small firms will result in savings to the taxpayers, a stronger economy, and a stronger America. This concludes my remarks, and I will be happy to respond to any questions that you may have.

Statement of
Linda Bithell Oliver
Deputy Director, Small & Disadvantaged Business Utilization
Office of the Secretary, U.S. Department of Defense
Before the
U.S. House Committee on Small Business
February 17, 2004
Chicago, Illinois

My name is Linda Oliver. I am the Deputy Director of the Department of Defense Small and Disadvantaged Business Utilization Office. I am here representing the Secretary of Defense in response to Chairman Manzullo's invitation to Secretary Rumsfeld to testify about small business contracting opportunities at the Department of Defense (DoD).

I appreciate having this assignment because I look for any opportunity to discuss Department of Defense small business activities. I am pleased to be in Illinois, and particularly in Chicago. As an adolescent I read Carl Sandburg's words about Chicago and thought it must be a wonderful place. When I was 16 years old, I attended the National 4-H Club Congress here. The Congress was just after Thanksgiving, so I saw the city in full dress for Christmas. The visit confirmed my supposition that Chicago was the most exciting place in the world. I have visited many times since and have discovered many other facets of this "City of the Big Shoulders." However, rather than go on about the museums and galleries and music and food, I will do what I have been asked to do, which is to discuss procurement opportunities at the Department of Defense.

The Department of Defense has been transforming itself. My office has led the small business part of the change. Today I will talk to you about some of the changes and discuss the effect these changes are having on small businesses that do work with the Department of Defense.

Understanding Small Business Performance

Our office has established key projects that support goals set by Secretary Rumsfeld and specifically support priorities set by Mr. Michael Wynne, Principal Deputy Under Secretary of Defense (Acquisition, Technology and Logistics). One of the first areas of transformation was to improve our ability to collect and analyze data relevant to our performance. As a result of this effort, we are becoming better at understanding our accomplishments and shortcomings so that we are better able to advise the Department on policies that will be effective.

Historically, at the end of the fiscal year, we have had difficulty getting timely performance data relevant to the small business statutory goals. While this is a problem we have not yet satisfactorily resolved, we do have preliminary figures for Fiscal Year 2003. DoD awarded close to $190 billion in prime contracts to U.S. businesses, of which approximately

$42 billion was awarded to small businesses -- our best-ever year for small business. This means that over 22 percent of total DoD prime contract awards during Fiscal Year 2003 went to small business -- a remarkable one-year increase of nearly $9 billion. The Defense Department awarded almost $12 billion to socially and economically disadvantaged small business concerns. Small business subcontractors also have benefited from DoD's increase in contract business opportunities. For Fiscal Year 2002, the latest year for which we have compiled the data, small businesses received subcontract awards totaling over $25 billion -- $2 billion more than the prior year.

Our newly-developed ability to analyze data is allowing us to better understand our strengths and weaknesses. We are starting to hear what the numbers are telling us and are using the information as we develop policies that strengthen our weaknesses and capitalize on our strengths. As a part of our analysis, we compared DoD with our civilian agency counterparts focusing on the kinds of things we purchase -- sometimes called a comparison by product mix.

We were pleased with what we found concerning our product mix comparison. The Department's overall Small Business Program is outstanding. DoD provides the largest opportunity for small business in the U.S. Government -- both in terms of dollars and percentages -- using a product mix analysis. Many of our major defense systems are produced only by large businesses, but when product mix is brought into the equation, the DoD Small Business Program outpaces the civilian agencies in contracts awarded to small businesses. A recent analysis, using Fiscal Year 2002 results, demonstrates that if the DoD purchased the same mix of products that the civilian agencies purchased, then DoD would have awarded 27 percent of total defense acquisition dollars to small business.

Service-disabled Veteran-owned Small Business Goals

An area of emphasis for us for the past two years has been small businesses owned by service-disabled veterans. We have been analyzing the difficulties in meeting our Congressionally mandated goal for contracting with these small businesses and we have been trying to determine what works and what does not.

In Fiscal Year 2002, Congress gave the Executive Branch a goal of awarding 3 percent of its procurement dollars to Service-disabled Veteran-owned Small Businesses. Each year since then, the goal applicable to DoD has been 3 percent. In 2002 DoD awarded approximately $204 million in contracts to small businesses owned by service-disabled veterans. Even though $204 million sounds like (and is) a lot of contract work, our accomplishment, when calculated as a percentage, was only 0.1 percent. During this past fiscal year we tried to improve our performance by educating contracting officers and program managers about the goal and by urging them to consider small businesses owned by service-disabled veterans. Preliminary figures for Fiscal Year 2003 indicate that we awarded $342 million to these businesses in 2003 -- again, a considerable amount of work, but a dismal percentage of only 0.2 percent. Our analysis of our achievements indicated that what we were doing to improve our performance was not working fast enough for us to be able to achieve, in a reasonable time, what Congress had asked us to do.

In late 2003, Congress provided us with tools to help meet our goal. On December 16, 2003, President Bush signed into law the Veterans Benefit Act of 2003. The Act provides two discretionary tools. Contracting officers may now award noncompetitively prime contracts to Service-disabled Veteran-owned Small Businesses, and contracting officers may also restrict competition to service-disabled veteran-owned small businesses. While the law was effective on December 16, we will not see the impacts of these new tools until contracting officers are educated about their existence. As a result, we have asked that the change in the Federal Acquisition Regulation (FAR) be "fast tracked." The Small Business Administration and the Federal Acquisition Regulations Council are working together to publish the changes as soon as possible.

Our analysis of experience in achieving new small business goals tells us not to expect vast improvements in our achievements in this fiscal year. The DoD is a very large ship to turn. For example, it took us many years to achieve our Small Disadvantaged Business (SDB) goals. Similarly, we have made steady progress on our HUBZone goals, which were given to us in 1997, but we are still not where we want to be. One challenge in meeting our goal of awards to small businesses owned by service-disabled veterans is finding those businesses that sell things DoD buys. One indicator of the extent of our problem is that today, only 4,715 of the 283,343 businesses registered in the Central Contractor Registration database (where a business must be registered in order to do business with DoD) were small businesses owned by service-disabled veterans. Nevertheless, we do hope to see substantial improvements by Fiscal Year 2005.

Improved Processing of Small Disadvantaged Business Certification

For several years my office has been hearing complaints concerning the Small Disadvantaged Business Certification Program. We hear these complaints from owners of small disadvantaged businesses, from the large businesses that subcontract to SDBs, and from industry associations. Armed with our new data analysis skills, we are attacking the problem. First, we determined that the problem was more than anecdotal. Next we worked with the SBA officials to persuade them that the process could be fixed without a substantial expenditure of resources.

I am pleased to tell you today that the DoD Small and Disadvantaged Utilization Business Office, the Defense Acquisition University, and the Small Business Administration are joining ranks to improve the process for certifying Small Disadvantaged Businesses. The objective of this team effort is to simplify the application process and to shorten the time it takes to review and approve the applications. We will meet for two days next week to do some hard work. This meeting is neither the first nor the last of our process improvement effort, but it will be an important event.

With an improved process, the Department of Defense and its prime contractors will have more access to supplies and services offered by more Small Disadvantaged Businesses. In addition, Small Disadvantaged Businesses will have more opportunities to compete for both prime contract awards and subcontract awards.

Better Small Business Specialist Training

Another of Mr. Wynne's goals upon which we are working is ensuring that we have a motivated, agile workforce. In our world of small business, our small business specialists are the employees to whom we have turned our attention because they are the keystones of our success.

Currently, all acquisition personnel, of which small business specialists are a part, must successfully complete certain mandatory training courses at the entry, mid, and senior or executive level as part of their acquisition career path. Each of these courses contains modules relating to the small business program and its requirements, thereby ensuring that all acquisition personnel are aware of the program and what they need to do to fulfill their program requirements and to report accurately on their actions.

In addition to the modules contained in acquisition courses, the Military Departments provide some training specific to small business specialists. For example, the Air Force conducts a one week course entitled "Small Business-101" that provides the basics of performing satisfactorily as a small business specialist, primarily in a contracting activity environment.

While we think that a small business module in an acquisition course is important, we think that this is not enough. The small business program is critical and should play a more prominent role in acquisition workforce training.

Towards this end, we are currently in the process of centralizing Small business specialists training within the Department. We are developing a DoD Small Business course curriculum with mandatory participation by all Small business specialists. As a start, we will have a basic course addressing the small business specialist functions and role in both the contract placement and contract management phases of the acquisition process.

We recognize that small business suppliers are an important source of true innovation. We, therefore, intend to emphasize other programs that might only be covered briefly in the current acquisition courses, such as the DoD Mentor Protégé Program and the Small Business Innovative Research Program. We think there are innovative small businesses that may want to take advantage of the significant opportunities presented by these programs, and we believe that knowledgeable Small business specialists can help identify them.

We are also looking toward the future development of additional curricula -- possibly including intermediate and advanced level courses, as well as expanding the universe of participants to include contracting and program management personnel.

You might ask why I mention this --

First, the Department has small business prime and subcontracting goals. We believe that better educating the Department's acquisition workforce (including Small business specialists) will facilitate an increased use of small businesses in our contracting efforts. If

the acquisition community has a greater understanding of the Program and of the challenges facing the small business community trying to compete for Defense dollars, the community will use small businesses more frequently.

Second, by better understanding the entire small business program, we can more effectively insert small businesses into programs and acquisition cycles, meeting in part our objective of getting small businesses involved earlier in the acquisition process. This is where we believe that the greatest opportunities exist.

Additionally, a better educated small business specialist workforce can provide more pertinent assistance to the acquisition, program management, and small business communities. This workforce will be better equipped to assist emerging defense suppliers navigate the DoD enterprise.

And finally, conducting this training at the Department level, making the training mandatory for acquisition personnel, and looking toward the possibility of providing for a certification in small business, raises the level of visibility of the Small Business Program and its importance within the Department.

Conclusion

I have given you a quick overview of problems and changes in the Department of Defense as they relate to small businesses. I have discussed our new emphasis on using data analysis as a tool to help us sort policies that work from those that do not. I talked about what we are doing to achieve the new service-disabled veteran-owned small business goals,, and I mentioned our project to improve certification and recertification of SDBs. I shared with you our high hopes for our on-going training project.

I could spend several hours giving you an overview of other things we are doing -- things that are equally exciting to us and that we hope will improve small business opportunities. I could also spend additional time discussing in greater depth the subjects on which I have touched. I welcome the opportunity to amplify anything connected with our work; however, I also realize that your questions are the most important aspect of this hearing. I look forward to your questions and to any comments you may have that will guide us toward working more effectively with small businesses.

Thank you.

Statement of Sean Moss, Director
Office of Small and Disadvantaged Business Utilization
United States Department of Transportation
United State House of Representatives
Committee on Small Business
Field Hearing - Chicago, Illinois
February 17, 2004

I am pleased to appear before you today to discuss the Department's policies and procurement achievements in small business contracting and access to capital issues.

The Department's Office of Small and Disadvantaged Business Utilization (OSDBU) in accordance with PL-95-507, as amended, is designed to ensure that all small businesses, including minority and women-owned small businesses, have an equal opportunity to compete in the Department of Transportation's (DOT) procurement programs.

DOT is a leader in Federal Government procurement. It has developed a culture that has demonstrated its commitments to small and disadvantaged businesses. Over the past three years, DOT has awarded over $3.476 billion dollars to small, women-owned and disadvantaged businesses representing over 42% of DOT's total direct contracting dollars. Last year, nearly 20% of our small business dollars were awarded to women and minority-owned firms.

Although we have made progress in advancing small business interests at the Department we recognize there are a variety of obstacles that small and disadvantaged businesses must overcome to succeed. We have defined those challenges as access to information, access to capital and access to advocacy issues. To better address those concerns, the OSDBU office is organized to provide solutions to these problems.

Outreach

Obtaining information and learning how to market within the federal procurement marketplace can be an overwhelming endeavor, especially for a small business. We have three strategies for reaching the small business community. First, we have established a National Information Clearinghouse (NIC) which creates a single point of contact for procurement and program

dissemination. We have customer service representatives that respond to inquiries and questions through a dedicated toll free number, email, or written correspondence. The NIC is also equipped with a state of the art website that provides small business customers contracting information in a user-friendly manner. We receive over 750,000 website hits per month.

Second, we have established 13 cooperative agreements with business organizations and minority serving institutions across the country to assist small businesses. These partners are responsible for increasing the number of small and disadvantaged businesses that enter into both direct and federally assisted transportation related contracts. The Business Resource Group here in Chicago is an example of one of our partners. They are currently providing assistance to firms on transportation projects like the Dan Ryan Expressway rehabilitation project and CTA Green Line Project. Without their assistance, many firms would not have the opportunity to compete.

Third, we sponsor and attend a variety of conferences and events that teach and provide information regarding DOT contracting opportunities. Last month, we held a conference in Washington, D.C. targeted towards HubZone companies and next month will sponsor a conference in Oakland California that will focus on federal highway contracting opportunities. Our procurement office works in partnership with industry organizations such as AeA to train their membership, mostly small businesses, on gaining access to federal procurement opportunities and provides government staff with the needed market research skills to find these small companies.

Financial Services

We are sensitive to the challenges that exist within the credit and capital markets for small business. These issues are even more acute for minority firms. We support and applaud the efforts of the U.S. Department of Commerce Minority Business Development Agency and other organization's research that shows inequities still remain for these firms.

In order to increase participation for all small firms, including minority firms, the Department provides two credit enhancement programs to address capital issues that confront companies seeking transportation contracts. 1) The Short Term Lending Program provides revolving lines of

credit to finance accounts receivable that arise from transportation related contracts. The credit lines are provided by DOT approved banks and are guaranteed by DOT.

The Department has successfully provided working capital financing for firms that otherwise would have not received it from the bank. Approximately 35% of our loans have been made to African American firms over the last two years. 2) The Bonding Assistance Program provides bonding assistance for certified minority and disadvantaged firms on transportation projects. Inability to access surety bonding is often the primary factor that precludes small and disadvantaged firms from participating in public works projects. Even as subcontractors, disadvantaged firms may be required to demonstrate bonding capacity to participate in federal projects.

Advocacy

The OSDBU is dedicated to supporting legislation and programs which reflect the interests of small and minority companies. Our efforts range from supporting the government wide initiative to unbundle contracts to developing better guidelines for monitoring subcontracting plans.

Additionally, our office supports the Department's Disadvantaged Business Enterprise Program (DBE). First enacted in 1983 as part of the highway reauthorization bill, this provision encourages the participation of disadvantaged businesses in highway and transit financial assistance programs. In FY03, DOT grant recipients awarded $3.16 billion to DBE firms representing 10.5% of total federal aid dollars.

Again, thank you for the opportunity to appear here today and I look forward to answering any questions.

STATEMENT OF
PATRICIA BAMFORD
CHIEF, ACQUISITION AND ASSISTANCE BRANCH
RESOURCES MANAGEMENT DIVISION
U.S. ENVIRONMENTAL PROTECTION AGENCY, REGION 5
BEFORE THE
COMMITTEE ON SMALL BUSINESS
U.S. HOUSE OF REPRESENTATIVES

February 17, 2004

Mr. Chairman and Members of the Committee:

Good morning, I am Pat Bamford, Chief of the Acquisition and Assistance Branch in the Resources Management Division of the U.S. Environmental Protection Agency's (EPA) Region 5 office in Chicago. I want to thank you for the opportunity to appear today to discuss the work of the Agency in assisting small business enterprises in our region.

I want to take this opportunity to highlight EPA's efforts to include small businesses in the procurement process. The Office of Small and Disadvantaged Business Utilization (OSDBU) partners with the Agency's contracting activities "...to support the protection of the environment and human health by fostering opportunities for partnerships and contracts...for small and economically disadvantaged concerns." The OSDBU mission statement is at http://www.epa.gov/osdbu/mission.htm. Small businesses play an important role in helping the Agency to protect human health and the environment.

In Region 5, we have awarded three major emergency and rapid response services (ERRS) contracts. Two of these contracts have been awarded to small business concerns. In Fiscal Year (FY) 2003, small businesses received 71% of the total dollars obligated for ERRS contracts. If we include the subcontracts awarded by the large business contractor, small businesses received 83% of the total dollars obligated for ERRS contracts. Small businesses supply us with many of the items needed to carry out our environmental and counter-terrorism missions on a daily basis.

BACKGROUND

Over the last few years, we have tried to develop a good understanding of the major problems facing small businesses in their efforts to obtain contracts with the Agency. We have worked hard to increase the number of procurement opportunities available to small businesses. In FY 2003, the Agency's small business goal was 23.5%. The Agency awarded over 31% of our net obligations to small business

concerns. In the same year, Region 5 awarded over 34% of our net obligations to small businesses. EPA's goal for FY 2004 is to award 27% of the available procurement dollars to small businesses. We are confident we will continue to surpass that goal.

The Agency's policy is to develop programs to stimulate and improve the involvement of small and socioeconomically disadvantaged businesses in the overall acquisition process. We participate in one-on-one counseling sessions and small business outreach activities. We review business capability statements and provide a variety of avenues for small businesses to obtain guidance on business management and marketing techniques. For example, at the Agency level, we have held workshops on Best Procurement Practices for the Small Disadvantaged Business; Business Management and Organization Techniques; Marketing Strategies and Access Assistance; and How to Analyze a Solicitation for Effective Response. These are just a few of the initiatives taken to improve small business participation in Agency procurements.

RECENT ACTIONS TAKEN TO IMPROVE SMALL BUSINESS ACCESS

The President's Small Business Initiative calls for the Agency to improve small business access to government contracts by:

- Ensuring that agency contracts are open to all small businesses that can meet the agency's needs; and
- Avoiding unnecessary contract bundling.

The Agency is taking several steps to address these initiatives. We are reviewing acquisitions in excess of $2 million to determine if our needs are being bundled. This also includes reviewing proposed orders to be placed against other agencies' contracts, including multiple award schedules. These reviews will enable our Small and Disadvantaged Business Utilization Specialists to propose alternative contract strategies to ensure that small businesses are considered. We are also working with our program offices to break out work that is suitable for small businesses. For example, in Region 5, we have broken out Superfund sampling work from our Remedial Action Contracts (RACS).

Weston Solutions, one of our prime RACS contractors, has a Mentor-Protégé agreement with Environmental Design International, Inc. (EDI). EDI is participating in the SBA's 8(a) program and has been certified as a small, disadvantaged, woman-owned business that is located in a historically underutilized business zone (HUBZone). When Weston received work assignments that included environmental sampling, they subcontracted this work to EDI. When Region 5 was reviewing environmental work that would be suitable for small business participation, environmental sampling was chosen as a candidate. We developed a requirement and were able to negotiate and award a new contract to EDI because of the experience and

knowledge they had gained under their mentor-protégé relationship with Weston. This contract is being utilized by Superfund program personnel and is a great success.

We are complying with the requirement to ensure that all vendors seeking to do business with the Agency are listed in the government-wide Central Contractor Registry (CCR), formerly the Pro-Net database. All small businesses seeking contracts from the Agency must be registered in CCR. This database will be instrumental in assisting us in locating small businesses that have the necessary capabilities to participate in our procurement opportunities.

The Agency also posts information about its upcoming procurement opportunities for the current and next fiscal year on the Internet. All current solicitations in excess of $100,000.00 are posted on a web page, along with the synopsis and sources sought notices, and information about the status of the current solicitations is provided at www.epa.gov/osdbu/contracts.htm. All Agency procurement opportunities in excess of $10,000.00 are posted at FedBizOpps (www.FedBizOpps.gov). Vendors can register at FedBizOpps to receive notices about new procurement opportunities being announced by EPA.

Headquarters, along with our regional offices, have Small and Disadvantaged Business Utilization Representatives assigned to assist small businesses in their pursuit of agency contracts. These specialists coordinate business presentations with our procurement and program personnel. They conduct on-site business fairs and are the advocates for small businesses in the Agency, consulting with them on their capability statements and overall marketing strategy. This effort helps prepare them to be more competitive when seeking Agency contracts.

OSDBU also prepares, publishes and posts on the Internet information designed to inform the small business community about doing business with us. Among these materials are booklets like "Doing Business with EPA" and the "Mentor-Protégé Program." Small businesses can review these publications on the Internet at www.epa.gov/osdbu/pubs.htm or can order them from EPA at www.epa.gov/osdbu/requests.htm. We also offer publications to enable our large business contractors to locate small businesses for subcontracting opportunities, such as: the "Women Owned Directory" and the "Suggested Resources for Identifying Small, Minority, and Women-owned Businesses." Generally, EPA is working to simplify the process of accessing information of import to small business over the Internet through our Small Business Gateway (http://www.epa.gov/smallbusiness/). The Gateway includes links not only to our OSDBU, but also to our Small Business Ombudsman, the Small Business Innovation Research program, and many other programs and items of interest to small businesses.

SUMMARY

We have worked hard to ensure that small businesses have the opportunity to contribute their skills, talents, and expertise to furthering our mission to protect human health and the environment, and we are pleased to report that we have exceeded our small business goals in recent years. Moreover, we expect our recently implemented programs to help us achieve even greater participation by small businesses in EPA's procurement process in the years to come.

I want to reiterate EPA's commitment to ensuring that small businesses have equal opportunities to participate in the Agency's procurement process. I look forward to playing a key role in working with the small business community in Region 5 to ensure that they become active participants in assisting us to fulfill our environmental mission.

Thank you for the opportunity to speak today. I would be pleased to answer any questions that you may have.

Statement of Scott Denniston, Director
Office of Small and Disadvantaged Business Utilization
United States Department of Veterans Affairs
United States House of Representatives
Committee on Small Business
Field Hearing – Chicago, Illinois
February 17, 2004

It is a pleasure to be here today on behalf of the Secretary of Veteran Affairs (VA), the Honorable Anthony J. Principi. VA has a long history of supporting small business and particularly minority-owned small businesses in our acquisition program. We will continue to do so consistently with the equal protection guarantees of the Constitution. We will consistently exceed the legislative goals for awards to small business and small disadvantaged businesses including 8(a) businesses. We achieve the 3 percent HUBZone goal. Secretary Principi is personally committed to achieving all of VA's small business goals and understands the importance of small businesses to this nation's economy. He began working in his father's small business at an early age. The challenge for VA is one of supporting all small business programs, providing the American public the best government possible for their tax dollars, while most importantly provide veterans with the best healthcare, benefits, and dignified burials we possibly can with the resources available.

The Office of Small and Disadvantaged Business Utilization (OSDBU) was created by Public Law 95-507. The primary purpose of the office is to promote maximum practicable opportunities for small businesses to participate in the Department's purchases at both the prime and subcontract levels. To accomplish this, OSDBU is responsible for the development of Department-wide policies, programs, and practices relating to small business concerns. This includes educating and training VA staff, negotiating prime and subcontracting goals with contracting activities, monitoring achievements, and managing information system reports to VA executives. OSDBU advises contracting officials on procurement strategies to ensure equitable opportunities for small business concerns, conducts market research to identify small business sources for competitive actions, and reviews and approves procurements to assist concerns in the Small Business Administration's business development programs.

You asked that VA address two areas this morning: access to capital for small businesses, especially the need of African-American and other minority-owned small businesses in the Chicago area, and efforts to assist small businesses in finding real federal procurement opportunities, and recommendations for improvement. I will address my comments to federal procurement opportunities. We hear from small businesses, particularly veteran small businesses constantly about the difficulties in accessing capital but as you know this is not our field of expertise. VA does not have statutory authority to make small business loans.

Although we are pleased with our support of the small business community we know that obstacles still exist and we work hard to help make small businesses successful in VA acquisition. We know we cannot be successful without effective partnering with small business.

Understanding how to gain access to information is critical to small business success. Each month we hold vendor counseling sessions which include contracting and program officials to provide small businesses access to information. We have a robust web site at www.va.gov/osdbu/ which contains points of contact for small business at each VA facility, a subcontracting directory of prime contractors with subcontracting opportunities, an extensive Forecast of Contracting Opportunities which can be updated throughout the year, and links to other web sites which can assist small businesses. We are active in outreach events participating in over 100 small business conferences around the country each year.

The very best resource available to small businesses interested in doing business with the Federal government are the Procurement and Technical Assistance Centers (PTACs). PTACs are non profit organizations that are partially funded by the Department of Defense with the balance of their funding coming from various resources such as state, county and local governments as well as colleges and universities. There are 93 PTACs around the country. Their sole purpose is to teach the local businesses (mostly small businesses, including minority small businesses) how to do business with the federal, state and local governments, but particularly the Department of Defense. VA works very closely with the PTACs so that small businesses working with VA are aware of these resources.

We also work closely with the Small Business Development Centers to ensure that small businesses know of the resources available to train them in business development issues such as marketing, financial planning and management growth. Small businesses do not take advantage of these services to the maximum extent possible.

VA is committed to supporting the Administration's antibundling initiatives. Bundling has impeded small business ability to compete. We expect to have implementing instructions to field facilities by March, 2004.

Since the passage of Public Law 106-50, the Veteran Entrepreneurship and Small Business Development Act of 1999 and the establishment of 3 percent government-wide goal for participation by small businesses owned and controlled by service-disabled veterans in federal contracting and subcontracting. VA has worked hard to assist those firms navigate the federal market place. In 2000 we established the Center for Veteran Enterprise (CVE) for this purpose. The CVE touches approximately 8000 veterans a month with information on starting and financing a small business, and breaking into the federal market place. We do an annual mailing to approximately 50,000 veteran-owned small businesses telling them of services available through VA,

the Small Business Administration, Department of Labor and the Veterans Business Development Corporation. We have established a data base of veteran-owned small

businesses to assist Federal agencies and prime contractors meet their veteran small business goals. We have sponsored outreach conferences around the country with several agencies, including GSA, DOT and SBA, large businesses prime contractors, Small Business Development Centers and Procurement and Technical Assistance Centers. We have also established private sector initiatives to assist veterans with the International Franchise Association and Operation Hope.

With the recent passage of Public Law 108-183, the Veterans Benefits Act of 2003, providing set-aside and sole source authority for service disabled veteran-owned businesses we are confident this well deserved group of small businesses will also be successful in Federal procurements.

I will be happy to answer any questions.

Testimony of

Eric K. Dobyne, Region V
Regional Director, Chicago National Enterprise Center
U.S. Department of Commerce
Minority Business Development Agency

Before the

U.S. House of Representatives

Committee on Small Business

February 17, 2004
9:30 a.m.

at

3333 W. Arthington Street, 2nd Floor

Chicago Illinois

I would like to thank Congressman Danny K. Davis (D-IL) for giving me this opportunity to appear, as well as the House Small Business Committee Chairman Don Manzullo (R-IL), the House Small Business Subcommittee on Workforce, Empowerment and Government Programs Chairman W. Todd Akin (R-MO), and the rest of the members of the distinguished committee.

The Minority Business Development Agency (MBDA) is part of the U.S. Department of Commerce. MBDA is the only federal agency created specifically to foster the establishment and growth of minority-owned businesses in America. MBDA is an entrepreneurially focused and innovative organization committed to wealth creation in minority communities. The Agency's mission is to actively promote the growth and competitiveness of large, medium, and small minority business enterprises

(MBEs). MBDA actively coordinates and leverages public and private sector resources that facilitate strategic alliances in support of its mission.

The Agency was established in 1969 by Executive Order, and its role was expanded in 1971. MBDA was originally called the Office of Minority Business Enterprise (OMBE). The name was changed in 1979 to the Minority Business Development Agency.

MBDA's headquarters is in Washington, D.C., where all activities are planned, developed, coordinated and evaluated. There are five National Enterprise Centers (Atlanta, Chicago, Dallas, New York and San Francisco) and four Regional Enterprise Centers (Miami, Boston, Philadelphia and Los Angeles) where staff members oversee assistance services in multi-state regions.

Assistance is provided to socially or economically disadvantaged individuals who own or wish to start a business. Such persons include American Indian or Alaska Native, Asian, Black or African American, Hispanic or Latino, Native Hawaiian or other Pacific Islander and Hasidic Jew.

MBDA provides funding for a network of Minority Business Development Centers (MBDCs), Native American Business Development Centers (NABDCs), Business Resource Centers (BRCs) and Minority Business Opportunity Committees (MBOCs) located throughout the Nation. The Centers offer a wide range of business services to minority entrepreneurs.

The MBDCs, NABDCs, BRCs, and MBOCs provide minority entrepreneurs with one-on-one assistance in writing business plans, marketing, management and technical assistance and financial planning to

assure adequate financing for business ventures. The Centers are staffed by business specialists who have the knowledge and practical experience needed to run successful and profitable businesses.

The MBOCs are designed to coordinate Federal, state and local business resources to benefit minority business development. They identify business and economic opportunities in the community and leverage those opportunities to meet the needs of minority business enterprises (MBEs).

Business referral services are provided free of charge. However, the network generally charges nominal fees for specific management and technical assistance services.

The Centers are located in the areas with the largest concentration of minority populations and the largest number of minority businesses. For the

address of your nearest MBDC, NABDC, BRC and MBOC, contact the MBDA National Enterprise Center responsible for operations in your state.

MBDA's new Minority Business Internet Portal is a state-of-the-art e-commerce solution designed for the MBE community. This internet platform provides MBEs with access to customized tools and business information to help them grow and thrive in an ever-changing digital economy.

User-driven applications of the Portal include the Phoenix Database of minority-owned firms and the Opportunity Contract Matching System. The Phoenix Database contains descriptive information on MBEs throughout the U.S. and is designed to match firms with actual contract opportunities. Individuals will automatically receive e-mail alerts of contractual and international trade opportunities in their area. Purchasers from government

and private sector use Phoenix to identify MBEs that can provide the products and services they need. There is no charge for use of the system.

MBDA's strategic growth initiative has shifted the focus of the agency to MBEs in high-growth industries, generally with revenues of $500,000 and above. These high-growth companies provide the most significant opportunity for MBDA to impact job creation, investment, and wealth creation in the minority community. Smaller lifestyle businesses will continue to be supported through the many tools provided on the MBDA portal as well as through referrals to other government agencies.

The Minority Business Development Agency Chicago National Enterprise Center is responsible for a ten state region that includes: Illinois, Indiana, Iowa, Kansas, Michigan, Minnesota, Missouri, Nebraska, Ohio, and

Wisconsin. Within this region there are seven MBDCs and MBOCs, located in major metropolitan areas.

MBDA currently funds both a MBDC and MBOC in the Chicago area. In the past three years these projects have generated over $148 million dollars in verified contracts and financial transactions for minority businesses. This total included over $17 million in financial assistance packages. Chicago National Enterprise Center has also started an initiative to cultivate large business and finance opportunities through our regional office. For the first time in the agency's history the regional staff has been assigned a goal of securing $36 million in financial and/or procurement transactions for minority businesses.

STATEMENT OF

JAMES C. HANDLEY

REGIONAL ADMINISTRATOR
U.S. GENERAL SERVICES ADMINISTRATION

GREAT LAKES REGION

BEFORE THE

COMMITTEE ON SMALL BUSINESS

U.S. HOUSE OF REPRESENTATIVES

FEBRUARY 17, 2004

Mr. Chairman and Members of the Committee, thank you for the opportunity to appear before you today to discuss small business contracting opportunities in the federal procurement arena. I am James Handley, Regional Administrator for the General Services Administration's (GSA) Great Lakes Region (Region 5), and I am pleased to be here this morning.

Let me begin by saying that this administration is extremely concerned about the health of our nation's small businesses. The prosperity of the nation's 25 million – and the region's nearly 700,000 – small businesses is a top priority. To this end, increasing the procurement opportunities for small businesses is a major initiative of the Bush administration.

Background of GSA and Region 5

As you are aware, GSA is a federal procurement and property management agency created to improve government efficiency and help federal agencies better serve the public. The United States is the world's largest marketplace, and GSA is the government's chief acquisition agency. GSA's 13,000 associates provide services and solutions for the workplace operations of more than one million federal workers located in 8,000 government-owned and leased buildings in more than 2,000 U.S. communities and overseas.

In Region 5, GSA serves federal agencies throughout Illinois, Indiana, Michigan, Minnesota, Ohio and Wisconsin. The region's nearly 1,000 associates support more than 90,000 federal employees located in more than 1,000 government-owned and leased buildings comprising 35 million square feet of office space. We accomplish this by acquiring office space, equipment, supplies, telecommunications and information technology on behalf of our federal clients.

GSA's Small Business Programs

As mandated by federal law, GSA works hard to ensure that opportunities to participate in the federal procurement process are afforded to small businesses, including those that are owned by minorities, women, veterans and small businesses located in HUB-Zones. As an agency, we exceed what the law requires.

Preliminary figures show that in fiscal year 2003, $6 billion of the $15 billion GSA spent in procuring goods and services went to small businesses. This meets our internal agency goal of 40 percent and nearly doubles the government-wide goal of 23 percent. In Region 5, contracts representing over $271 million worth of goods and services were awarded to small businesses in fiscal year 2003. These figures do not represent contracts going to subcontractors, which would increase these numbers.

FY 2003 Prime Contracts to Small Business
(Preliminary Figures)

Category	Number of Actions	Dollars
Total Small Business	120,059	6,174,887,188
Woman-Owned	11,925	613,338,424
HUB-Zone	284	23,371,373
Service-Disabled Veterans	1,094	43,385,185
8(a)	7,959	708,692,690
Small Disadvantaged	20,544	1,626,071,062

As Felipe Mendoza, GSA's Associate Administrator in the Office of Small Business Utilization, told this Committee last May, "GSA aims high in its goals and achievements, because we want everyone in the agency to know that we recognize the statutorily mandated goals to be the floor – not the ceiling."

Joint Efforts With Other Agencies
Mr. Chairman, GSA, the Small Business Administration (SBA), Department of Defense (DoD) and Office of Management and Budget have taken steps to simplify the federal contracting process by creating an integrated database of small businesses that want to do business with the government. The integration of SBA's PRO-Net and DoD's Central Contractor Registration databases is creating one portal for entering and searching small business sources. This integration will assist small businesses with marketing their goods and services to the federal government.

Multiple Award Schedules Program
In addition to our agency-specific procurement opportunities, GSA manages the Multiple Award Schedules Program in which contracts are established with commercial firms for commonly used supplies and services. The program offers a broad range of products and services at prices that have been negotiated by GSA and meet accepted levels of expertise, performance and value. For federal agencies, this program represents a much more simplified procurement process.

The schedules also offer small businesses a new avenue of potential work with the federal government. Of the over 14,700 contracts currently on the GSA schedules, over 11,700 – approximately 80 percent – have been awarded to small businesses. We have several aggressive initiatives in place under this program that target small businesses, and we are constantly working with SBA to increase the opportunities for all categories of small businesses through our program.

Small Business Outreach
GSA's small business programs are geared toward increasing competition to promote the acquisition of high quality products and services at a fair and reasonable price to the American taxpayer. Various national and regional outreach programs established by GSA, SBA and other agencies enable the small business community to meet key

contracting officials and receive one-on-one counseling from a team of business specialists.

In fiscal year 2003, Region 5 conducted 21 outreach events, including one in the 16th District – the Subcontracting Outreach for the New Rockford Courthouse – and two right here in the 7th District – the 2003 Business Procurement Expo and the 7th District Town Hall Meeting. These events drew over 8,500 participants. Of special note was the Chicago Business Matchmaking Event held in June 2003 and jointly sponsored by the U.S. Chamber of Commerce. This event, which was attended by over 1,300 small business representatives, aimed to line up small businesses with counselors and potential customers.

The region's Office of Business and Congressional Services assists small businesses by answering the many questions that are submitted by phone, e-mail, letters and in person. We counsel most companies over the phone; however, we also conduct one-on-one counseling sessions to assist companies understand and participate in the procurement process. Many companies visit our office for information. We also attend procurement conferences to conduct workshops that teach small business owners how to do business with GSA. We are available to answer questions throughout the week and encourage businesses to come in to talk with our contracting officers regarding possible opportunities with our agency. These meetings are usually arranged in advance and permit companies to discuss what they are looking to do with GSA and allow contracting officers to find out about the companies' capabilities.

GSA has many resources available to help small businesses and provide them with useful information. One such resource is our *Doing Business with GSA* booklet, which is geared toward new and prospective contractors. It explains the process, offers practical advice, and lists helpful websites, including the redesigned www.gsa.gov. We also distribute a local procurement directory and a list of toll-free telephone numbers so small businesses can contact us if they have any questions.

Our website also provides links to better help small businesses understand how to get started with government contracts. It provides them with points of contact and keeps them informed of upcoming conferences in which we will be participating.

The Federal Procurement Data System is designed to be a central repository of statistical information on federal contracting that seeks to identify detailed information on contract actions over $25,000 and offers summary data on procurements less than $25,000. The system can identify who bought what, from whom, for how much, when and where and can be accessed at www.fpdc.gov. The replacement system (FPDS-NG) is coming online for fiscal year 2004 and beyond. It can be accessed at www.fpds.gov.

GSA also lists federal and military procurement opportunities worth more than $25,000 on www.fedbizopps.gov.

Regional Successes

There are five construction projects in the Great Lakes Region that epitomize small business procurement success.

- Of the $54.6 million in contracts for the renovation of the 536 South Clark federal building in Chicago, over $10.9 million is targeted to small businesses;

- Of the $30 million in contracts for the renovation of the Howard M. Metzenbaum Courthouse in Cleveland, $9 million is for small businesses;

- Of the $36 million for construction of the new courthouse in Rockford, the contractor plans to award over $8 million in subcontracts to small businesses;

- Of the $90.6 million in contracts for the renovation of the Major General Emmett J. Bean Federal Center in Indianapolis, over $32 million went to small businesses; and

- Of the $47.8 million in contracts for Phase II of the Carl B. Stokes Courthouse in Cleveland, over $9.5 million went to small businesses.

One regional small business success story is Flannery Construction; a small business headquartered in St. Paul, Minnesota, that has contracted with GSA for space renovation construction work. In 1997, they bid on and procured a contract with GSA. The state-of-the art daycare and playground at the Bishop Henry Whipple Federal Buildings is just one of the GSA landmark projects that highlight Flannery Construction's abilities. They have also been awarded an Indefinite Delivery Indefinite Quantity contract as they continue to thrive.

Innovative Procurement Ideas and Concepts

In our experiences with small business procurement, we have developed a few programs and designed a number of concepts that we believe could be used to improve the procurement process, and we are looking at them more closely to determine their viability. One initiative we are most proud of involves altering the payment date from the normal 23 days to within 14 days of completion. Potentially, this alteration allows contractors to have more capital on hand for other projects.

Other ideas include:

- Encouraging small contractors who lack resources to join in a mentor program, utilizing the mentor's experience and financial resources;
- Dissecting each prospectus project we embark on to see what fraction of work can be contracted out to small businesses; and
- Placing a small architectural and engineering firm under separate contract to perform some vital fraction of the design (cafeteria, landscaping, daycare) with the overall project architectural and engineering contractor serving as part of the board to approve the selection.

Closing

Mr. Chairman and Members of the Committee, the General Services Administration, and more specifically the Great Lakes Region that I oversee, is proud of its relationship with small businesses. We share President Bush's view that small businesses are the backbone of our economy. A healthy small business community contributes mightily to the health of our national economy. Although we are pleased with our efforts to promote the region's small businesses, we are never satisfied.

Thank you again for this opportunity, Mr. Chairman, to speak with you this morning. I will be happy to answer any questions from you or the other Members of the Committee.

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