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STRENGTHENING HURRICANE RECOVERY EFFORTS FOR SMALL BUSINESSES

HEARING

BEFORE THE

COMMITTEE ON SMALL BUSINESS AND ENTREPRENEURSHIP

UNITED STATES SENATE

ONE HUNDRED NINTH CONGRESS

FIRST SESSION

NOVEMBER 8, 2005

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STRENGTHENING HURRICANE RECOVERY EFFORTS FOR SMALL BUSINESSES

TUESDAY, NOVEMBER 8, 2005

U.S. SENATE,
COMMITTEE ON SMALL BUSINESS AND ENTREPRENEURSHIP,
Washington, DC.

The Committee met, pursuant to notice, at 10:01 a.m., in room SD–428A, Dirksen Senate Office Building, The Honorable Olympia Snowe (Chair of the Committee) presiding.

Present: Senators Snowe, Thune, Isakson, Vitter, Kerry, Landrieu, and Pryor.

OPENING STATEMENT OF THE HONORABLE OLYMPIA J. SNOWE, CHAIR, SENATE COMMITTEE ON SMALL BUSINESS AND ENTREPRENEURSHIP, AND A UNITED STATES SENATOR FROM MAINE

Chair SNOWE. The hearing will come to order, please. Thank you.

Good morning and thank you all for being here this morning. This is a very important hearing today. It is the second hearing that we are holding to examine the Small Business Administration's management of disaster loans and the SBA's overall disaster response. Regrettably, it is clear that strong and specific measures must be taken immediately to rectify the unacceptably slow service the SBA has been providing to small business owners in desperate need of assistance in a region that cannot afford to have its economic recovery held hostage to the plodding processes of paperwork.

The recent hurricanes are repeatedly and appropriately described as disasters of "unprecedented proportions." The SBA, therefore, has the responsibility to provide a response of unprecedented proportion.

We will hear from several administration witnesses, including Administrator Barreto, representatives of the Department of Homeland Security, the Army Corps of Engineers, the Government Accountability Office, as well as others from the Gulf region in an effort to find solutions and move forward with relief and rebuilding.

This hearing will also review contracting practices of Federal agencies and prime contractors to ensure that the interests of small business are met as Federal contracting dollars are spent in the Gulf region.

I have been working with the Ranking Member, Senator Kerry, and our colleagues on this Committee, most specifically Senator Vitter and Senator Landrieu, obviously representing Louisiana,

and they have been invaluable in providing guidance and recommendations on drafting legislation that is now currently pending in the Senate as, well as providing other significant and invaluable advice and counsel as to how we should proceed and what responses are necessary from the SBA to provide for the appropriate response. I want to thank Senator Vitter, who is here, for being very helpful to this Committee and for providing us with the kind of support that we need to make sure that we have an effective and efficient response.

We also heard from many in the region during the previous hearing: small business owners who represent Mississippi, Louisiana, and Alabama, and their challenges in rebuilding their businesses and their communities. I have also been consulting closely with Senators Lott and Cochran as we work to rebuild the entire Gulf region.

Yet, regrettably, even as the current problems in the Gulf persist, we unfortunately have the SBA that is continuing to oppose the legislation that I have introduced along with Senator Kerry, Senator Vitter, Senator Landrieu, Senators Cornyn and Talent (the Small Business Hurricane Relief and Reconstruction Act of 2005) that would give the SBA broader authority and flexibility to assist small businesses devastated by these hurricanes. What the SBA fails to mention or even recognize is the fact that the Agency's own objections have hampered our ability to rebuild the Gulf region with some of the specific tools that are included in that legislation.

As the primary Federal agency providing loans to individuals and businesses after a disaster, the Small Business Administration plays a pivotal role in disaster response and recovery efforts. It is absolutely vital that assistance is delivered quickly, effectively, and efficiently.

While some improvements have been made, the evidence suggests that almost 2 months after our first hearing, the SBA's response thus far has been insufficient to meet the needs of our small businesses. I find it deeply disconcerting that we are at the point that we are required to have a hearing to examine many of these issues. I know that the Agency in the recent weeks has made much improvement. We hope to hear from Administrator Barreto today on what has changed and what will continue to change to address this overwhelming problem.

But the fact is what has hampered our response, as well, is that SBA employees have responded that SBA does not want to change horses in midstream. Well, what better time for a new strategy than when something is not working? Clearly, the SBA's initial disaster response plan was not comprehensive and flexible. The SBA has taken 40 days or more to change many of its burdensome rules and policies, to expedite the disaster loan process, demonstrating a lack of urgency in its initial response.

For example, it has just started simplifying parts of the processing system, including its credit elsewhere test that adds hours to the process, and it has only recently initiated efforts to reach out to the private sector for assistance. The SBA should be proactive in responding to disasters.

The agency waited 2 months after Hurricane Katrina struck to ask trade groups for assistance in obtaining lending officers and

loss verifiers, a veritable eternity given the magnitude of the hurricanes and given the key role these employees have in completing the loan requests. Applications have been languishing for 8 to 10 days before being even entered into the computer for processing. The SBA should have immediately planned for a disaster assistance work force far larger than the current 3,952 workers and should have hired new employees from the public, sought referrals from trade groups and perhaps even requested employees from other Federal agencies.

Looking forward, it is absolutely essential that the SBA develop a comprehensive disaster response plan that would accommodate different scales of disasters. In addition, the SBA should work with State governments to determine their individual requirements on an annual basis so that they can coordinate their disaster relief efforts.

The numbers speak for themselves. As you can see in this chart that we have here on display, of the more than 225,000 loan applications received by the SBA, both from individuals and small businesses, only 38,000, or 17 percent, have been resolved by either being denied, approved, or withdrawn. Thus, 187,000 applications remain unresolved and are pending. Only 5,728 applications have been approved.

The figures are even worse when you consider small businesses exclusively. As of yesterday and our data that we have, only 10.1 percent of applications from small businesses have been resolved, and only 3 percent of business applications have been approved. Of the 28,500 small businesses that have requested loans, only 840 have been approved.

Over the last 20 days, the SBA has received about 5,400 applications per day and has resolved only 1,235 daily, which suggests that each day, about 4,100 more applications have been received than settled.

So consequently, in spite of the faster rate of resolving applications, and even if no more applications are submitted, it would require almost 4 months to complete all the pending applications. Can there seriously be any question of the necessity for SBA to move in a more effective direction? Additional personnel and alternative approaches are warranted to respond to this overwhelming demand.

The full resources of the Federal, State, and local governments must be brought to bear to deliver immediate relief. I repeat that I am committed to doing whatever is necessary and essential to providing meaningful support to the region.

Two weeks ago, I sent Committee staff to the Gulf region to examine the SBA's disaster loan processing facilities to determine the nature and extent of the reported delays in loan approvals. They returned with several recommendations that I have endorsed along with Senators Kerry, Vitter, and Landrieu.

Today, this Committee is eager to measure how they have been implemented. Some of our short-term recommendations include: the SBA should hire 1,000 additional employees for the Fort Worth processing center, including business loan officers and data entry staff to meet the current demand. The SBA should hire 450 additional loss verification officers to analyze damaged homes and busi-

nesses. The SBA should streamline credit tests for disaster loan applications to make them less burdensome. The SBA should hire at least five additional full-time procurement center representatives and five additional full-time commercial market representatives as well as leverage existing personnel and expertise to help small businesses with prime and subcontracting opportunities. The SBA and its resource partners should increase one-on-one business counseling and services to small businesses affected by disasters. The SBA should enhance its disaster loan computer system, the Disaster Credit Management System, to make it more efficient and effective for future disasters and expedite implementation of online loan applications.

I look forward to the administration's response to these recommendations as we discuss many of these issues today.

Finally, we will examine the serious problems faced by small businesses who seek to obtain Federal contracts, and here, we have representatives from the Army Corps of Engineers, the Department of Homeland Security to describe their reconstruction contracting for small businesses.

The Small Business Act directs the SBA to provide small businesses a fair opportunity to bid on government projects. To meet this standard, 23 percent of contracts must go to small firms.

Again, as indicated in this chart that I have here that we will display, what Secretary Gutierrez said recently at a small business conference, he said that 72 percent of Federal contract dollars for post-Katrina recovery, not including subcontracts. Well, that claim is astounding, and I question how the administration arrived at such a figure.

The executive branch is responsible for informing Congress and the public about Federal contracting through its Federal Procurement Data System. But the system does not include up-to-date post-Katrina contracting information, and at the end of October, FEMA has yet to finalize the terms of $1.6 billion in no-bid contracts. How can the administration assert 72 percent of its contract dollars have gone to small businesses when this critical information is omitted?

Now, I know Administrator Barreto is going to say it is now 45 percent, but again, it is going to show 72 percent on one hand or 45 percent on the other, and we have to address this gap. And what is the information that is available that is going to buttress and substantiate either of the figures? Because it is something that we have to get to the bottom of, because it is the lifeline for economic restoration in the Gulf region.

And so, in the final analysis in either case, the Administration has either neglected small business contractors or completely excluded them. For example, none of its Katrina supplemental requests provided any funding for additional procurement center representatives and commercial market representatives in the Gulf region despite this Committee's request to do so.

Small businesses have proven to be capable partners in Federal contracting. With so many losses for businesses already after the hurricanes, it is imperative that every Federal agency involved in disaster recovery meets and even exceeds the statutory goals for small business prime contracting.

Along with the House Small Business Chairman, Don Manzullo, I have requested the Government Accountability Office to investigate whether small and minority-owned businesses have been given a fair opportunity to compete for Federal and federally funded relief contracts and subcontracts.

The challenges confronting the victims of these hurricanes is so great, and the hardest work is still ahead. We must assist the people of the region to return to a normal way of life and to restore the businesses so that they can create an environment in which they can live and prosper. I will continue to work with Administrator Barreto, the Majority Leader, Bill Frist, the Administration and my colleagues, Senator Kerry, Senators Vitter and Landrieu so that we can continue to leverage the authority of the SBA to provide relief to those left without the means to rebuild their lives.

I urge the SBA to focus on finding a remedy for all of these problems that prevents and delays its front line employees from working in the disaster zones from assisting victims. With that, I would be glad to recognize Senator Vitter.

OPENING STATEMENT OF THE HONORABLE DAVID VITTER, A UNITED STATES SENATOR FROM LOUISIANA

Senator VITTER. Thank you, Madam Chair. I want to thank you and the Ranking Member for having this hearing today. It is very important.

Helping small businesses recover is one of the most important parts of Louisiana's recovery from Hurricanes Katrina and Rita. Never before has our Nation seen the situation that Hurricane Katrina has caused: an entire major metropolitan area evacuated and completely closed for weeks. And then, a few weeks later, we were hit again with another major storm. We must get jobs back now so that people can return. Small businesses are the life blood of our economy, and we need to help them get back up and running and provide opportunities for them to grow as we recover from the storms.

Clearly, the Small Business Administration can provide help "to get us back on track" with its programs to help homeowners recover with home rebuilding loans and with disaster loans for small businesses, but to this point, and I have to be frank, and I absolutely have to agree with the Chair, the assistance has been nearly non-existent.

I hope we can hear from Administrator Barreto today about what we can do, what his agency needs to get these loans moving much, much, much faster. Whether it is more staff, more funding, anything we can give you except more time, we are ready and willing to do. It is just unacceptable for small businesses to wait 60-plus days for emergency disaster loans for a disaster of this scale.

Every day, businesses are making decisions about whether or not to return to the area, and in fact, they are making decisions about whether or not they can continue. With zero cash-flow in the vast majority of cases, these small businesses need help in the form of grants and loans, and they need it now.

Now, apart from the timetable, the slowness of current SBA action, there is another real issue, which is that the traditional and current menu of SBA help has real gaps in it, at least with regard

to this unprecedented situation of Hurricanes Katrina and Rita. That is why I have been pushing hard to pass our Committee's bill for small business recovery, which would provide funding for bridge loans, allow for larger traditional disaster loans, expand other SBA programs, allow deferment of payments and other things to get businesses back up and running.

I appreciate all of my colleagues' work, including the Chair and the Ranking Member, who have pushed this legislation. Louisiana absolutely needs this bill, and we need it now, and we need everyone's help: this Committee, the Senate, the Congress, and the President, to get this done before we adjourn this year.

Also, I would hope we can look at still other alternatives for the future of SBA disaster loans and its program to build on the GO Loan pilot that is getting underway. Perhaps instead of the SBA being the direct lender for disaster loans, we could convert at least a portion of the disaster lending into a guarantee program, much like the regular SBA loan program. That way, the local financial institutions, who know their customers and could more quickly provide for enormous needs, especially after the storms of the magnitudes we have seen in Louisiana, would have a significant role.

Along with the SBA, the other agencies with us today are absolutely critical to our long-term recovery. The U.S. Army Corps of Engineers will be repairing our levees, and again, every day, businesses are making decisions about coming back or not, with this weighing very heavily in their minds. Not only must we quickly repair our hurricane protection systems to Category 3 standards, not just pre-Katrina levels, because many of these levees had settled to many feet below their design grade, but we must also set in motion specific, concrete, streamlined plans to get us to higher, Category 5 protection, and to get us there quickly in a reasonable timeframe.

I know we cannot have this level of protection overnight, but we need to take immediate steps that start this process. We need to have a streamlined process, and we need to communicate that to everyone, whether they are in Louisiana or evacuees in Houston or elsewhere who are waiting to hear this sign from the Federal Government.

Also, we have DHS's chief procurement officer here. We all know that we will be spending large sums of Federal money to help in this recovery, and that funding should be providing a double hit: reconstruction and local jobs. But so far, the amount of local jobs provided through these contracts is unacceptably low in comparison to out of State contracts. We need to strengthen small business and local contracting goals both for the Government direct contracts and for the subcontractors to the prime contracts, perhaps with incentives to reach or penalties for not reaching these goals.

I understand the need for fast response. Maybe some of the big companies were the only ones who could do it in the absolutely immediate aftermath of the hurricanes. But we are well past that stage now. So there has to be something in between no-bid megacontracts instantly offered and then a recompete of those initial contracts that is expected to take well over a month. Again, time is critical. Not only do we need much recovery work done, but

we also need it done by local folks so that the economy can get up and running.

I look forward to hearing how our witnesses are working to speed things up, cut red tape, expedite our recovery from the largest natural disaster in our Nation's history. And again, I want to thank Senator Snowe for having this hearing, and I look forward to continuing to work with the Committee and these and other Federal agencies and most importantly small business owners in Louisiana to rebuild our State and our economy.

Thank you, Madam Chair.

Chair SNOWE. Thank you, Senator Vitter, and thank you for your invaluable advice that you have given this Committee.

Senator Kerry.

OPENING STATEMENT OF THE HONORABLE JOHN F. KERRY, A UNITED STATES SENATOR FROM MASSACHUSETTS

Senator KERRY. Madam Chairwoman, thank you very much for having this hearing today. Congressman, thank you for bearing with these opening statements, but this is an important hearing, and you know, I almost do not know where to begin.

I know there is sort of a perception that the Administration comes up to these hearings, and Senators sort of vent, and then, everybody goes back to business as usual. Well, I am kind of tired of it. And somehow, we have got to find a way to get this process to mean something more, because real people's lives and real people's businesses and the economy of our country is at stake. This is not a game.

I almost, you know, hesitate to ask questions of the Administrator, because frankly, we have not been given the straight answers over the course of time. On September 21st, weeks after the end of August when the hurricane hit, we had a hearing, and we nicely and appropriately and responsibly asked questions about what the response would be. And I remember specifically asking how long it took to get disaster loans processed, and we were told by the Administrator that it takes 21 days. And we were confident, the Administrator said, of our ability to be able to deliver.

It has not happened. It has not happened for all of the obvious reasons that every single of one of us sat here and said. There are problems, and there are going to be problems. And it is really only a symptom of a larger problem. You know, the challenges faced by small businesses that are trying to participate in Hurricane Katrina contracts are problems that we see throughout the procurement system. There is a lack of transparency, a lack of accountability by agencies, and very little leadership by the Administration to try to correct the problems.

Mr. Administrator, you have presided over a reduction in the budget of the SBA, and you have presided over a reduction in the capacity of the SBA to deliver in America. You may shake your head and say no, but the budget has gone from $1.1 billion in 2001 to $593 million, and on May 20 of this year, the SBA Inspector General stated that approximately 87 percent of the contracts reported to the SBA as potential bundlings are not reviewed, not reviewed, 87 percent.

This is the accountability for the American people. The Committee has repeatedly pressed the SBA to increase the number of procurement center representatives. There are currently 58 individuals with PCR duties and fewer than 35 full-time PCRs to monitor over $300 billion worth of Federal contracts. Currently, only 4 PCRs are assigned to small businesses in the Gulf region to ensure that they get their share of the $40 billion of emergency recovery funds. There is one PCR assigned to Louisiana, two assigned to Mississippi, and one assigned to Alabama. That is a disaster in the making, not unlike the hurricane itself.

Madam Chair, we all understand that the hurricane posed certain problems, but I do not know how many people saw Brian Williams' report the other night talking about what it was like to be down there in the Superdome while people were dying and wondering where America's great military prowess and helicopters were and just a drop of MREs, just a drop of water would have made a difference. It never happened.

And now, it sort of continues. You know, the most recent report available, dated November 7, out of more than 28,000 applications received from small businesses, only 840 have been approved, notwithstanding all of the talk about how urgent it is to get people back quickly, how important it is to get people on their feet right away, how desperate businesses are for an immediate infusion of cash in order to be able to work.

Only about 2,500 small business applications have even been processed, and this is after more than 2 months and increasing staff from 800 to almost 4,000 employees, having been told, of course, that we would be able to do it without that. Let me quote the Administrator. Mr. Barreto testified on September 21, quote: "I would like to address head-on the misguided accounts of computer problems in the Office of Disaster Assistance. Nothing could be further from the truth." Mr. Barreto said. "This system has been in use since December of 2004. All of this is an improvement over our old system, and we have used it successfully already for over 15,000 applications."

Well, talk to the small businesspeople and see if they see any indications that the SBA was ready to fully scrap the old system and rely on the new system, and we still do not see indications that there is in place the management to oversee the various components of the disaster loan program in an efficient way.

We sent staff down there to the region, bipartisan, including Mr. Nigel Stephens of my staff, to see how this was working. Sitting in Fort Worth were stacks of applications just waiting to be entered into the data system, applications that took a whole week before arriving in Fort Worth and then sat awaiting data entry for 10 to 14 days. In Louisiana, no one knew who the contracting specialists were or even how to contact them.

In follow-up meetings, SBA pointed fingers at the IRS and FEMA and indicated a serious disconnect between headquarters in DC and the offices in Louisiana and Fort Worth, out of touch with the gaps at the local level. In fact, SBA's Washington staff made recommendations that the Fort Worth staff said they did not need.

Contracting opportunities for small businesses are equally as challenging. We have all heard the preliminary reports that ap-

proximately 90 percent of contracts as of October 3 were awarded to companies outside of the affected area. Today, we still hear from the Army Corps of Engineers and the Department of Homeland Security, the two agencies responsible for the majority of the contracts, that this is the situation. We will hear from them in awhile.

So I do not know. I am pretty sure of what I am going to hear today. I am not sure of what is going to happen tomorrow. I am confident of the protestations to the contrary that will be put forward today. I am not confident of the changes that will be put in effect and the response that Americans deserve.

So Madam Chair, I am glad we are here today. It is important to have these oversight hearings, but it is much more important not to have them at all because things are working well. It is much more important to have real leadership that puts in place the processes and puts the oversight in place. And I just think this is a tragedy for the SBA, and more importantly, it is a continuing tragedy for far too many people whose lives depend on the response of Government.

Thank you.

Chair SNOWE. Thank you, Senator Kerry.

Senator Landrieu, and I want to express my appreciation to you, as well, for your tireless commitment to bring relief to your State and guiding us on the Committee and how best to do it.

Senator KERRY. Before Senator Landrieu speaks, I will just mention one thing you were not aware of: You and I have worked diligently with this Committee to get an emergency hurricane response. It passed the U.S. Senate 96 to 0. It has been sitting in limbo between the House and Senate, and just last Friday, it was cut out of the Commerce, Justice, and Science appropriations conference by the Republicans.

It has an emergency response, emergency lending. It has what we need, and it was cut by the Republicans. I just want to make that absolutely clear. I raised this issue with Senator Frist on the floor last week, and we get this talk about how we are going to look around. It is all politics. Politics as usual in Washington, D.C. is screwing a lot of Americans, and they deserve better.

Chair SNOWE. Senator Landrieu.

OPENING STATEMENT OF THE HONORABLE MARY LANDRIEU, A UNITED STATES SENATOR FROM LOUISIANA

Senator LANDRIEU. Thank you, Madam Chair. I will try to be as brief as I can. There are so many things I want to say, but I will try to be brief, because I am looking forward to the panels, and Congressman, thank you for being here and being so patient. I know you have a difficult schedule, but this is a very important matter.

I would like to go on the record following up on something that Senator Kerry said to begin with, to commend the leadership of this Committee. Madam Chair, you could not have acted more quickly. We called a hearing on this Committee I believe within 2 weeks of the storm; got the SBA executives here to talk about what they needed, what they could use, how we could expedite matters and produced in record time a bill that has passed the Senate with over 20 significant items that could expand current authorizations

that could give immediate help to the thousands of small businesses that are desperate, desperate along the Gulf Coast.

They want to get back into business. They want to help rebuild their region and their homes and their communities. They want to be part of the rebuilding effort. They are willing to take risks, as all business men and women do. But they are getting very little real support from the Federal Government; a lot of talk, a lot of promises, not a lot of support. This bill (the Snowe-Kerry-Vitter-Landrieu, et al.) is waiting to be passed. We cannot wait much longer.

When the President came to Jackson Square, he said it is entrepreneurship that creates jobs and opportunities. It is entrepreneurship that helps break the cycle of poverty, and we will take the side of entrepreneurs as they lead the economic revival of the Gulf Coast region. This is a tough statement, but I am not sure this Administration is on anybody's side in the Gulf of Mexico today, and I think that the statistics that will come out at this hearing will prove this point.

Our businesses, thousands of them, were wiped out by a wall of water. The SBA assistance is being doled out in a trickle. Small businesses in the Gulf are not getting their fair share of Government contracts to rebuild the region that they love, that they have lived in for decades and that they want—and they are proud to be able to rebuild.

I am going to show some statistics very quickly and to talk, because the general points have been made, but I want for the record, because these businesspeople cannot all be here today, but for the record, Dr. Edwin Lang, a podiatrist, had eight employees before the storm. He had 5 feet of water. His building was completely devastated. They applied to the SBA. The SBA has told them it would take 2 to 3 months for a loan officer to even look at the application.

Dr. Lang has been contacted by hospitals in other States, and the latest is in Great Britain, who wants to recruit his whole business to come to Great Britain, and I hate to tell you, Madam Chair, this business might make the decision to go. The chances of Louisiana getting this podiatrist back—I just want to show you a picture of the operating room. Now, he has been in business successfully for many years. Please show the files, too, that were underwater.

Let me go real quickly to Evans Industries. Janice Hamilton is the owner and CEO. This company did all the right things after Katrina. They made temporary repairs, acquired generators to test their equipment, got their employees FEMA trailers, which is a hard thing to do, so they could move in on company property, company property.

Rita hit. They got wiped out again. This is her quote: "It is simply taking the SBA too long to process our loan applications. If something is not done, there are a lot of companies that are not going to survive, including ours."

Let me give you the final from David Guidry. I think he testified before Senator Vitter's excellent field hearing in Louisiana. He says, "I cannot tell you how many struggling businesses are counting on the cavalry to arrive. Instead, the running joke is that SBA disaster funds loans are like UFOs. Everyone knows they are out there, there have been some sightings, but I do not know if anyone

has actually seen one." This man says that he has counted on the SBA to help build his business where it is. He likes the SBA. He has worked with the SBA, and now, in his hour of desperate need, Madam Chair, he cannot find them.

I will end with this: we have cut back the SBA. The streamlined programs we have put in place are not working. We have computers making decisions about whether to lend people money or not. We need human beings with heart. We need human beings with compassion. And we need a lot of human beings with intelligence to help us get our entrepreneurs set back up.

If we cannot do this and also invest in the levee system that our delegation has been talking about, I frankly do not see how we are going to rebuild the Gulf. Finally, we are going to show statistics today that show that none of the States are being treated very well, not Mississippi, not Louisiana, or Alabama, but the ratio of help to Louisiana is even less when our need is so much greater. And I am going to submit this, Madam Chair, to the record. But you can see that for all the storms in the past, the rate of application approval has been up to 45 percent. Hurricane Ivan, I think, was 35 percent. We are still down 14 percent, 23 percent for Katrina.

So something, Madam Chair, is not working. Either the systems that we put in place are not working and really shortchanging us, or there is just a lack of political will, or I am not sure. But we need to get to the bottom of it. We need to pass your bill and then move on to other things that might be helpful.

Thank you.

[The prepared statement and attachments of Senator Landrieu follow:]

Statement of Senator Mary L. Landrieu
for Small Business Committee Hearing on
Strengthening Hurricane Efforts for Small Businesses

Promises Made, Promises Not Kept

Madame Chairman, as you know, following Hurricane Katrina, President Bush came to New Orleans with many promises on how he was going to rebuild the Gulf. According to the President, small businesses would be an important part of this rebuilding:

> "It is entrepreneurship that creates jobs and opportunity; it is entrepreneurship that helps break the cycle of poverty; and we will take the side of entrepreneurs as they lead the economic revival of the Gulf region."

Since then, I have seen little evidence that this administration is on anyone's side in the Gulf, least of all the side of local small business owners and entrepreneurs. Our businesses were wiped out by a wall of water and Small Business Administration (SBA) disaster assistance is being doled out in a trickle. Small businesses in the Gulf are not getting their fair share of government contracts to rebuild the region.

Despite the time that has passed since the hurricanes and the promises that were made, businesses in our state have still not received the assistance they need, let alone deserve. In Louisiana only 2.9 percent of business applicants for disaster loan assistance have been approved by the SBA for Katrina assistance. Less than one percent of applications have been approved in Louisiana for Rita assistance.

The SBA has the same shameful record for all of the states that have been hit by Katrina: Florida is at 9 percent; Alabama is at 15 percent; and Mississippi has a 4.2 percent approval rating. The record is no better for Rita; only 2 percent of Texas applicants have been approved for assistance. This is not a record of an administration that is on the side of entrepreneurs.

Katrina and Rita Approvals are Lower than Past Disasters

The figures I just mentioned include all applications received by SBA from hurricane victims. SBA has a huge backlog and many of these applications have not been reviewed. Even if the scope is narrowed to just applications that have been approved and denied, the approval rates for Katrina are still far lower than the approval rates of other disasters.

To date, only 12 percent of all Louisiana loan applications that have gone through full processing have been approved for disaster assistance. I have developed a chart to address that highlights this problem. When compared to other disasters, Katrina victims have been turned down at a higher rate. Following Tropical Storm Ivan in 2004, disaster loan applicants from Pennsylvania were approved at a rate of 43 percent. Puerto Rico

had a 29 percent approval rating after Tropical Storm Jeanne in 2004. In summary, the Katrina states are not seeing as many loans approved as we have seen for other disasters, including other hurricanes.

Yet the SBA's response, time and again, is that this percentage will gradually increase as time goes on and they are able to process more applications. However, my concern is that many Louisiana businesses will not survive long enough to see this percentage increase. I am afraid by that time, it will too late for them and for Louisiana. I would like to submit my chart for the record, which outlines the unfair treatment Katrina applicants are getting in the current SBA disaster loan programs.

Waiting Means Losing

The disaster loan approval situation is made worse by the amount of time our businesses have to wait for assistance. It is taking the SBA two or three months to process disaster loans. Our businesses do not have that kind of time. The longer they have to wait, the less likely they return. The administration and the SBA do not seem to realize this fact. Forty-three percent of businesses that close for a disaster never reopen. An additional 29 percent close down permanently within two years. The longer these businesses have to wait, the more businesses we will lose.

Let me tell you the stories about some of the businesses we are at risk of losing. Dr. Edward Lang is a podiatrist in New Orleans. Dr. Lang and his wife Angela run their business together, and they had eight employees before Katrina. Their office had five feet of water and the building was completely devastated. I would like to submit a picture of their water-damaged patient records for the record. They applied to SBA a month ago but the SBA had told them that it will take another two or three months for a loan officer to approve the loan. Dr. Lang has been contacted by hospitals in other states and in Great Britain to come there and practice. Angela, his wife and business partner told us:

> "If we don't get help within the next couple of weeks, we will have to move out of Louisiana and start over elsewhere. They are making it very attractive to doctors to move there and we feel abandoned here! My husband and I are both 'dyed in the wool' New Orleanians. Our savings, now seriously depleted as we await an SBA loan, may last a few more months at best. Our application for loans and grants has been buried under red tape, and we are now forced to consider leaving the city in which we grew up and which we love."

I would hate to see fellow New Orleanians such as Dr. and Mrs. Lang start up elsewhere, but as a mother, I understand that they have children to take care of. The SBA is not giving them many other options.

Evans Industries in Harvey, Louisiana is another business that we might lose. They make steel drums and other packaging equipment for the oil industry and have been doing so for 75 years. They have more than150 employees. I would like to submit this

picture of their manufacturing facility for the record. Janice Hamilton, the owner and CEO, told us that their company did all the right things after Katrina hit Louisiana. They made temporary repairs, acquired generators to test their equipment; got their employees Federal Emergency Management Agency (FEMA) trailers so that they could move in on company property. They were able to get up and running after Katrina, but then Rita hit and it wiped a lot of Evans's customers in Southwest Louisiana. They have been waiting for over a month now to hear back from the SBA on their disaster loan application. According to Ms. Hamilton, "It is simply taking the SBA too long to process our loan applications. If something is not done to expedite this process, there are a lot of companies that are not going to survive the aftermath of these unprecedented storms."

Another business impacted by Hurricane Katrina is Guico Machine Works of Harvey, Louisiana. Guico manufacturers oil and natural gas equipment and before the storm, it had 60 employees. After the storm, they are now down to 12 employees and although they are now starting to get orders from customers, they have no employees to fill them. David Guidry, President and CEO of Guico, says he could not have built his business without SBA loans. He likes the SBA. But the SBA has failed him in this time of need:

> "I cannot tell you how many struggling businesses are counting on 'the Cavalry' to arrive in time and help us. [I]nstead, the running joke is that SBA disaster loans are like UFO's. Everyone knows that they are out there and there may have even been some sightings of some, but I do not know anyone who has actually seen one!"

That quote in particular disheartens me. This is someone who has worked and had a good relationship with the SBA in the past but now, instead of a trusted partner, Mr. Guidry sees the SBA and their disaster loans as a punch line.

Lastly, let me talk about Cosmetology Business Management Institute in New Orleans. Taquillah Hamilton is the owner of this business and a partner in Divine Appointment Salons. Her beauty school graduates over 100 students a year, many of whom are on welfare. Most of these students then go on to become independent entrepreneurs. Ms. Hamilton herself started out on welfare, but along with her husband has built a successful business from the ground up that truly gives back to their community. She not only graduates cosmetologists and helps give them a start but also give these new entrepreneurs business and tax advice as they start out on their own business ventures.

Mrs. Hamilton's building was struck by lightning during the hurricane in addition to the other damage they suffered in Katrina. She applied for SBA disaster assistance and was asked to give additional information. This was more than a month ago. She provided the additional information and has not heard back since. Ms. Hamilton told us: "I cannot get accreditation and get back to work, because to do that I need to have money to pay my staff, have the building fixed, and get an inspection. The SBA needs to respond immediately or we will not be able to be in business in 2005."

I doubt that Administrator Barreto hears stories such as these on his trips to the disaster areas. If he does not, then I hope he is able to see that our businesses are unsatisfied with the SBA's performance and expect improvement from the SBA. If we look at the SBA in terms of customer satisfaction, based on these stories, I do not believe they would receive a satisfactory score. I would like to place the full statements from these Louisiana businesses into the record.

The administration's actions are sending the message that it does not want these small businesses back; let your employees move elsewhere, move your business to England. These businesses are struggling, in some cases on their knees, and to add insult to injury, they are being told to call back later. Is this what the President meant by 'taking the side' of entrepreneurs?

Small Businesses Need Immediate Capital

These businesses and thousands like them in Louisiana and the Gulf Coast Region need immediate capital. That is what I hear from small businesses and banks. They want to pay their employees, rebuild facilities, and equipment. The longer they have to wait for the SBA, the less likely they will survive.

The Senate has done its part to help these small businesses by passing legislation that would make bridge loan funding available to states. The legislation provides short-term financing to businesses that are waiting on the SBA and their insurance companies for help. This bridge loan provision passed 96 - 0, as part of the Commerce, Justice, Science (CJS) Appropriations bill. House Republican conferees opposed the provision and stripped it out at conference. The conference action was the second time in a week that Congress failed to provide immediate assistance to businesses in the Gulf Coast Region.

In another attempt, I along with other Senators introduced this as separate bill, S. 1807. It contains the bridge loan funding as well as a number of other provisions to help small businesses. However, the administration opposes many provisions in this bill, as well. I have asked both the Office of Management and Budget (OMB) and the SBA for a written explanation of their objections to S. 1807. Much like Louisiana businesses, I am still waiting for a response.

Contracting Practices

Another important aspect for our small businesses is that they have access to FEMA contracts for rebuilding their communities. This seems like an obvious way to both help small businesses recover and to give them a stake in rebuilding their shattered communities. However, the system in place for rewarding contracts for recovery and rebuilding work in the Gulf favors larger businesses over smaller ones. According to a *New York Times* article from September 26, 2005, more than 80 percent of the $1.5 billion in contracts awarded by FEMA for rebuilding and recovery in the Gulf were no-

bid or limited competition basis. Small businesses have a difficult time competing for these large contracts.

In addition to these contracting problems, Louisiana companies are not getting the work produced from these products. According to a *Washington Post* article from October 4, 2005, 90 percent of prime contract dollars awarded for Katrina relief have gone to companies located outside Louisiana, Alabama, and Mississippi. We will not have economic recovery in the Gulf if our small businesses are locked out of getting government contracts for rebuilding their own communities.

This administration is not on the side of entrepreneurs, much to the contrary of the President's many promises. I realize that the problems with government contracting and procurement are a larger issue that pre-date Katrina and Rita. However, it has happened in Afghanistan and in Iraq, yet we have still have not learned our lesson and now it is happening in our own backyard. The Gulf Coast is not a foreign country; it is our Coast that provides the rest of the nation with energy, seafood, ports for our goods, among other things. This is our country and a home-grown problem, Congress should not need to address this issue. The administration needs to produce results to back up their promises that they would give our small businesses greater opportunities. Only then will we truly know whether the administration is on the side of the Gulf Coast entrepreneur.

Statement for the Record
Dr..and Mrs Edward M. Lang
New Orleans, Louisiana

To Senator Mary L. Landrieu:

Prior to Katrina, my husband's medical practice was on track to bill over a million dollars this year. His patient load was between forty and forty-five per day. Financially speaking, we were quite comfortable. We had no credit card or student loan debt and had managed to squirrel away a substantial nest-egg. I am thirty-five and my husband is forty. We have three boys ages seven, two and eleven months. We were due to close on a large, new family home the day the levees broke.

When the city flooded two days after the storm, the building in which we own and practice was ravaged. It had been engulfed in four feet of water for two weeks.

Now our patients are gone; displaced or relocated. Some have established new roots in Baton Rouge, while others have secured employment in other states. Ninety percent of the city's residents have not yet returned.

We are currently seeing patients in a Metairie location, and are paying a ridiculous amount in rent. With very little revenue being generated, we are struggling to pay basic operating expenses.

Many of our colleagues have closed their practices due to the lack of patients. Most have taken positions with groups outside of New Orleans. Those without savings had no choice but to seek employment elsewhere. We are struggling to remain in business, as my husband refused to abandon his practice.

He is now seeing an average of four patients per day. Most of them live outside the city limits and had homes that survived the flooding. Many are calling to inform that they have lost their job, and will not have insurance much longer. Two hundred fifty thousand jobs have been lost in New Orleans due to the detestation.

A month and a half ago, we applied for a Small Business Administration (SBA) loan. On November 2, I called the SBA to inquire about the status of our loan. At that time, I was informed that our loan was, at best, two months away from completion.

Subsequent to making application to the SBA, my husband and I applied for grants through the Louisiana Association of Business & Industry (LABI). They currently cannot find our application, and suggested we resubmit that paperwork.

My husband and I are both "dyed in the wool" New Orleanians. Our savings, now seriously depleted as we await an SBA loan, may last a few more months at best. Our

application for loans and grants have been buried under red tape, and we are now forced to consider leaving the city in which we love.

I am so saddened by the inefficiency of the Small Business Association. By not offering our business the immediate financial support needed , we will no longer be able to support the seven men and women in our employ. We will no longer have the means to pay our home or business mortgage. Our insurance claims have not settled, and we cannot afford the repairs needed to restore our building. We are staring into the abyss of our uncertain future; and it is full of red tape.

Thank you for the opportunity to share our story,

Dr..and Mrs Edward M. Lang
2626 Jena Street
New Orleans, Louisiana 70115

EVANS INDUSTRIES, INC.
Corporate Headquarters
1255 Peters Road
P.O. Drawer 68
Harvey, Louisiana 70059
Tel: 504-374-6000
Fax: 504-374-6001

November 7, 2005

The Honorable Mary Landrieu
United States Senate
724 Hart Senate Building
Washington, DC 20510

Dear Senator Landrieu,

This letter is written as a Plea for Help. We urgently need you to intercede on our behalf, and all the other small companies in Louisiana who have made loan applications to the SBA. We need your help if we are to survive after Hurricanes Katrina and Rita.

It is simply taking the SBA too long to process our loan applications. If something is not done to expedite this process, there are a lot of small companies that are not going to survive the aftermath of these unprecedented storms.

Evans Industries is a 75 year old, 55 gallon steel drum manufacturing and packaging business. We supply our products and services to the oil and chemical industry located in fourteen Southern and Midwest states.

Evans is a woman owned (majority of the outstanding stock) and managed business that employs 150+ people in the New Orleans metropolitan area. The Jefferson Parish Economic Development Commission (JEDCO) estimates that Evans indirectly creates another 200 jobs *(Indirect jobs figured using RIMS II multiplier of 1.2818 - Metal container manufacturing.)*

The majority of our employees are minorities, some of which live in the severely impacted areas of Orleans and St. Bernard parishes. Many have worked for Evans in excess of 20 years at wage rates comparable to the oilfield service industry.

Our company worked diligently to return to pre-Katrina-Rita production levels as soon as possible following these storms. Immediately after Katrina:

1. We temporarily repaired our facilities to mitigate further damage.
2. We acquired generators to test and repair our damaged equipment so we could return to production when the power was restored to our facility.

Senator Mary Landrieu
November 7, 2005

3. With the help of the Louisiana Economic Development office and JEDCO, we were able to acquire FEMA trailers to house our employees who lost or suffered severe damage to their homes. These trailers are set up on our plant site where we supply all the necessary utilities.
4. We took care of each other by sharing resources and gathering supplies for each other, (e.g. office staff gathered FEMA and other donations of food, water and clothing for the plant workers while they worked during the day.)
5. We continued all benefits for all employees and pay for all salaried personnel.
6. We gave wage increases to compete with the hurricane created rising wage rates.

We worked hard to be back in production as soon as possible after Katrina, but then came Rita. Unfortunately, a certain percentage of our customer base is located in West LA and East TX. The damage done by Rita in these areas caused a slowing in our recovery to pre-Katrina business levels.

We have now expended most of our cash reserves and find ourselves at the mercy of our insurance company and the SBA. Our insurance company began the adjustment process in mid October and has given us a small advance on our insurance claim,

We filed our application for an SBA loan on October 5, 2005. We were told that they would have an inspector contact us last week and that it would take approximately one month to process our loan. We have not heard from the inspector.

We have to begin paying for supplies and materials used in the reconstruction process. MOST IMPORTANTLY, WE HAVE TO CONTINUE PAYING OUR EMPLOYEES. We are not going to survive as a business if we do not get immediate action on our loan application by the SBA.

Any assistance you can give our company and our 150 employees will be greatly appreciated.

Thanking you in advance, I remain,

Very Truly Yours,

Evans Industries, Inc.

Janice E. Hamilton

Janice E. Hamilton
Chief Executive Officer

Statement for the Record
David Guidry
Harvey, LA

We are an oil and gas equipment manufacturer who was in the middle of the best sales year in our twenty-three year history. Our company had sixty employees churning out wellheads and related products in our plant located on the Harvey Canal in Jefferson Parish. Pre-Katrina our business had accounts receivable of nearly $1,000,000 from sales of $400,000,000 per month. However, after Katrina hit, our sales in September dropped to zero. In October, sales were $80,000. The problem for my business is that for six weeks, the mail delivered no checks and while our customers are still giving us orders, we have no shop employees to fill them. We are down from 60 employees to12 because we are having trouble making payroll. However, we have a facility full of materials and machinery that is sitting idle.

Suppliers put us on COD, core management employees had to be paid, and loan relationships had to be met. Deferments were later offered, but the auto drafts had already been taken. My community bank was underwater and is in no better shape than my business. The Small Business Administration (SBA) and its disaster loan program is our only way out of this situation. Three weeks after Katrina hit, our business attended a seminar at Southeastern University regarding the disaster procedure process. Our application for SBA disaster assistance went out one week later. Other than the reports we hear from SBA representatives at small business gatherings, we have heard nothing back from them. I have had three different prior loan relationships with the SBA and could not have built my company without their help. Their thoroughness and due diligence is to be applauded as a government agency really helping businesses in normal times. However, Katrina is anything but normal times. I have applied and been approved for normal SBA loans and they do a good job on those, but in this emergency situation, the SBA is failing me and my business.

I am an active member of several business organizations and have chaired several of them in the region. I cannot tell you how many struggling businesses are counting on "the Calvary" to arrive in time and help us. But, rather than seeing "the Calvary"come down here and help, instead the running joke is that SBA disaster funded loans are like UFO's. Everyone knows that they are out there and there have been some sightings of some, but I do not know anyone who has actually seen one. That is why I was happy Louisiana started their bridge loan program. Although I have heard nothing back from the SBA for over a month, I applied for a bridge loan through the State of Louisiana program and got it within seven days. This program goes through local banks, so I just went into my local bank, a bank that knows my business and already has my credit history, and they got me a response quickly. That is how things should work, businesses need immediate capital to make repairs, make payroll and get back on their feet - in two to three months many of these businesses will be gone, maybe forever.

Let me contrast my experience with the Louisiana bridge loan program with my experience with the SBA disaster loan program. To date, we have received no acknowledgment that the SBA is even in receipt of my loan package, not to mention any word back as to when I can expect to get any funding. We knew to send our loan package certified mail, but how many

business knew this? At a minimum, for the sake of customer service, the SBA should have an acknowledgment sharing some idea of the process and the length of time should have occurred. Perhaps, after receipt of a loan package, the SBA could arrange a timely site visit. This way they could have proof of a storefront to slow fraudulent claims, and then they could give an assessment of whether a re-building loan or life sustaining loan is needed.

Also, perhaps the SBA could allow businesses to use present banking relationships to help in the underwriting of the loan. Along the same lines, I suggest they use the local SBA office for greater input, as they know the local business and local landscape. Maybe they could form an "express line" process for prior SBA customers. You already know these guys so maybe that could help in the future to get businesses with a history with the SBA their loans quicker. For the next disaster, this would help out affected communities since if some businesses get loans, this would help other businesses in the area while they are waiting for their loans to come through.

Another suggestion that I have is to provide online tracking of the status of your loan. This way you could track when it is received, when it is being processed, and when you could expect to hear something back. They have online banking, online package tracking, the SBA should allow businesses to track the process online as well. The current system is not providing us with any information, and more importantly any certainty. Our business is making day-to-day decisions based on the availability of funds. I applied for $1, 500,000 and need some certainty. I have no idea if I will receive that amount or if I will get nothing. But at this point, given how things are going, I have to plan as if it will be nothing so my business, my family and my employees can get by. I do not have a clue on when the money is coming, if it's coming, so I cannot plan and cannot spend a dime. If I had some certainty, I could make a business plan but this is just crazy not having funds and any certainty as to how/when I can expect to hear back!

Thank you,

David Guidry
President/CEO
Guico Machine Works Inc.
1170 Destrehan Avenue
Harvey, Louisiana

November 6, 2005

Taquilla Fedison Hamilton
7649 Shorewood Blvd.
New Orleans, La 70128-2120

Dear United States Senator Landrieu;

I write to share my experience with the venues established to help recovery efforts resulting from Hurricane Katrina along the gulf coast area. My families lived in east New Orleans and Harvey, LA. We owned and operated community services and career development businesses near the Lakefront area and in Gretna. When recovery and redevelopment were first spoken by various governmental levels I had great **expectations** of being a participant in the recovery of Metropolitan New Orleans. As time wears on and deferments (business and personal indebtednesses) are soon to come to an end, my **expectation** is diminished second only to my own finances, and capacity to repay my investors. Specifically, insurance companies, the Federal Emergency Management Association, and the Small Business Administration have all failed my family and the families of our combined twenty (20) employees who were also, very hopeful. This is tragic for many reasons. Our salons and small businesses served New Orleans' communities for over eleven years as; a job source for the **basic** curriculum graduates of other family owned businesses of Metro New Orleans; John Jay Beauty College, Stevenson's, Sidney Collier VoTech School and (formerly), Moler's Beauty College. We provided advanced beauty professionals' skills, management and business training school relative to the most advance science of hair, skin, and scalp care. We feel confident to ready employees and professional candidates never requiring living again totally dependant upon welfare to meet the basic.

Divine Appointment Salons, LLC was located at 5215 Elysian Fields Blvd., New Orleans, LA 70122, privately funded and qualified the development of more than two dozen successful entrepreneurs using our beauty **salon professionals' business development program**. Our definition for success is measured by the fact that those newly graduated beauty school professional candidates completing our 2 year program earned an average of $36,000.00 annually. Those continuing a third year earned up to 58,000.00 plus, translating them from employees into their own personal small business success stories. What started out as an effort of a former welfare recipient and single parent's desire to assist a daughter to realize her dream, turned in to a campaign to address the major reasons why small salon /spa businesses fail and few of meager beginning gain reputations of an upscale salon? It is most rewarding and brings worth to the experiences that have made and makes us credible to all those we have helped and those we desire to help change their social and living standards. The demands of our 6500 (and growing) client base and the challenge to facilitate the expansion of our **salon professionals' business development program** was met with opportunity to rescue what was one of the oldest beauty schools in America (formerly, Moler's Beauty College). With this acquisition and miracle, **Broham Enterprises LLC d/b/a Cosmetology Business and Management Institute, LLC** located **59 Westbank Expressway, Gretna, LA, 770053** (possessing accreditation by the National Accreditation Commission for Cosmetology Arts and Sciences) would now serve to produce beauty industry professionals, manager and entrepreneurs capable to satisfy this growing industry's demands. In addition, our employees and students experienced positive character development and enforcement, learning; to make tough choices, discipline, sacrifice, and relationship building skills; to get involved in the governing, lawmaking, policy enforcing processes; the value and responsibility; to contribute to the economic development of our community at large, and that we are all directly responsible for the future of our own. Healthy

Business Enterprises should nurture and support those that are more vulnerable to failure. Every industry should be specific to its self to relieve the burden of our governmental agencies to provide for the masses. Personally, this is what I believe. I looked forward to creating a pretty good size bridge, utilizing the beauty industry, as a viable one way exit out of the cycle and off of the welfare rolls. Senator Landrieu, I pray that you do well in rallying support for Louisiana's small businesses. We can not let the people down who trust us and dared to believe through our eyes. **Cosmetology Business and Management Institute has the potential to produce 100 marketable beauty industry graduates annually.** It seems wise to me to focus on the recovery of the small businesses for the restoration of the communities. Providing this money to Louisiana would serve as the best plan to redevelop a community and interest for helping by potential private industry sectors.

If telling the truth about having insurance warrants reason for **FEMA to withhold emergency financial assistance**. It's obvious that this system need tweaking. Following is a description of my most recent experience. Last Friday I was told that my request for assistance was still pending, and that when an adjustment is made in your application it put you at the bottom of the stack of apps. Yet I have received phone calls from FEMA informing me that my areas have been declared a total disaster. FEMA's website leaves me frustrated along with the automated telephone promptings. It is such a cold experience. **SBA has turned me down requesting further information, which, by the way, could have been provided had the untrained or unlearned SBA Disaster Relief Assistant requested it**. Our collective information was anticipated and available. **Having provided the additional information HAS NOT EFFECTED A DIFFERENT DECISION. It's been more than a month.** Please don't misunderstand my intent. Do recognize that we are grateful and appreciative. Having traveled extensively, I wouldn't want to have been hit by Katrina in any other country. **Help us to qualify or/and award the grants immediately.** No business can survive without doing business. On behalf of Louisiana's small businesses I entreat you and all decision makers listening to or reviewing my story to allocate $200,000,000.00 to Louisiana's Small Businesses recovery effort. It is obvious that New Orleans was most devastated by Hurricane Katrina suffering the greatest hardships to recovery and having that compounded greatly as a result of Hurricane Rita. It is reasonable to expect that it will take at least 50% of the emergency funds allocated for small businesses in the gulf coast area. Take courage and confidence in that decision based on American history that has proven that small and family owned businesses have been and are critical for the building or rebuilding of communities.

Sincerely,

Taquilla Fedison Hamilton,
Partner, Divine Appointment Salons
Owner, Cosmetology Business and Management Institute

TFH/

cc: Governor Kathleen Blanco, Louisiana
Mayor Ray Nagin, New Orleans, Louisiana
Mr. James W. Parks II, Louisiana Public Facilities Authority
Mr. Roy Mack, Louisiana Economic Development Office

Small Business Administration Disaster Close Out Figures
FY 2004 - FY 2005

Declaration Date	Disaster	State	Applications Processed	Applications Approved	Percentage
10/27/2003	Wildfires	CA	6,086	1,700	41%
6/30/2004	Tornadoes and Flooding	MI	13,334	2,825	31%
9/15/2004	Hurricane Ivan	AL	24,379	2,642	30%
9/19/2004	Tropical Depression Ivan	PA	8,426	2,178	43%
9/21/2004	Tropical Storm Jeanne	PR	11,687	1,363	29%
08/29/2005	Hurricane Katrina	LA	26,620	3,100	12%
08/29/2005	Hurricane Katrina	MS	14,429	2,604	18%
08/29/2005	Hurricane Katrina	AL	2,468	481	19%
08/29/2005	Hurricane Katrina	Total	43,517	6,185	14%

Source: Small Business Administration Disaster Close Out Summary Reports FY04, FY05 and SBA Disaster Update Report Hurricane Katrina 11/10/2005

Chair SNOWE. I thank you, Senator Landrieu.

Senator Pryor.

Senator PRYOR. I do not have anything, Madam Chair.

Chair SNOWE. Thank you.

Chair SNOWE. Our first witness is Congressman Bennie Thompson from Mississippi's Second District. As Ranking Member of the House Committee on Homeland Security, which holds jurisdiction over FEMA, and an elected official from a hurricane-torn district in Mississippi. Representative Thompson is uniquely positioned to discuss many of the issues that we will be addressing here today, and I know he has been a leader in the House on Federal Government disaster response, relief, and preparedness as a result of these three hurricanes.

So thank you, Congressman Thompson. If you want to summarize your statement, we will include the entire statement in the record. Welcome.

STATEMENT OF THE HONORABLE BENNIE G. THOMPSON, A UNITED STATES REPRESENTATIVE FROM MISSISSIPPI

Representative THOMPSON. Thank you very much, Chairwoman Snowe, Ranking Member Kerry, other Members of the Committee. I appreciate the opportunity to come and give you a little personal opinion, like most of you have, about the response.

I come here today wearing two hats. First, I represent the Second District of Mississippi, which was affected by Hurricane Katrina. While we were spared the brunt of Katrina's force, the wind and rain which accompanied the hurricane caused major interruptions of services. The second is I am the Ranking Democrat on Homeland Security with some of the jurisdictional responsibilities for disaster preparedness and terrorism response.

Basically, I agree with everything that has been said by each Member who has talked so far. Absolutely, FEMA's response was totally inadequate. I was very disappointed by what I saw, like many other people. But what we need to do now is move forward to try to correct it.

What Congress did initially was to respond by appropriating $62 billion in disaster response, humanitarian relief and recovery assistance to the victims of the tragedy. Unfortunately, as we looked at how these funds have been spent, clearly, there has been accusations of mismanagement, waste, fraud, and abuse. I have also watched how the Department has followed, if at all, the Stafford Act, which provides a preference to locally owned businesses in contracting following a natural disaster. The Act recognizes that contracts awarded to small, disadvantaged, and local businesses stimulate the local economy. The Act assures that the businesses affected by disaster are given the first chance to rebuild their towns and cities and their owners' lives.

Contracts awarded, according to the Stafford Act, help to recharge the engine of local economic development, not only by providing jobs to residents, but also by creating a multiplier effect through spurring business to business transactions. Unfortunately, the preference afforded under the Stafford Act has been disregarded by most of the agencies charged with that responsibility.

Indeed, in certain instances, it appears that the agency has purposely gone out of its way to avoid the small business requirement. In my written testimony, I provide several examples of how hurricane contracting has run amok at the Department and related agencies.

It is clear to me that the Federal Government, especially FEMA and the SBA, must make a major shift in both policy and implementation if the lives of the people of the Gulf Coast are to be effectively rebuilt and restored. It seems that I read almost daily an award of sole source, no-bid, multi-million dollar contracts to large corporations, and we know that the work required under these contracts will only be possible through subcontracting.

And one of the problems with the subcontracting for the Committee, as you know, is many of the people who undertake the subcontracts often take them at a below market rate, which ultimately puts them in worse shape than they were in before. And for me, being from Mississippi, I know sharecropping when I see it, and that is absolutely what some of the subcontracting amounts to under the hurricane response.

We know about the 23 percent Federal procurement requirements that have not been met. Let us look at FEMA as one of those areas. As far as my information can gather, they have given 1,600 contracts worth over $4 billion. Less than 3 percent of those contract dollars have gone to small, disadvantaged, women, or minority-owned businesses. Well, as we look at the announcement FEMA is talking about now for 15 contracts worth $1.5 billion, that sounds good, but as we look at FEMA's proposal, they will be in $100 million increments. Unfortunately, very few small businesses can work with $100 million increments.

The contracts are for a very limited class of work: maintaining and dismantling trailers. I have spoken a great deal about the problems. In the interests of time, let me talk about some suggestions Congress can do to help. First, we should require FEMA to immediately set forth and implement a detailed strategy to award contracts for small and disadvantaged businesses.

Second, we should require that the SBA take stringent steps to ensure that businesses that gain contracts under a small business designation are authentically small businesses. We must end the system of self-certification that allows large foreign corporations to pose as small businesses.

Third, we should require the Department of Homeland Security to establish a permanent data base of small disadvantaged businesses that can be used as prime contractors.

My reason for going toward this rather than the loan program is that my experience is when we work local businesses, that is part of the recovery effort. Congress mandated that we do that. The loan programs are absolutely important, but we are spending billions of dollars in the recovery effort. If we could hire companies from those areas, Madam Chair, I am convinced that the area would come back faster.

Many of the problems that have been identified, we could work with them. The loan program is a disaster. The testimony that you shared, I agree with. For the first month in my State, we had no real SBA programs functioning. They were just attending the meet-

ings and say, "Well, you can apply, but we do not have any directions from Washington." That is not how you address a disaster.

And unfortunately, the staffing is so small until this date, my office, all the counties I represent in the Second District of Mississippi have been declared disaster counties. There has been little outreach toward my office or other Members of Congress as to what SBA or any of the other roles are doing. To give you a good example, the only two outreach meetings identified in many of the reports by the Federal agencies were meetings that I set up, and surely, a Member of Congress' meetings should not be claimed as the work product for the agency. The agency should be doing outreach also.

So let me indicate that the work you do in this oversight hearing is significant. All of us are very frustrated. We hear every day from people who are just trying to get on with their lives. They need a little help from the Government, and in many cases, they are not getting it. I will stop there, Madam Chairman, and submit the rest for the record.

[The prepared statement of Representative Thompson follows:]

PETER T. KING, NEW YORK
CHAIRMAN

BENNIE G. THOMPSON, MISSISSIPPI
RANKING MEMBER

One Hundred Ninth Congress
U.S. House of Representatives
Committee on Homeland Security
Washington, DC 20515

TESTIMONY OF CONGRESSMAN BENNIE G. THOMPSON (D-MS) RANKING MEMBER OF THE COMMITTEE ON HOMELAND SECURITY U.S. HOUSE OF REPRESENTATIVES

BEFORE THE U.S. SENATE COMMITTEE ON SMALL BUSINESS AND ENTREPRENEURSHIP

NOVEMBER 8, 2005

Thank you Chairwoman Snowe and Ranking Member Kerry for inviting me to testify on the critically important issue of the role of small businesses in the recovery and rebuilding of the Gulf Coast areas devastated by the one-two punch of Hurricanes Katrina and Rita.

I come here today wearing two hats. First, I am the Congressional Representative of the Second District of Mississippi, an area which was affected by Hurricane Katrina. While we were spared the brunt of Katrina's force, the winds and rain which accompanied the hurricane caused major interruptions of electricity and telephone service for several weeks. After the storm hit, many of our Mississippi and Louisiana neighbors just south of us whose lives were completely uprooted came to the District seeking shelter.

I am proud to say that the people of the 2nd District, like others across the country, opened their hearts and homes to provide food, clothing, shelter and financial support to those who had lost homes, possessions and loved ones to this storm.

I want to take this opportunity to express my appreciation for those small and large acts of generosity from individuals and companies. But I also want to assure those who have been displaced by this storm that they should not be disheartened.

I also wear a second hat. As you know, I am Ranking Democrat of the Homeland Security Committee. The Homeland Security Committee in the House of Representatives is charged with oversight jurisdiction over the Department of Homeland Security. In that capacity, I have had a first-hand perspective of the Department's response to disasters and suspected terrorist events.

When the Department of Homeland Security was created, the Federal Emergency Management Agency (FEMA) was merged into the new agency. Within the new agency, FEMA was to lead the charge on our natural disaster preparedness AND terrorism preparedness effort.

Based on FEMA's failings in its response to Hurricanes Katrina, Rita, and Wilma of which we had notice, I do not believe that it is capable of responding to an event that brings no notice--such as a terrorist attack. Simply stated, we have not reached the level of preparedness or response that this nation needs and deserves.

Once tragedy struck and the ineptness of FEMA and the Department of Homeland Security became obvious, Congress responded immediately to the needs of our stricken citizens and communities by appropriating $62 billion to FEMA to provide disaster response, humanitarian relief, and recovery assistance to the victims of this tragedy.

Given the inability of the Department and FEMA to prepare and respond to Hurricane Katrina, I was concerned that they would continue their sub-par performance with regard to contracts that were awarded as a part of the response and recovery process. As such, it became obvious to me that oversight and accountability were critical and should be an integral part of the contracting process.

Now, oversight is not an academic exercise. As Members of Congress, it is our Constitutional duty to assure that the taxpayers' money is spent wisely and well. Those of us on the Homeland Security Committee have been given the additional responsibility of assuring that the Department of Homeland

Security and its components are not engaged in mismanagement, waste, fraud, or abuse.

In the case of hurricane-related contracting, it was also necessary to assure that the Stafford Act was followed by the Department of Homeland Security. This Act provides a preference to locally owned businesses in contracting following a natural disaster. The Act recognizes that contracts awarded to small, disadvantaged and local businesses stimulate the local economy.

These contracts help to re-charge the engine of local economic development, not only by providing jobs to residents, but also by creating a multiplier effect through spurring business-to-business transactions. In turn, transactions between businesses increase job growth. So, assuring that local, small businesses get contracts in the wake of a disaster is not only good policy it is good economics. Unfortunately, the preference afforded under the Stafford Act has been disregarded by the Department of Homeland Security. Indeed, in certain instances, it appears that the agency has purposefully gone out of its way to avoid the small business requirements.

Let me provide you with a few examples that I and other Members of the Homeland Security Committee have uncovered:

1) **There was a contract for $39 million given to an Alaskan Native Corporation (ANC), based in North Carolina, to provide portable classrooms in Mississippi. The government agreed to pay $88,000 per classroom to this out-of-state business. Not only is this price about double the going rate, there is a small business in Mississippi that offered to provide these same classrooms for about one-half of that price. This small business was sent by the government to the ANC. The local small business was told that it would be considered a subcontractor but then ignored as the ANC circumvented the small company. The Government Accountability Office is currently investigating this case.**

2) **There is also the case of a company incorporated in the Netherlands, with businesses in over 17 countries and a net worth of billions of dollars, that had been awarded a contract as a part of Katrina relief. This huge multinational had won a**

> **contract under a small business designation. When questioned about the accuracy of this designation, a company representative indicated that there had been a clerical error. It is my understanding that the Department of Homeland Security Inspector General has referred this deal to the Small Business Administration Inspector General. I look forward to hearing from that office.**

These are but a few examples of contracting run amok at the Department. While it is too early to deliver a report card on the recovery, I can tell you that at the 60 day point, the federal government, especially FEMA and the SBA, must make a major shift in both policy and implementation if the lives of the people of the Gulf Coast are to be effectively rebuilt and restored.

It seems I read almost daily of sole source, no-bid, multi-million dollar contracts that are awarded to large corporations. And we know that the work required under those contracts will only be possible through subcontracting.

We also know that the subcontractor who is on the ground doing the hard work will only get a fraction of the amount paid to the large business that gets the contract. We also know that because these small subcontractors are not directly linked to the government, they will not be able to benefit from many federal legal protections, such as assuring that they are paid a fair and agreed upon price by the contractor.

Senators, let me say, I am from Mississippi and I know sharecropping when I see it.

The Small Business Act states that the Federal Government should "aid, counsel, assist, and protect...the interest of small business concerns."

The Federal Government has well-established policies designed to bring about inclusion. Steps must be taken to ensure that federal agencies responsible for rebuilding the Gulf meet the government wide procurement goal of assuring that 23% federal procurement awards are given to small, disadvantaged and minority owned businesses.

Currently FEMA's performance falls far short of that goal. FEMA has awarded almost 1,600 contracts worth over $4 billion for Hurricane Katrina

recovery. Less than 3% of those contract dollars are going to small disadvantaged, minority or women owned businesses.

Like many of you, I was initially heartened to learn of FEMA's announcement to award 15 contracts worth $1.5 billion to small and minority businesses. But unfortunately, the devil is in the details. There are several problems with this announcement. First, each of these contracts will be for $100 million. This is a rather large award for a small business to handle without partners or subcontractors. So we may end up with small businesses merely serving as "fronts" for large businesses. Second, these contracts are for a very limited class of work—maintaining and dismantling trailers that served as temporary homes. Third, these contracts will not be awarded until February. I know there are contracts awarded everyday that small businesses can perform effectively. They only need a fair chance from a government that is truly concerned about their survival, stability and ultimate prosperity.

Senators, I think I have outlined many of the major problems that we have seen on the ground and through our oversight. But we must not focus on the problems without arriving at solutions.

Here are a few solutions we could implement quickly and efficiently:

1) **We must require FEMA to immediately set forth and implement a strategy to award contracts for small and disadvantaged businesses. Although they announced their intention to put forth a strategy almost a month ago, it still has not occurred. This should be the top priority of FEMA's procurement office.**

2) **Second, we must require that the SBA take stringent steps to assure that businesses that gain contracts under a small business designation are authentically small businesses. We must end the system of self-certification that allows large foreign corporations to pose as small businesses.**

3) **We must require the Department of Homeland Security to establish a permanent database of small, disadvantaged business that can be used as prime contractors in the response and recovery phase of every disaster. I am introducing a bill tomorrow that will require that the Department establish such a database to effectively implement the Stafford Act.**

I believe that these solutions are an easy first-step. I hope you will work with me to assure that they are implemented.

Again I want to thank you for inviting me here today and for your long-standing leadership on these issues. The people and small businesses of my district and the Gulf Coast depend on what we do to help them rebuild their lives. I will be happy to take your any questions.

Chair SNOWE. Thank you, and it will be included in the record.

Thank you very much, Congressman Thompson. I thank you for your insight, your recommendations. I agree with the proposals that you have suggested in strengthening our ability to conduct oversight of the contracting process and making sure that small business has access to Federal contracts that heretofore that they are being denied indisputably. And it is one of the issues that we have to get to the bottom of. I hope to be able to work with you in the future on some of these issues.

We have asked the Government Accountability Office, GAO, to review many of the issues concerning compliance with Federal contracting. Obviously, it is subpar, substandard, far below where we need to be if we are going to ensure that economic restoration takes place in the Gulf region.

So I certainly appreciate your insights, and I also concur with you about the fact that oversight is not an academic exercise. It is part of our responsibilities, and we have to make sure it is done for the people who depend on it. So I thank you for being here and for your testimony today.

Senator Kerry.

Senator KERRY. Thank you very much, Congressman. I appreciate your testimony. Thanks also for working with us on thinking about some of those responses early on.

Representative THOMPSON. Thank you.

Chair SNOWE. Thank you.

Chair SNOWE. All right; the second panel will include Administrator Barreto. We appreciate your being here today, Administrator. Obviously, there are a number of questions that need to be answered. We have some serious issues and we hope that in the final analysis we can rectify many of these problems to have an action plan from the Small Business Administration, so that once and for all, we can put the rebuilding of the region on course with the appropriate role that SBA should be playing. And obviously, all of us here today have raised some serious and significant questions, and hopefully, we can address them, and we hope we can get answers.

We are also going to include the other two witnesses as well: Major General Ronald Johnson, current Deputy Commander of the U.S. Corps of Engineers. Major Johnson [sic] is responsible for the oversight and management of the Army Corps' contracting functions, and Gregory Rothwell, who is the chief procurement officer for the Department of Homeland Security. He examines the serious problems facing small businesses who seek to obtain Federal contracts during this disaster reconstruction effort.

So we will begin with you, Administrator Barreto. You can summarize your statement. We will include your entire statement in the record. Please begin.

STATEMENT OF THE HONORABLE HECTOR V. BARRETO, ADMINISTRATOR, U.S. SMALL BUSINESS ADMINISTRATION

Mr. Barreto. Good morning, Chair Snowe, Ranking Member Kerry, distinguished Members of this Committee. Thank you for inviting me to discuss the Small Business Administration's Office of Disaster Assistance's continuing efforts to provide relief to the vic-

tims of Hurricanes Katrina and Rita. We are making progress, and today, I want to announce our new program to encourage commercial banks to make loans to small business in the recovery.

I also want to mention that we are also very focused on contracting. I heard the Congressman's concerns loud and clear, and I hope to clarify some of the things that we are doing and some of the opportunities that we are going to be pursuing for contracting for small businesses in the Gulf area. Today, I am also accompanied by Herb Mitchell, the Associate Administrator for Disaster Assistance, and also by Mike Sorrento, who is the chief of the Office of DCMS operations, the technology system that we keep referring to.

It is clear to all of us today that Hurricanes Katrina and Rita unleashed an unprecedented tragedy on the Gulf Coast, demanding an unprecedented response from the Federal Government, including the SBA. The numbers are staggering. In just 70 days, the SBA has received 220,000 disaster loan applications. In just 10 weeks, that is already 5.5 times the total number we received the year following Hurricane Andrew. To put this in perspective, after the 4 hurricanes last year, SBA received 202,102 applications, one-half of what we expect now and less than what we have received in the first 70 days.

The disaster affected over 90,000 square miles and 5 States. We have already mailed out nearly 2 million applications to residents and business owners on the Gulf Coast. SBA expects that we may yet receive another 160,000 applications, requiring us to process 10 times the number we received following Hurricane Andrew. The largest disaster SBA has ever dealt with was the Northridge earthquake, and that disaster had 250,000 applications.

That is a huge number, but we have already surpassed that in the first 70 days following Katrina and will dwarf that response in the days to come. At no point thusfar has anyone in the press or elsewhere put the magnitude of this disaster into scale, acknowledged the overwhelming task my employees face, or even laid out the simple facts about SBA's Disaster Loan Program.

The SBA Disaster Loan Program is designed to facilitate long-term recovery. It was not designed or intended as a source of immediate cash, and it is not a grant program. If SBA has done anything, it has become a victim of its own success. In smaller disasters, Hurricanes Opal and George, we responded with a speed that cannot be duplicated in an event the size of Hurricane Katrina.

Despite this massive disaster and the velocity of the volume that has reached us, SBA has responded. A month ago, the Office of Disaster Assistance had doubled its staff. Now, it has doubled its staff again and continues to grow. SBA now has over 3,900 employees in disaster assistance. They are working nonstop, 7 days a week, 18 hours a day to handle the volume. We have over 225,000 square feet of operations at our Fort Worth loan processing center. We have literally exhausted the market for business loan officers, and we are temporarily transferring experienced SBA lending staff to our processing centers.

We also initiated a program called Lend a Lending Hand that asked our lenders nationwide to lend us, the SBA, their loan officers. Additionally, SBA has been working with our lending part-

ners to expedite the 7(a) and 504 lending. SBA has guaranteed loans of over $100 million in the affected areas. Last week, SBA lending exceeded over $10 million.

But we do not think that is enough, and I am announcing a new pilot program to strengthen and expand the role of local commercial banks in accelerating the recovery and rebuilding the small businesses. This new program is called GO Loans, and it employs streamlined, expedited processing driven by banks under the direction of SBA. GO Loans will allow banks that are PLP and express lenders to use simplified loan procedures, their own forms and underwriting, to get working capital into the hands of small businesses in the Gulf region. These loans will be available to up to $150,000 and have an 85 percent guarantee, and applicants will have a decision in 24 hours or less.

GO Loans respond to the eagerness of the private sector, the banking community, to play an important role in the rebuilding of small businesses. It will unleash the liquidity and expertise of commercial banks, and the program will be open for business this week.

Chair Snowe, I would like to thank you and your staff for working with us so that we may implement this pilot as soon as possible. In recent weeks, I have heard a great deal about how our processing system is faulty. There could be nothing further from the truth. The system was designed to handle 5,000 applications a day on a sustained basis and to be scaled up if necessary. As designed, the system is accepting over 5,000 applications a day. There are 180,000 applications in the system. 35,000 are fully processed. If the system had been this functional during Hurricane Andrew, we could have entered the entire year's worth of applications in 1 week. In the last 7 days, we entered 39,000 applications alone. You cannot do that on a bad system.

We have 2,900 users on the DCMS system, expanded from the original 1,500 user capacity. We will add 100 more users, which will double the original capacity, and we are presently expanding the system to handle an additional 5,000 users beyond that. You cannot double the capacity on a broken system. Your staff saw our scanning operation in the processing center, and we appreciate their willingness to see the situation for themselves before rendering judgment.

At that time, we could scan hundreds of pages in an hour. Now, we are scanning 70,000 pages a day, one page a second in an 18 hour day. By the time I finish my remarks to you today, ODA will scan in roughly 40 applications. SBA has established a pilot program with the IRS to replace the laborious process of faxing forms back and forth. Under the old system, we could input 1,500 tax transcripts a day. Now, SBA has access to 5,000 transcripts a day, and we have the ability to exceed that.

SBA has also modified processes to improve the efficiency with our loan verification system. ODA teams have completed over 50,000 verifications, despite the fact that our loss verification teams had absolutely no access in many places until after Hurricane Rita. Those lost weeks are time we cannot get back, and unfortunately, our teams are still hampered. I was in Plaquemines

Parish 2 weeks ago, and there were still ships still blocking the roads almost 2 months after the hurricanes.

I have heard concerns about the number of declines. SBA's underwriting standards have not changed. We do not change our standards from year to year, from disaster to disaster. What has changed, however, is SBA's ability to give a more accurate account. Under the old system, employees screened out obvious declines and referred the applicants to FEMA. Those declines were not entered into the system. Under DCMS, all applications are counted.

I must also reiterate many applicants come to the SBA specifically for a decline in order for people to avail themselves of the FEMA grants and other assistance programs. We process these declines quickly, as we have always done, to help those people obtain assistance.

SBA has approved over $400 million in loans to over 6,000 homeowners and businesses, more loans than we approved in Hurricanes Opal and George or Isabel. We are currently approving nearly $20 million a day, and that number is increasing with each passing hour. Even though the SBA's Disaster Loan Program is a long term recovery program, we are working to speed processing, thinking outside the box, to look for any way to shorten processing while still maintaining our fiduciary responsibility.

We expedited our business loan processing by reducing the information needed. We implemented a new system to speed preapproval of business borrowers. However, we cannot shoehorn short-term needs into a long-term recovery program, nor can the SBA simply approve loans and worry about the underwriting later. For the short-term needs of small business, we have worked with the States to assist them in their bridge loan programs and coordinate the purposes of the programs and establish a co-payer relationship to refinance through the Disaster Loan Program.

I also want to talk about Government contracting. A month ago, SBA assigned four procurement center representatives, the PCRs, to Hurricane Katrina-related contracting, and I detailed Judith Rusell, an experienced career employee from New Orleans, to coordinate our contracting outreach efforts. There are now five PCRs dedicated to this effort. I have assigned several career senior executives with procurement experience to work on initiatives to bring more small businesses into the vendor pool.

At every level of SBA, we are engaged. SBA is committed to making sure that small businesses receive opportunities in the reconstruction effort. Working with the Department of Homeland Security and the Federal Emergency Management Agency and the Army Corps of Engineers, we will expand the number of small businesses, including local 8(a) and Hub Zone firms participating in these contracts. SBA is also actively collaborating in the area with the President's Urban Entrepreneur Partnership, which is helping local minority firms prepare for and prepare on Government and private sector contracts, particularly through the Ewing Marian Kauffman Foundation's Intrusive Coaching Program.

Finally, the SBA has worked with the Department of Commerce and other agencies to establish the Hurricane Contracting Information Center. SBA has been helping to make this portal a single location for small businesses to access assistance and contract infor-

mation from the various contracting agencies. During the center's first 3 weeks, contracting specialists have taken 3,476 phone calls, and HCIC's Website has had 56,712 visits to date. During the week of October 30th, HCIC fielded over 1,081 calls, and the Web site received 15,683 visits.

To date, small business has been awarded over 45 percent of the contracting dollars put out for Hurricanes Katrina and Rita clean-up and recovery. Last Friday, and the Congressman mentioned this, SBA and FEMA announced $1.5 billion in 8(a) and small business setaside contracts. That is only one large example.

The General Services Administration has reported over $260 million in small business contracting; the Department of Homeland Security, over $257 million; EPA, over $34 million. SBA initiated business matchmaking events in the Gulf region to assist small businesses whose customer base has been affected by Hurricane Katrina. SBA started this initiative on November 1, 2005, with an 8-day, six-city mobile registration tour of the affected areas which will register affected small businesses.

Along with SBA, small business development centers, and score counselors and a specially equipped RV donated by Microsoft, we are providing instant electronic registration. The initiative's dedicated procurement experts will work to align the information with procuring agencies. As a last note, SBA is also working to assist our partners at the Small Business Development Centers in the region. We have encouraged them to apply for additional funding through the portability grants that you established, Chair Snowe. This will help them pay for the additional counseling and outreach costs.

Chair Snowe, I appreciate the opportunity to testify before you today, and I look forward to answering any questions that you might have.

[The prepared statement of Mr. Barreto follows:]

Statement of
Hector V. Barreto
Administrator
U.S. Small Business Administration

U.S. Senate
Committee on Small Business and Entrepreneurship
Hurricane Katrina Relief Efforts

November 8, 2005

Good morning, Chair Snowe, Ranking Member Kerry and distinguished Members of this Committee. Thank you for inviting me to discuss the Small Business Administration's (SBA) Office of Disaster Assistance (ODA) continuing efforts to provide relief to the victims of Hurricanes Katrina and Rita.

I am accompanied again by Herb Mitchell, the Associate Administrator for Disaster Assistance, and also by Mike Sorrento, Director of the Disaster Credit Management Center.

It is clear to all of us here today that hurricanes Katrina and Rita unleashed an unprecedented tragedy on the Gulf Coast demanding an unprecedented response from the Federal government, including the SBA. The numbers are staggering. In just 70 days, SBA received over 220,000 disaster loan applications; in just 10 weeks that's already 5.5 times the total number we received in the year following Hurricane Andrew.

To put this in perspective, after the four hurricanes last year, SBA received 202,102 applications—one half of what we expect now and LESS than what we received in the first 70 days.

This disaster affected over 90,000 square miles and five states; we've mailed out nearly 2 million applications to residents and business owners of the Gulf Coast. SBA expects that we may yet receive another 160,000 applications, requiring us to process ten times the number we received following Hurricane Andrew. Even the largest disaster SBA has dealt with, the Northridge Earthquake that had 250,000 applications will not match the response required here. 250,000 applications is a huge number, but we have almost surpassed this in the first 70 days following Katrina and will dwarf that response in the days to come.

SBA has been criticized for our response, but at no point has anyone, in the press or elsewhere really focused on those facts and the overwhelming task my employees at the Office of Disaster Assistance face, or the simple facts about SBA's disaster loan program. As I pointed out in my previous testimony, the SBA disaster loan program has always been designed to be the engine for facilitating long-term recovery of disaster damaged areas of our Nation. It was never designed or intended or implemented to serve as a source of immediate cash on hand or a grant program. If anything, we may have become a victim of our own success – in other, smaller

disasters, Hurricanes Opal or George, we responded with a speed that could not hope to be duplicated in an event the size of Hurricane Katrina.

Despite this massive disaster and the velocity of the volume that has reached us, SBA has responded. A month ago when I testified before this committee the Office of Disaster Assistance had doubled its staff. In the short time since the Office of Disaster Assistance has doubled its staff again and continues to grow to meet the needs of the disaster. SBA now has over 3,700 employees in the Office of Disaster Assistance. They are working non-stop, seven days a week, 18 hours a day to handle the volume of requests. We have over 225,000 square feet of operations at our Fort Worth loan processing center.

We have literally exhausted the market for business loan officers, but that has not stopped us. To respond to this unprecedented disaster we are temporarily transferring experienced SBA lending staff to our Fort Worth processing center and the backup center in Sacramento, and we have initiated a program "Give a Lending Hand" to ask banks and lenders around the country to lend SBA experienced loan officers as Special Government Employees, to assist in processing the loans.

"But we don't think that is enough, and so I am announcing a new pilot program to strengthen and expand the role of local commercial banks in accelerating the recovery and rebuilding of small businesses. This new program is called "GO–loans", and it is a pilot that employs streamlined, expedited processing driven by banks under the direction of SBA. Go Loans will allow banks that are PLP and Express lenders to use simplified loan procedures – their own forms and underwriting - to get working capital into the hands of small businesses in the Gulf region. These loans will be available up to $150,000 dollars and have an 85 percent guarantee, and applicants will have a decision in 24 hours or less. Go Loans responds to the eagerness of the private sector, the banking community, to play an important role in the rebuilding of small businesses. It will unleash the liquidity and expertise of commercial banks, and the program will be open for business this week. Chair Snowe, I would like to thank you and your staff for working with us so that we may implement this pilot as soon as possible."

I continue to hear claims that our processing system, DCMS is faulty or poorly designed. That is not true, we currently have the system accepting over 5,000 applications a day, and already have 180,000 applications in the system, 35,000 of which have been processed. At that rate, we would have had all the applications from Hurricane Andrew entered in a week. As a matter of fact, we entered over 39,000 applications last week – you can't do that on a bad system.

What has SBA done in response to this volume? We have 2,900 users on the DCMS system right now, expanding the system from its original 1,500 user capacity. We anticipate adding another 100 users, doubling our capacity. But we are not stopping there; we are working to expand the system to handle an additional 5,000 users beyond that. Again, you can't double capacity on a broken system.

Chair Snowe, Senator Kerry your staff saw our scanners in operation on their visit to our Fort Worth processing center. They saw the scanners working efficiently, contrary to press reports, and we appreciate their willingness to see for themselves. At that time the Fort Worth center was scanning hundreds of pages an hour. SBA decided that was not fast enough, and now we are scanning over 70,000 pages in a day – over a page a second in an 18 hour day. By the time I finish my testimony today, ODA will have scanned in roughly forty applications.

In response to Hurricane Katrina SBA established a pilot program with the Internal Revenue Service to replace a cumbersome old process of faxing forms back and forth. When your staff visited, that system let us electronically input 1,500 tax transcripts a day, but we were just ramping up. Today, SBA now has electronic access to 5,000 transcripts a day, and the IRS has been known to exceed that.

SBA has dealt with and overcame issues with our loss verification system, modifying processes to improve efficiency. SBA teams have now completed more than 50,000 verifications working at a terrific pace. Remember that our loss verification teams had no access in many places until after Hurricane Rita. That meant we lost weeks, time we can't get back. Our verification teams are still hampered in their access. I was in Plaquemines Parish, Louisiana two weeks ago. There are still ships aground on the roadways, but our teams will keep moving.

I have also heard concerns from Members of Congress about the number of declines under the disaster loan program. First, let me state that SBA's credit and underwriting standards have not changed. We do not change our lending standards from year to year and disaster to disaster. Our declines have not increased because of DCMS or our automated processing. What has changed is that SBA is now giving a more accurate account of applications and declines. Under our old file tracking system, disaster employees performed a manual step to screen out applications that were obvious declines. Applications handled under the screening decline were not entered into the ALCS system, so those declines did not show up in our approval rates, they were simply referred to DHS/FEMA for grant assistance. Under DCMS all applications are entered and counted.

I must also reiterate many of our applicants do not come to SBA looking for a loan. Low-income applicants come to SBA specifically seeking a decline to enable them to avail themselves of DHS/FEMA's grant program and other assistance programs. This is a long standing requirement under the Stafford Act. SBA helps verify eligibility for DHS/FEMA assistance. We process these declines quickly, as we have always done, to help those people obtain assistance.

Chair Snowe, the fact is SBA has approved over $350 million in loans to over 5,000 homeowners and businesses. This is more loans than we had approved in either hurricanes Opal or Georges or Isabel. We are currently approving loans at nearly $20 million a day and that number is steadily increasing.

However, as I said before, the SBA's disaster loan program is a long-term recovery program. To try and speed processing we have had to think "outside the box" and push the envelope on our credit and underwriting processes and generally look for any way possible to

shorten our processing while still maintaining our fiduciary responsibility. We are still making all possible efforts to expedite assistance to small business borrowers. Several weeks ago we expedited our business loan processing by limiting the amount of financial information needed from small business borrowers. More recently, we implemented a new system to speed approval of business borrowers. However, at the end of the day we can not expect to shoehorn a long-term recovery program into short-term needs. Nor can SBA simply approve loans and worry about the underwriting later.

For the short term needs of small business we will work with the states to assist them in their bridge loan programs. As we have done in the past with the state of Florida, the Office of Disaster Assistance will work with Louisiana and Mississippi to coordinate the purposes of the programs and to establish co-payer relationships when such loans are refinanced through the SBA disaster loan program.

In addition, SBA has been working with our lending partners in the affected areas to encourage and expedite 7(a) and 504 lending. Since the hurricanes hit SBA has guaranteed loans of over $100 million in the affected areas. Last week, SBA lending for Katrina and Rita exceeded $10 million.

I also want to talk about our accomplishments in government contracting. As I told you at the last hearing SBA had assigned four (4) Procurement Center Representatives (PCRs) to Hurricane Katrina related contracting, and I detailed Judith Roussel, an experienced career employee to coordinate our contracting outreach efforts. There are now 5 PCRs working on Hurricane Katrina contracting. In addition, I have assigned several career senior executives with significant procurement experience to work on initiatives to bring more small businesses into the vendor pool for the recovery effort. In brief, at every level of SBA, we are engaged in this important work.

Our Office of Government Contracting is meeting with Small and Disadvantaged Business Utilization (SDBU) officers from all major agencies to help focus on small business opportunities. SBA is also working with the General Services Administration (GSA) to establish up to date sourcing lists for small businesses and helping small businesses enter the Central Contractor Registration (CCR) database of small businesses available for contracting for reconstruction and clean up in the Gulf region.

SBA is committed to making sure that our small business customers receive fair opportunities to help in the rescue, relief and reconstruction effort and continues to use a variety of resources to match small businesses with hurricane Katrina contracting opportunities. Since February, the SBA has increased the number of Procurement Center Representatives (PCRs) stationed at acquisition activities throughout the country to advocate on behalf of all small businesses by nearly 30 percent. While all SBA PCRs are providing assistance to small businesses interested in participating in the rebuilding efforts, SBA has increased the number of specifically dedicated PCRs to five. Working with Federal agencies, including the Department of Homeland Security and the Federal Emergency Management Agency, they identify relief and reconstruction contract and subcontracting opportunities for small businesses. These PCRs, as

well as others, are also working closely with small business vendors to assist them in locating procurement actions that they may be capable of performing.

Additionally, SBA District Office and PCR staff are providing "hands-on" assistance to small businesses that are new to the Government's procurement arena, to obtain necessary registrations and certifications to be able to compete for prime and subcontract actions. SBA is also actively collaborating in the area with the President's Urban Entrepreneur Partnership, which is helping local minority firms prepare for and perform on government and private sector contracts, particularly through the Ewing Marion Kauffman Foundations intrusive coaching program.

The SBA is working with the Army Corps of Engineers to ensure that opportunities exist for small businesses to participate on contracts for the Gulf Coast recovery and reconstruction. Our efforts to date include exploring procurement strategies that we believe will expand the number of small businesses, including local 8(a) and HUBZone firms, participating in these contracts. To optimize the participation of local small businesses, we are also using our field staff and resources partners to verify the operational capacity of local small businesses, and then provide listings of these firms to the Army Corps of Engineers. In addition, we will expedite the processing of Mentor-Protégé agreements and provide priority processing of 8(a) and SDB certification applications from firms in the affected area.

Finally, SBA has worked with the Department of Commerce and other agencies to establish the Hurricane Contracting Information Center. SBA has been helping to make this portal a single location for small businesses to access assistance and contract information from the various contracting agencies. During the Center's first three weeks, contracting specialists have taken 3,476 phone calls, and the HCIC's website has had 56,712 visits to date. During the week of Oct. 24-30, HCIC fielded 1,081 calls Monday thru Friday, and the website received 15,683 visits during the past 7 days.

All of these efforts have been effective. To date, small business has been awarded over 45 percent of the contracting dollars put out for Hurricanes Katrina and Rita cleanup and recovery. At the last hearing I told you of an 8(a) action for multiple award roofing contracts worth up to $150 million. Last Friday, SBA and FEMA announced $1.5 billion in 8(a) and small business set-asides contracts. But those are only the largest examples, small businesses are being awarded many more contracts, each one an important step in assisting in the revitalization of the Gulf Coast economy. As I said, SBA is working hard with the Small and Disadvantaged Business officers at each agency and the results are there - the General Services Administration has reported over $260 million in small business contracting, the Department of Homeland Security over $257 million, EPA over $34 million, just as examples.

SBA has also scheduled numerous Business Matchmaking Events in the Gulf Region but these are different from our usual events. SBA's Gulf Coast Business Matchmaking initiative has been created to assist small businesses whose primary customer base has been greatly decreased, displaced or in some cases eliminated by the affects of Hurricane Katrina.

SBA started this initiative on November 1, 2005 with an eight-day, six-city mobile registration tour of affected areas in Alabama, Louisiana and Mississippi conducted by SBA and

its team of procurement experts who will register affected small businesses to participate in the initiative. The mobile tour will visit central locations in six cities - Baton Rouge, New Orleans, Gulfport, Hattiesburg, Jackson, and Mobile.

Along with SBA, Small Business Development Centers and SCORE counselors have a specially-equipped RV donated by Microsoft for the purposes of providing instant, electronic registration. Registration is specifically for small business owners in the affected areas who are currently registered in the Central Contractor Registry and who provide primary contact information including a description of their business, its capabilities, and keywords to describe products/services. With this information entered into the registration database, the Business Matchmaking team will coordinate on-going connections between small businesses and procurement officials from Federal, state and local government agencies, prime contractors and major corporations involved in the recovery and rebuilding effort.

As a last note - SBA is also working to assist our partners at the Small Business Development Centers (SBDC) in the region. We have encouraged them to apply for additional funding through the Portability Grants that you established, Chair Snowe. This will help them to pay for the additional counseling and outreach costs.

Chair Snowe, I appreciate the opportunity to testify before you today and discuss the efforts SBA is making to assist the Gulf States in recovering from hurricane Katrina. The Office of Disaster Assistance has been working seven days, non-stop and SBA's other offices have been supporting them as well. We share your sense of urgency in getting relief to those affected and SBA will do everything it can within its mandate to deliver that aid. I look forward to answering any questions that you might have.

Chair SNOWE. Thank you, Administrator Barreto.

Mr. Rothwell.

STATEMENT OF GREGORY D. ROTHWELL, CHIEF PROCUREMENT OFFICER, U.S. DEPARTMENT OF HOMELAND SECURITY

Mr. ROTHWELL. Madam Chair, Ranking Member Kerry, and the rest of the Members of the Committee, thank you for the opportunity to come here today to discuss the Department of Homeland Security's support of the small businesses and the small business program. I am Greg Rothwell. I am the Chief Procurement Officer for the Department of Homeland Security. I am a career executive with 33 years of Federal service. As the chief procurement officer, I give procurement oversight to the eight procurement shops within the Department of Homeland Security, including FEMA.

I guess my statement will be very short. Very, very simply, we support small businesses because small businesses support homeland security. From the very beginning, we have had a very significant success in terms of our dealings with small businesses. In fiscal year 1903, we gave 40 percent of our prime contract dollars to small businesses. In fiscal year 2004, we gave 38.5 percent to small businesses. We have been recognized by many, many groups for our small business program, which I believe is a wonderful thing.

Very recently, I think about a month ago, Congresswoman Vasquez of the House Committee on Small Business basically gave us the highest grade that she gave throughout the Federal Government for our small business program, and that was a B as in Bravo. We received the highest honor that SBA gives during fiscal year 1904 called the Gold Star Award, and there are several awards. I do not really want to go into that too much other than to simply say, we understand that this is an important program.

Recently, the FEMA organization has awarded about $3 billion in contracts in support of the Hurricane Katrina relief effort. Over 50 percent of those contracts or $1.6 billion, has gone to small businesses. We are working daily, you know, every day to make sure that we give awards to local businesses, to small businesses, and to all of the small and disadvantaged businesses in the area.

There is much that has to be done yet, and we are committed to supporting small businesses and local businesses. I thank the Committee for your aid in this effort, and I look forward to working with you, and this concludes my statement. Thank you.

[The prepared statement of Mr. Rothwell follows:]

TESTIMONY OF
GREGORY D. ROTHWELL
DHS CHIEF PROCUREMENT OFFICER
BEFORE THE HOUSE SELECT BIPARTISAN COMMITTEE TO INVESTIGATE THE PREPARATION FOR AND RESPONSE TO HURRICANE KATRINA
NOVEMBER 2, 2005

Mr. Chairman and Members of the Committee. Thank you for the opportunity to discuss the Department of Homeland Security (DHS) procurement actions taken to prepare for and in response to Hurricane Katrina. I ask that the Committee include my full statement in the record and I will summarize my remarks.

(Chairman: without objection, so ordered)

I am the Chief Procurement Officer for the Department of Homeland Security (DHS). I am a career executive and have spent most of my 33 years of federal service in the procurement profession. As the Chief Procurement Officer, I provide oversight and support to the eight procurement offices within DHS, including the procurement office within the Federal Emergency Management Agency (FEMA).

Normally, these eight procurement offices obligate around $13 billion per year for supplies and services in support of the DHS mission.

Joining me today is Mrs. Patricia English. Mrs. English is the Head of Contracting for FEMA and is the senior acquisition official responsible for direct management of the acquisition functions within FEMA. Mrs. English has worked for 25 years at FEMA. Mrs. English joined FEMA shortly after its creation and has a thorough understanding of disaster relief and recovery contracting. She joins me today to answer any questions that this Committee may have about specific contracts that FEMA has put into place.

Much has been written and stated about the enormity of Hurricane Katrina. The Gulf Coast states of Louisiana, Mississippi and Alabama were hit with Category IV winds and torrential rains, causing widespread flooding and destruction.

Over $63 billion was provided to the Department of Homeland Security (DHS) for disaster relief. Of that $63 billion, a small portion representing significant dollars have been obligated by FEMA through

the federal procurement process. To date, FEMA has directly obligated over $4 billion through the federal acquisition process in support of Hurricane Katrina relief operations. Other portions of the $63 billion are being executed under the procurement authorities of other agencies.

Shortly before and immediately after August 29th, acquisition personnel within DHS and in other agencies acted swiftly to meet pressing humanitarian needs to protect life and property and to provide support to survivors. A major concern in the early hours after August 29th was that the federal acquisition process would not be responsive enough to meet the real time demands placed upon it by such a large event. Fortunately, this turned out not to be the case as acquisition personnel at FEMA and throughout the Department worked tirelessly to do whatever was necessary to provide support. Many pressing needs have been met in a short amount of time. It is appropriate that this Committee and in fact all of us take a careful look to see what happened, to take necessary corrective measures, and to adopt lessons learned.

Many of the actions that the Department and FEMA are taking as a result of Hurricane Katrina equally apply to Hurricane Rita that hit land on September 24, 2005 (or 25 days after Hurricane Katrina), and Hurricane Wilma that hit land October 24th (or 57 days after Hurricane Katrina).

Realizing shortly after August 29th that FEMA's acquisition staff would need help, I redirected a division within my office to support FEMA's procurement operations. They successfully awarded some 62 contract actions totaling over $100M.

FEMA intends to increase the ranks of its acquisition corps to handle post-Katrina work by some 60 positions that will include procurement and program management personnel. We are working to hire talented and qualified individuals for these important acquisition positions.

We also recognize the need to ensure that FEMA has solid contracting and procurement systems in place before a disaster –

and that those systems should include a special focus on procurement integrity.

Prior to Hurricane Katrina, FEMA did have contracts in place. These contracts were in place to provide support for building inspections, public assistance technical assistance, hazard mitigation technical assistance, geographic information systems support and some individual assistance technical assistance support. The list of all contracts used in support of Hurricane Katrina relief and recovery efforts is updated weekly and publicly posted at http://www.dhs.gov/interweb/assetlibrary/CPO-KatrinaContracts.pdf. These contracts were helpful but not sufficient to handle the magnitude of the requirements that resulted from Hurricane Katrina.

There are numerous actions that FEMA is taking in recognition of this and that I feel should be highlighted. FEMA is formalizing all original emergency procurements in order to establish clear terms and pricing.

FEMA will re-compete all non-competitive contracts where the requirement for the work is still needed. Specifically the four

technical assistance contracts that provide support primarily for housing disaster victims will be re-competed based on a two part strategy.

The first priority is to award competitive five-year technical assistance contracts to small and small disadvantaged businesses for recovery work in the Gulf States. As a second part to the strategy, one of the selection criteria will include the geographic location of the prime contractor to ensure a preference for local hires from the impacted states. This overall strategy offers many benefits. It provides a diverse group of companies the opportunity to contract with FEMA for the Gulf Coast hurricane recovery by adding prime contracting opportunities directly to small and small disadvantaged businesses with geographic preference for those located in the Gulf States.

In addition, FEMA is currently developing a strategy to provide technical assistance support on a national basis for future disaster responses and recovery effort. This strategy will replace the current contracts with improved competitively awarded vehicles, and will include various methods to foster small business participation.

Along with the Inspector General and FEMA, I met with all four of the large contractors providing housing support shortly following Hurricane Katrina. I continue to work with them to ensure that there is an understanding about critical issues such as fair pricing, audits, the need to use local business in the devastated area and especially small business including minority owned businesses. They in turn have shown a commitment to supporting local small and minority owned businesses.

In addition, there are vital oversight steps and procurement actions that the Department and FEMA are taking in response to Hurricane Katrina that will better position FEMA's procurement organization to manage continued recovery efforts as well as future disasters.

Within the Department, an oversight board was formed known as the "Hurricane Internal Control /Procurement Oversight Board." This board was established to assure financial and procurement control and integrity over hurricane funding that the Department receives. This Board coordinates internal control policy and management oversight issues in the appropriate use of hurricane related funding.

The five people who comprise the board are the Under Secretary for Management, the Chief Financial Officer, the General Counsel, the Chief of Operations at FEMA, and me as the Chief Procurement Officer. In addition, a sixth person, the DHS Inspector General, Mr. Rick Skinner is an advisory member of the board.

Within my office, we have created a "procurement review board" that is charged with conducting a comprehensive review of every FEMA procurement to assure the completeness, fair pricing, and overall integrity of the contracts that were entered into in the early stages of the response and recovery period. This board is reviewing each purchase made by FEMA during the period of August 29 through September 30, 2005, and ensuring that there exists an auditable record of actions taken.

DHS has obtained Defense Contract Audit Agency (DCAA) on site support to review contract proposals. Their expertise is providing assistance in support of hurricane relief efforts for FEMA contracting officers by reviewing, auditing, evaluating and analyzing costs to ensure they are properly allowable and allocable to task orders.

Business Opportunities

Members of Congress have inquired on behalf of their constituent business owners as to how they can match their resources with the extraordinary demand in the impacted region. DHS has posted on its website a list of companies with whom FEMA has contracted and a link that should be helpful for businesses interested in directly contracting with FEMA or in examining subcontracting opportunities. (see www.dhs.gov and click on "Working with DHS").

Stafford Act

Under the Stafford Act and its implementing regulations, local businesses or workers are to be given preference wherever practicable. Under various federal laws, small, minority, veteran owned and women owned business should be given a preference to compete for contracts.

Summary

The federal acquisition regulations provide sufficient flexibility to deal with emergencies. It was difficult given the magnitude of Hurricane Katrina to apply conventional business processes to such an unconventional situation involving human life, rescue efforts, recovery efforts, housing and sustenance needs. Often, in emergency situations, it can be difficult to establish facts upon which to correctly determine needs.

Nevertheless, we must do our best to ensure that there are contingency contracts competitively awarded and available in the future. We must implement other lessons learned from this tragic event while ensuring that positive actions are taken to maintain procurement integrity throughout the largest natural disaster recovery effort in the nation's history. My definition of procurement integrity extends beyond just making sure that people or companies do not do things "wrong" but that we do things right, such as assuring proper staffing, properly awarding contingency contracts, properly awarding contracts to local small and minority owned businesses and properly

managing contractors following award. These things will assure successful mission accomplishment.

I thank the Committee for your aid in this effort and look forward to working with you. This completes my prepared statement and I am happy to answer any questions you may have.

Chair SNOWE. Thank you, Mr. Rothwell.

General Johnson.

STATEMENT OF MAJOR GENERAL RONALD L. JOHNSON, DEPUTY COMMANDER, U.S. ARMY CORPS OF ENGINEERS, DEPARTMENT OF THE ARMY

General JOHNSON. Madam Chair and Members of the Committee, thank you for the opportunity to be here today. I am Major General Ron Johnson. I am the Deputy Commanding General of the U.S. Army Corps of Engineers, and I am honored to be here to share with you pertinent information about our contracting activities in response to Hurricane Katrina and our efforts to involve small and disadvantaged businesses in the work we are doing in the region. I will summarize my statement here and ask that my complete testimony be entered into the record.

Chair SNOWE. Without objection, so ordered.

General Johnson. As the Corps continues to work in response to the recent hurricanes, we are absolutely committed to carrying out our missions while keeping in mind the importance of utilizing small and local businesses wherever possible. Under the leadership of our Chief of Engineers, Lieutenant General Carl Strock, we practice a concept of openness, and we strive to maintain transparency in our contracting activities, and we welcome your oversight and anyone's oversight of our activities.

Lieutenant General Strock and I are personally committed to using small businesses in performing our work in the normal course of business and even more importantly in times of national disaster. We always strive to use small, small disadvantaged, women-owned, Hub Zone, and service disabled veteran-owned firms to the maximum extent possible. The Corps of Engineers typically awards more than 40 percent of its prime contract dollars to small firms.

As part of the National Response Plan, the Corps of Engineers is in support of FEMA in the aftermath of hurricanes and any emergency disaster. We utilize several prepositioned contracts for ice, water, and some of the initial debris removal services which were competitively awarded in 2003. Many of these awards were to small firms.

After Katrina, the needs for service were greater than our ability to respond with preplaced contracts, and we began awarding additional contracts using emergency procedures. We maximized competition and the use of small businesses as much as possible without delaying urgently needed supplies or services. At the same time, we began developing plans to satisfy the ongoing needs by using a broader range of procurement tools and more normal procurement methods as soon as time permits us to do so.

We use normal contracting procedures whenever possible, adjusting as necessary to assure that critical life, safety, or health needs are met. Such changes might involve things like limiting competition or shortening normal advertising or proposal times to avoid any delay in award. For work associated with major disasters or emergency assistance activities, another special consideration is added to our normal contracting procedures. There is an additional preference for local firms that, quote:

> Preference shall be given to the extent feasible and practicable to those organizations, firms, or individuals residing or doing business primarily in the area affected by such a major disaster or emergency.

So in accordance with the Stafford Act, we require our prime contractors to give preference to firms doing business primarily in the area affected by the disaster. Our large firms have been recruiting in shelters and have been actively working to locate small firms to assist in these operations. Based on very preliminary data, large firms are reporting that they are awarding more than 50 percent of subcontractor dollars to local firms.

We are continuing to award new contracts as additional needs are identified, as well as overseeing the ongoing work. Meanwhile, we are concurrently reviewing the activities of our staff, reviewing our contracts, assessing performance, and capturing lessons learned that can improve our response and our contracts in the future.

From the earliest days of the event, the Corps moved quickly to assure we provided information to the public. We immediately began posting information to our home page and provided points of contact for our prime contractors so that local and small firms could apply to do work for those large contractors. We established a registration site where firms who wished to help could provide information on their capabilities. We have provided a listing of our contract awards, as well as making updates when appropriate. Now, we are supporting the Hurricane Contracting Information Center as they provide a one-stop communications portal for the public.

We are indeed enhancing opportunities for small and local firms by requiring large businesses awarded one of the contracts to implement aggressive subcontracting strategies and report their level of success in awarding subcontracts to small firms. The initial value for debris removal after Hurricane Katrina was estimated at nearly $2 billion, far beyond the value of our prepositioned emergency contracts. The urgency of the situation required immediate award, and we advertised the procurement for a reduced time period, receiving 22 proposals.

On September 15, 2005, we awarded four debris removal contracts. Each contract also requires large business prime contractors to submit a contracting plan with aggressive goals for each small business category. I have asked my team to divide work whenever practical so that we can target work for appropriate small business and other programs. For upcoming levee repair work, we hope and are encouraged to contract some of the work to minority, service-disabled, veteran-owned or Hub Zone small business prime contractors. Other small firms may win additional contracts under the Small Business Competitiveness Demonstration Program.

In summary, the U.S. Army Corps of Engineers is committed to assuring that small firms play a vital role in the award of contracts, that we are alert to areas that we can improve in the future and that we are responsive to FEMA as it orchestrates disaster response effort.

Madam Chair, this concludes my statement.

[The prepared statement of General Johnson follows:]

COMPLETE STATEMENT OF

Major General Ronald L. Johnson
Deputy Commander

U.S. ARMY CORPS OF ENGINEERS

DEPARTMENT OF THE ARMY

BEFORE THE

Committee on Small Business and Entrepreneurship
UNITED STATES SENATE

November 8, 2005

Madam Chair and Members of the Committee, thank you for the opportunity to be here today. I am Major General Ronald L. Johnson, Deputy Commander, United States Army Corps of Engineers and I would like to share with you some information about our contracting activities in response to Hurricane Katrina, and our efforts to involve small and disadvantaged businesses in the work we are doing in the region.

The U.S. Army Corps of Engineers is continuing to work primarily in support of the Federal Emergency Management Agency, carrying out a wide variety of missions in response to Hurricane Katrina. Under the leadership of the Chief of Engineers, LTG Carl A. Strock, we practice a concept of openness. We strive to maintain transparency in our contracting activities and welcome oversight of our activities.

I fully recognize the value that small businesses play in our national economy, and LTG Strock and I are personally committed to using small businesses in performing our work, both in the normal course of business, and in times of major natural disaster. We strive to use Small, Small-Disadvantaged, Women-Owned, HUBZone and Service-Disabled Veteran Owned firms to the maximum extent possible, and typically, the Corps of Engineers awards more than 40 percent of its prime contract dollars to small firms.

As a part of the National Response Plan, the Corps of Engineers supports FEMA when natural disasters such as hurricanes occur. We use a combination of pre-positioned contracts and contracts specifically developed in response to mission assignments from FEMA or other customers for urgently needed supplies and services. The pre-positioned contracts used to support Hurricane Katrina for ice, water and some of the initial debris removal services were awarded competitively in 2003. Many of these awards were to small firms. Unfortunately, the magnitude of a devastating event like Hurricane Katrina, required extensive and immediate response beyond the capability of our pre-placed

contracts. When, as in this case, the needs are greater than our ability to respond with preplaced contracts, we begin by awarding additional contracts using emergency procedures.

Drafters of the Federal Acquisition Regulation (FAR) realized that emergency situations sometimes require emergency actions. In our efforts to support relief efforts in response to this emergency situation, the Corps considered and used the entire suite of available contracting options authorized under the FAR, including verbal and letter contracts. It is our goal, however, to return to standard procurement operations as soon as possible. The Corps is currently moving in that direction. We are currently advertising our requirements for longer periods than we did under the urgent situation, we are attempting to give prospective contractors as much time as possible to prepare their proposals, and we are using FAR principles and competitive awards to the maximum extent possible.

For work associated with major disasters or emergency assistance activities, another special consideration is added to our normal contracting procedures. That is an additional preference for local firms established by the Robert T. Stafford Disaster Relief and Emergency Assistance Act (42. U.S.C. 5150) as implemented in Federal Acquisition Regulations Part 26.201. That provision states that "preference shall be given, to the extent feasible and practicable, to those organizations, firms, or individuals residing or doing business primarily in the area affected by such major disaster or emergency." In accordance with the Stafford Act, we require our prime contractors to give preference, to the maximum extent feasible and practicable, to organizations, firms, or individuals residing or doing business primarily in the area affected by the disaster. Our large firms have been hiring people, some of whom have been living in shelters and have been actively working to locate small firms to assist in operations. Based on very preliminary data, large firms are reporting that they are awarding more than 50 percent of subcontracted dollars to local firms.

We are continuing to award new contracts as additional needs are identified, as well as overseeing the ongoing work. Meanwhile, we are concurrently reviewing activities of our own staff, reviewing our contracts, assessing performance, and capturing "lessons learned" that can improve our response and our contracts in the future.

From the earliest days of the event, the Corps of Engineers moved quickly to assure we could provide information to the public, and established a resource page for our private sector partners. We immediately began posting information to our USACE home page (www.usace.army.mil) and provided points of contact for our prime contractors so that local and small firms could apply to do work for them. We established a registration site, where firms who wished to help could provide information on their capabilities; this site can be reviewed by government contracting officers seeking vendors, and by companies seeking subcontractors. We also developed a site where vendors could list the equipment they have available including items such as storm water pumps, generators, and transformers. The database was searchable and could be used by government agencies or contractors who need those products. We are publishing a listing

of our contract awards as well. Now, we are supporting the Hurricane Contracting Information Center as they provide a "one stop" communications portal for the public.

We are enhancing opportunities for small and local firms by requiring any large business that is awarded a contract to develop and implement a strategy for subcontracting to small firms and report their level of success. An example of our efforts is related to our need to remove the enormous amounts of debris left by Hurricane Katrina. The initial value was estimated at nearly $2 billion, far beyond the value of our pre-positioned emergency response debris contracts. The urgency of the situation required immediate award, and we advertised the procurement for a reduced time period, receiving 22 proposals. On September 15, 2005, we awarded four debris removal contracts. Each contract also requires large business prime contractors to submit a subcontracting plan with goals for each small business category.

I have asked my team to divide work wherever practical so that we can target work for appropriate small business and other programs. For upcoming levee repair work, we hope to contract some of the work to minority, Service-Disabled Veteran-Owned, or HUBZone small business prime contractors. Other small firms may win additional contracts under the Small Business Competitiveness Demonstration Program. My staff provides me with frequent status updates on Corps of Engineers contract awards including socioeconomic data.

In summary, the Corps of Engineers is committed to assuring that small firms play a vital role in the award of contracts, that we are alert to areas that we can improve on for the future, and that we are responsive to FEMA as it orchestrates disaster response efforts. Madam Chair, this concludes my statement.

Chair SNOWE. Thank you, and I thank you all for your testimony, and Administrator Barreto, I would like to begin with you. We will probably have several rounds here with the witnesses.

You indicate that the Small Business Administration has been making substantial improvement, particularly in this last week, but I think the case remains as to how efficiently the SBA is going to address the pending 220,000 applications, and that there are anticipated to be another 160,000 applications. Our current projections are that it is going to require at least 4 months, and that is in addition to what else comes in. That is just what has come over the transom at this point, as illustrated by these charts here today.

So that is the issue. It is the issue of how we are going to get this done, and does SBA have a plan for accomplishing this? It does not matter what you are doing. The question is what is the end result? We need the end result. We need to know what it is, because it has been more than 70 days since the first hurricane, and here we are finding that applications are languishing. Irrespective of what is happening, what the problems have been, we have been obviously, hoping that SBA—we have been working with your office every day, because we have wanted to know what can we do to provide the resources?

Frankly, the bridge loans should have been done from day one. Bridge loans, that is something that, you know, in fact, it passed, and regrettably now has been removed from the appropriations conference on Commerce, Justice, State, that would have included the bridge loans as part of this overall package. We happen to think that whole package are the tools that SBA requires.

So we do not want to be sitting here next month, the month after as to what the additional problems are. You need more people. I mean, I think that is the bottom line. You mention new procurement representatives, but there are not any new ones. They are what they are. You might have assigned one to DC to split their time, but you have two in Alabama, one in Louisiana, zero in Mississippi, and one in DC. So there are not any additional ones. We have recommended five additional ones to help in the contracting process.

But let us start with the numbers, because that is essential here. You have approximately 180,000 or 190,000 pending. It is going to require 4 months. So what do you have in place today that is going to suggest that you are going to get this done in an expeditious fashion? Do you have anything in place?

Mr. BARRETO. I think starting with the numbers is a great place to start, Senator Snowe. In fact, I have a chart that I am going to ask them to put up there in terms of our processing time.

Let me start with this number: 55 percent of the applications have been received in the last 3 weeks; let me say that again, 55 percent of the applications have been received in the last 3 weeks. So these are not applications that have been sitting around on a desk someplace.

Also, what you see here——

Chair SNOWE. Well, you know, can I just say, the staff was down there, and many of the applications were pending for 8 to 10 days; they had not been entered because there were no data entry people.

Mr. BARRETO. I have already established the fact that we are dealing with a volume that is 10 times bigger than anything we have ever dealt with before.

Chair SNOWE. We have to move the process along.

Mr. BARRETO. And one of the things that we have also established is that we have doubled the size of the agency twice already. We are continually hiring more and more people. In fact, I mentioned in my statement that I believe that we have probably exhausted most of the folks that have loan experience.

One of the things, if you are going to underwrite a business loan, you are going to need somebody that knows how to do that. And one of the things we are doing is we are bringing people on and training them. Again, we have close to 4,000 people on board. We are hiring more people every single day. I am transferring some of our own people that we have in our regular loan operations to work on this, and we are also working with the lending community to get some folks from there.

But one of the things that you will see here, and maybe I could have that chart turned a little bit more so that the Senators could see it, is that these are the average processing times for disasters that the SBA has ever dealt with. The average time to get a decision from application receipt to decision is the lowest of any disaster that we have responded to. The second line——

Chair SNOWE. What is the time? Excuse me, what is the time, then?

Mr. BARRETO. Well, if you will notice, the total time is a little over 20 days. That is the total of all of the applications that were received for 2005 hurricanes. That is the first block that you see there. That second block is what it is taking to process home loans; the next block is what it is taking to do business loans; the next block is economic injury.

The green line is what we were processing last year. Last year, it was taking us almost 30 days, so 50 percent longer to process the loans last year. The top line is the biggest disaster that SBA has ever dealt with before. That was the Northridge earthquake, and we dealt with that disaster over a year, not 70 days, over a year. And we have already received more applications than we received for them. But you will notice there it was averaging about 45 days to get to a decision on the Northridge earthquake.

So in terms of responding, we are responding. We are responding at an unprecedented level, and what you will also notice, because we provided some charts, is that the level of velocity of approval has increased for every week for, like, the last 7, 8 weeks, and that is, you know, documented with real numbers and some additional information that we are providing you.

We are processing business loans faster now and getting to decisions. We are processing economic injury loans faster now. And that is going to continue occurring as we get more and more people trained and focused in on these loans.

Chair SNOWE. But the point is you are referring to the 38,000 applications that have been resolved; is that correct?

Mr. BARRETO. That is right; of the applications resolved.

Chair SNOWE. Right, but there are currently 187,000——

Mr. BARRETO. Fifty-five percent was received in the last 3 weeks.

Chair SNOWE. Yes, but 187,000 remain unresolved; is that correct? And 159,000 of them are 30 days overdue. I am just telling you what we are being told.

Mr. BARRETO. I understand, and I am trying to document to you what the reality is. And the other thing that I want you to be very clear——

Chair SNOWE. So I think the bottom line is what do you need? I think that is more than anything else what we are here today to say is what do you need to get this done in a timely fashion, because we have asked——

Mr. BARRETO. I need more experienced loan processors who have experience processing business loans. That is what I need.

Chair SNOWE. And one of the things we recommended to you several months ago was to work with the private sector. We understand that you need loan officers and verifiers and so on, but the fact is we are here. That is what we have been offering, asking. What do you need to get this done? We do not want to wait 2 or 3 more months to find out what you need. That is what we were saying. That is what we have recommended. And you could have done it on a timely basis.

Mr. BARRETO. We are asking, and we have been asking from the very first days of the hurricane: we have had meetings with our trade association. I had a meeting with the trade association a couple of weeks after the hurricane. We are in regular contact with all of our lenders. We have got everybody in capital access working on this. I cannot make the lenders, you know, give us loan processors. I hope that a lot of them will.

And we are also doing a wide, wide outreach through Monster.com and through other placement agencies to identify people. By the way, this could be somebody who is already retired from Government. This could be somebody that is already retired from the banking industry. This could be somebody that is out there that has some level of expertise. So, I mean, will, if anybody has any loan processors they want to send understand, we are happy to talk to them and bring them on board immediately.

Chair SNOWE. Well, I would hope that you would be seeking them aggressively——

Mr. BARRETO. We are.

Chair SNOWE [Continuing]. From the private sector.

Mr. BARRETO. We are.

Chair SNOWE. I mean, the point is do you have enough people currently overall?

Mr. BARRETO. We have double what we had a month ago, and we are hiring at a clip of 200 a day, so it is going to take a——

Chair SNOWE. The point is how many do you need, because we have recommended more than 1,000.

Mr. BARRETO. Right, and we agree, we are going to go after those 1,000. We think we need at least another 1,000. We are prepared to hire another 1,000.

Chair SNOWE. But you understand, recognizing that this was unprecedented from the outset, this should have been happening long before now. That is the point of all this.

Mr. BARRETO. Well, it has been happening.

Chair SNOWE. It has not been happening, and that has been the problem. I understand; we are trying to look forward here. The question is we do not want to come back here in 2 months to find out that the agency is languishing in this ability——

Mr. BARRETO. It will not languish.

Chairman SNOWE [CONTINUING]. TO RESPOND IN A TIMELY FASHION. WE KNOW THIS IS UNPRECEDENTED.

Mr. BARRETO. That is right.

Chair SNOWE. So it requires an unprecedented response.

Mr. BARRETO. That is right, and that is what we have given it.

Chair SNOWE. It is as simple as that. You have to move with the times.

Mr. BARRETO. Absolutely.

Chair SNOWE. The demand, so that we can do it, but we have been asking, and the problem is here and just looking at that some of the increases in staff is just not reflective and the daily increases for disaster employees. When you look at the different offices, whether it is in Buffalo for the calls, Atlanta, Fort Worth, Sacramento; I mean, that is the problem. I mean and we cannot shortchange this effort.

Mr. BARRETO. I agree.

Chair SNOWE. Because the problem is going to compound itself with the additional applications that are flowing in.

Mr. BARRETO. We agree.

Chair SNOWE. So, where are we?

Mr. BARRETO. We are hiring people as fast as we possibly can.

Chair SNOWE. How many people? Give us a number today what you need.

Mr. BARRETO. Well, I agree with you. I think we are looking at bringing at least another 1,000 people on board. I want to bring them on yesterday. If somebody can identify them and send them to us, we will hire them. You know, we are doing everything that we can.

I mentioned to you that we have doubled the size of the disaster office twice already. This is an unprecedented increase. And by the way, when you hire somebody, especially somebody who has not worked for SBA before, you have got to train them; you know, you have got to train them, and you have got to monitor them and make sure that the will of the product that they are putting out is a good quality. So we are doing all of those things: we are hiring them; we are training them——

Chair SNOWE. I know, but could it not have happened sooner? I think that is the point here. A lot of this could have happened sooner. I mean, we were talking about this in early September.

Mr. BARRETO. We have doubled the size of the agency——

Chair SNOWE. That is the problem.

Mr. BARRETO [Continuing]. Twice already.

Chair SNOWE. Yes, it does not matter if you double them; if you have to triple that, I mean, that is the point. Solve the problem.

Mr. BARRETO. I would be happy to if I could find those experienced loan processors. That is what I need. I need experienced loan processors.

Chair SNOWE. That is one part of the equation. You need other additional offices as well in different capacities.

Mr. BARRETO. Well, if we want to approve loans——

Chair SNOWE. The point is, you reached out to the private sector once you exhausted your other sources——

Mr. BARRETO. I have.

Chair SNOWE [Continuing]. For additional help and other agencies, for that matter.

Mr. BARRETO. Right.

Chair SNOWE. You know, we want to solve this problem.

Mr. BARRETO. Me, too.

Chair SNOWE. And the sooner the better.

Mr. BARRETO. Absolutely.

Chair SNOWE. It's 70 days, and we are counting.

Mr. BARRETO. We agree.

Chair SNOWE. And the applications are piling up.

Mr. BARRETO. Yes.

Chair SNOWE. And we do not want to see these charts here, because the gap is tremendous——

Mr. BARRETO. It is.

Chair SNOWE [Continuing]. Between what has been received and what has been approved.

Mr. BARRETO. Fifty-five percent in the last 3 weeks.

Chair SNOWE. Senator Kerry.

Senator KERRY. Fifty-five percent of what?

Mr. BARRETO. Fifty-five percent of the applications that we are processing right now have been received in the last 3 weeks.

Senator KERRY. Fifty-five percent of the ones you are processing now were received in the last 3 weeks?

Mr. BARRETO. That is correct.

Senator KERRY. Or have been processed?

Mr. BARRETO. Fifty-five percent of the 225,000 applications that we are processing have been received in the last 3 weeks?

Senator KERRY. What does that tell us?

Mr. BARRETO. It is something in excess of 140,000; 150,000.

Senator KERRY. Right, it tells us there are a lot of applications. It does not tell us——

Mr. BARRETO. Absolutely.

Senator KERRY. Right, it does not tell us that a lot of them have been approved.

Mr. BARRETO. Well, we have approved 6,000 of them, and we are approving more every single day.

Senator KERRY. It just tells us you have received a lot of applications in the last few weeks.

Mr. BARRETO. Absolutely, yes it has.

Senator KERRY. And it says 55 percent of them came in in the last 3 weeks; big deal.

Mr. BARRETO. Well, the point is that these are not applications that have been sitting there for months. They have just been received, and we are staffing up every single day to be able to address those applications.

Senator KERRY. Are you finished?

Chair SNOWE. Yes, Senator Kerry, you can continue.

Senator KERRY. Well, first of all, can you explain to me how you are processing home loans faster than business loans?

Mr. BARRETO. Well, 10 times of the applications; in other words, the ratio right now, Senator Kerry, is 10 to 1, OK? We have received 10 percent or less of all the applications have been for businesses, and that is very unusual, by the way. Usually, for any disaster that we have had before, it is usually a ratio of two to three to one, which you would expect, because obviously, more people that own homes than own businesses.

But this has been off the charts. And the way we process these applications is on a first-in, first-out basis. We are not, you know, discriminating about, you know, applications. As they come in, we process them.

Senator KERRY. Yes, but for instance, I mean, that is sort of again—frankly, I think this is a phony chart, and I will tell you why it is a phony chart: this is a single event, this big one where you show huge amounts of times.

Mr. BARRETO. Right.

Senator KERRY. That is a single event. Here, you have all hurricanes of 2005 lumped together.

Mr. BARRETO. Well, there were two hurricanes that occurred right next to each other.

Senator KERRY. I understand that, but what we are talking about here is Katrina. You do not have a Katrina line. You do not have a Katrina line compared to Northridge, do you?

Mr. BARRETO. Well, I will be happy to provide you with a Katrina line and a Rita line.

Senator KERRY. But the point is that, you know, you are trying to sort of say all of the hurricanes' response somehow mitigates what we are here to talk about which is Katrina, and it does not. Katrina is Katrina.

Mr. BARRETO. Absolutely, and what I have been asked to do is to provide an unprecedented response, and we have provided an unprecedented response.

Senator KERRY. Do not give us an unprecedented phony chart, because it is not a one-to-one comparison.

Mr. BARRETO. Actually, the lines there actually make it even more significant that it was over a year period. We are dealing with this in 70 days.

Senator KERRY. Mr. Barreto, it is not a comparison of Katrina to Northridge, No. 1, and Katrina is what we are here to talk about.

Mr. BARRETO. I would be happy to provide you with a line for Katrina, and the line——

Senator KERRY. Are you going to tell me——

Mr. BARRETO [Continuing]. And the line is going to be a lot smaller than what it was for Northridge or those other hurricanes that we dealt with.

Senator KERRY. Well, let me ask you this: you have 197,000 loans that have been received on home loan approvals?

Mr. BARRETO. One hundred ninety-seven thousand applications.

Senator KERRY. Correct.

Mr. BARRETO. Not loans but applications we have received.

Senator KERRY. Applications.

Mr. BARRETO. Yes.

Senator KERRY. And you have 4,888 that have been approved thusfar. It is a 2.5 percent approval rate. Is that adequate?

Mr. BARRETO. Absolutely not.

Senator KERRY. OK; in business loans, you have got 28,540 applications received. You have got 840 loans approved. That is a 3 percent approval rate. Is that adequate?

Mr. BARRETO. Absolutely not.

Senator KERRY. Now, with respect to this philosophy you have put forward in your opening statement that SBA has been criticized for its response, do you think it should have been?

Mr. BARRETO. Well, what I think should be is that we should be reporting accurate information, and I never read an article that has accurate data or accurate information.

Senator KERRY. That is not what I am asking you. Do you think SBA should be criticized for its response?

Mr. BARRETO. Well, I cannot speak for the people that are criticizing us. Everybody has different reasons for criticizing us.

Senator KERRY. Well, do you self-criticize yourself? Do you——

Mr. BARRETO. Every day.

Senator KERRY [Continuing]. Come here with any humility——

Mr. BARRETO. Every day.

Senator KERRY [Continuing]. That suggest you have not done the job?

Mr. BARRETO. Every day.

Senator KERRY. Well, the question I am asking you is you suggest that SBA disaster loans—this is a defense—that everybody, we all misunderstand what you are doing, you said in your previous testimony SBA disaster loans were always designed for long-term recovery.

Mr. BARRETO. That is right.

Senator KERRY. What is in the Snowe-Kerry-Vitter-Landrieu Small Business Hurricane Relief and Reconstruction Act?

Mr. BARRETO. A number of different items are in there.

Senator KERRY. Can you tell me? What they are?

Mr. BARRETO. Well, I think the items that we are in concurrence with is the expansion of the budget authority of the SBA; we think that would be very important; the increasing of the surety bond levels; we think that would be important; the incentives to bring small businesses back into the area, we think that would be important; realizing that people are going to need more time to pay back these loans, and we are going to have to be more flexible with our terms, we think that that would be important.

Senator KERRY. What about bridge loans?

Mr. BARRETO. We are not in support of bridge loans right now.

Senator KERRY. Why not?

Mr. BARRETO. Well, one of the reasons is that we have just put forward a proposal today that we think is going to be able to help these folks a lot quicker than what we could do with bridge loans. SBA does not do bridge loans. We have never done bridge loans before.

Senator KERRY. So you are telling me that a proposal that you have put forward today is going to help people more than a bridge loan we could have given 6 weeks ago?

Mr. BARRETO. Well, you know, some bridge loans——

Senator KERRY. I do not understand that logic.

Mr. BARRETO. Some bridge loans have been given, and they have been given by the States. The States have put funds forward.

Senator KERRY. Well, if the States are doing it, and it is a good idea for them, why is it not a good idea for us to help them?

Mr. BARRETO. Well, you know, the SBA has never done bridge loans before.

Senator KERRY. I do not care if they have never done it. Is it a good idea to help people in Katrina, or is it not?

Mr. BARRETO. It is a good idea to help those folks in every way possible.

Senator KERRY. And that is a way that is possible, is it not?

Mr. BARRETO. That is one of the ways that is possible.

Senator KERRY. Why do you oppose it?

Mr. BARRETO. We just do not feel that that is the best way to do it for us; I mean, the States may do it; other folks may do it, banks may want to do it, but for us to be involved with it; right now, what our disaster program is intended for is long-term recovery, and we also have loans that can provide working capital, and we want to make those available.

Senator KERRY. Is that why the SBA put a hold on this bill?

Mr. BARRETO. Well, as I said, I think that we agree on the majority of the items.

Senator KERRY. Why do you not negotiate in good faith to try to work a compromise to get it through?

Mr. BARRETO. We have been negotiating.

Senator KERRY. We have not had a serious negotiation.

Mr. BARRETO. We have been negotiating.

Senator KERRY. You have? With whom?

Mr. BARRETO. Our folks have been in conversations with all the Members of this Committee——

Senator KERRY. No, all they do is sit there and say what they oppose. They do not offer any solution. They do not talk about a compromise. They just say we are opposed to this. That is not a negotiation. We have met with OMB; we have met with SBA; no progress. I do not understand it. Are you just opposed? Is that it?

Mr. BARRETO. No, I think we are in concurrence with the majority of the provisions that are a part of that legislation, and we would love to work with you to move those forward, because we agree, I think they could have a lot of benefit to the folks who are in the affected States.

Senator KERRY. When are you going to start working with us to do that?

Mr. BARRETO. I promise that we will work with you every day. We can meet on this every day. We can discuss any ideas that you have. We would like some support for the GO Loans.

Senator KERRY. Are you empowered to negotiate for the Administration?

Mr. BARRETO. We are empowered to discuss any options that you might have on this legislation.

Senator KERRY. Are you empowered to negotiate for the administration?

Mr. BARRETO. We are the representatives of the Administration.

Senator KERRY. I do not want to have a discussion. I want to negotiate it and get it done.

Mr. BARRETO. I am happy to take any information that you would like me to take back directly to the White House and discuss what you would like to do on that.

Senator KERRY. Well, let me ask you with respect to this Lend a Hand program that you have put forward, the lenders that you have asked to lend a hand do not think it is a very good idea. Do you see a conflict of interest at all in your having lenders come in and work for the SBA somehow as temporary employees when you are supposed to have oversight over them?

Mr. BARRETO. We would love to have those lenders come and work with the SBA. We think that there is a lot of lenders——

Senator KERRY. How would you do that? Who is going to pay them?

Mr. BARRETO. We are going to pay them. The SBA is going to pay them.

Senator KERRY. What happens to their benefit programs? Do they transfer to the SBA?

Mr. BARRETO. Remember, these are going to be short-term situations. You know, the banking employees will not become permanent SBA employees. They will be detailed over to the SBA over a period of time. We think that it could be a big help for us if we had some of these folks even for periods as short as 90 days. We think that could help us to get——

Senator KERRY. Would it not be simpler——

Mr. BARRETO [Continuing]. Through a lot of this, a lot of the overflow of the applications.

Senator KERRY. Would it not be simpler and perhaps more effective and less conflict of interest if there were actually a lender fee program where they, in fact, engage in it, and you simply supervise the process?

Mr. BARRETO. Well, again, you know, we are talking about different kinds of loans. The kinds of loans——

Senator KERRY. Why would that not be faster? Do they not bring that expertise to the table?

Mr. BARRETO. Who does?

Senator KERRY. Lenders.

Mr. BARRETO. If they have experience doing business loans, they could be a big help to us.

Senator KERRY. Well, why not simply engage them to do this on an emergency basis?

Mr. BARRETO. We have engaged them on the GO Loans. We think that would be a significant opportunity. I mentioned to you in my testimony that we have already done $100 million in our regular working capital loans, and we think we could do a lot more through these GO Loans. In fact, the GO Loans are actually a response to a lot of the lenders in the Gulf community who were asking us for a program that would expedite the paperwork, that would increase the guarantee. And that is why we think that these GO Loans are going to be a way for us to get a lot of money a lot quicker in people's hands.

Senator KERRY. Well, let me just say, I know my time is up: the lenders we have talked to say that even if they wanted to do this, the initiative is largely unworkable as described. Many of them believe in a longer term approach in which you have them actually

process those loans, and you guys would have an oversight role. Let me ask you this: has the SBA compared the cost of paying lender fees to process loans versus hiring the lenders?

Mr. BARRETO. I am not sure if that analysis has been done, but I would be happy to follow up on it.

Senator KERRY. Do you not think it would be worth doing that——

Mr. BARRETO. Absolutely.

Senator KERRY [Continuing]. Before you engage in this program?

Mr. BARRETO. Sure; whatever we can do, whatever makes sense, whatever is the most efficient, that is what we want to be doing. But we think that if we got some of these folks—again, remember, it may not just be employees that are currently at the lender. It may be an ex-employee of a lender. It may be somebody who is transitioning out. It may be somebody who worked for the SBA before. You know, we have had some of our previous SBA employees come back to us wanting to volunteer to help us process these loans. So we are going to take the help from wherever we can get it.

Senator KERRY. Thank you, Madam Chair.

Chair SNOWE. Thank you, Senator Kerry.

Senator Vitter.

Senator VITTER. Thank you, Madam Chair, and thank you, Mr. Administrator, for being here.

In my mind, it is very simple what we need to focus on two things: the speed of the current SBA activity, No. 1; and gaps, significant gaps and unmet needs that the current SBA menu does not address, No. 2. So I really want to focus on those two things, following up on many of the other questions.

First of all, timeline, current SBA activity. As I understand it, today, there are about 188,000 SBA hurricane loan applications outstanding, correct?

Mr. BARRETO. That is correct.

Senator VITTER. And as I understand it today, those are being processed, the most current number, which has been building up, at about 1,600 per day; is that correct?

Mr. BARRETO. I think it is a little bit more than that that we are actually processing. I can get you an exact number on it. And that processing is increasing every single day as we get more and more of our people online. I have said this a couple of times already, we have literally doubled the size of the disaster operation twice already, and we will continue increasing more and more people.

The reason I mention that is because as more people come on board that have this experience, we can process more loans, and we can process them quicker.

Senator VITTER. Sure, if 1,600 is not the accurate number, what is the accurate number?

Mr. BARRETO. I will get that for you immediately, but we are processing more loans every single day. I think just over this weekend——

Senator VITTER. Surely, in preparation for this hearing you know——

Mr. BARRETO. No.

Senator VITTER [Continuing]. The current number. I mean, surely, you know what the number is today.

Mr. BARRETO. Sure.

Senator VITTER. I really want to do the math——

Mr. BARRETO. Absolutely.

Senator VITTER [Continuing]. And see if there is any solution in sight.

Mr. BARRETO. And I think I provided you a chart——

Senator VITTER. If the number is 1,600, it will take, at those numbers, and I realize they are changing arguably, but the other number is changing, too. So at those numbers, it will take about 4 months, correct?

Mr. BARRETO. I cannot tell you how many we are going to process more in the weeks to come.

Senator VITTER. I can tell you what 188,000 divided by 1,600 is. It is about 4 months.

Mr. BARRETO. Well, it will not exactly be that, because one of the things that I have provided is a chart that shows the increasing velocity of those processes and of the approvals that we are doing. It is a line that is going straight up. It is not going to be a static number. It will not be a static number that we will process 1,600 every single day.

Senator VITTER. That will not be a static number.

Mr. BARRETO. That is correct.

Senator VITTER. Nor will the 188,000 be a static number.

Mr. BARRETO. That is correct.

Senator VITTER. That is going up, too.

Mr. BARRETO. That will go up.

Senator VITTER. In fact, you are saying that 55 percent in the last 3 weeks—I hate to tell you, that is not the good news. That is the bad news, because that means 188,000 is continuing to go up significantly.

Mr. BARRETO. Could be 400,000.

Senator VITTER. So the question is, where do you expect both numbers to end up, and when you do the math, what is the timetable.

Mr. BARRETO. I cannot tell you that. It would be a product——

Senator VITTER. If you cannot tell us that, you do not have a solution identified that we know will work. That is my concern. If you cannot tell us where the 188,000 is headed roughly, and if you cannot tell us where the 1,600 a day is headed roughly, then, we have no assurance that we have identified a solution.

Mr. BARRETO. Well, the solution is for us to get more business loan processors as soon as possible.

Senator VITTER. Correct, and you have also testified that you have exhausted the market for business loan officers.

Mr. BARRETO. That is right. That is why we are going to the lending community. That is why we are redirecting SBA employees. That is why we are calling people out of retirement, that is why we are going to the other agencies to see if we can get loan processors for them. We are exhausting every possible option that we have. If somebody has a better idea of where we can get those loan processors, we would love to talk to them.

Senator VITTER. Well, it seems to me you are saying you have exhausted the market for business loan officers. You are looking at these other options. We have no idea if these other avenues will produce anything significant.

Mr. BARRETO. That is right.

Senator VITTER. So we do not have a solution in sight; that is my concern. If we do not have a solution in sight, we need to blow past this traditional box and do something significantly different like engaging the private bank community in a newer way. But surely, we should discuss this now; should have discussed it at least a month ago. But surely, we should discuss it now and not 3 months from now.

Mr. BARRETO. Absolutely; that is why we have proposed that we have this new loan program that engages the lending community in the Gulf States to do more of our working capital loans. Again, I want to emphasize that the loans that we do—and again, please remember 10 that times more homeowners have applied to us than businesses have applied to us at this point. But the loans that we do are for long-term rebuilding. They are not short-term cash infusions. They are not grant programs. They are not bridge loans. Long-term rebuilding is what those loans are intended for.

Senator VITTER. Well, I am going to get to that in a minute in terms of point No. 2.

What I would like in terms of a plan is a projection from you, and I understand it cannot be exact; we do not have a crystal ball, but a projection from you where you think this 188,000 will go, No. 1, a projection from you where you think this 1,600 a day will go and how it is going to get there——

Mr. BARRETO. OK.

Senator VITTER. That is a simple——

Mr. BARRETO. Sure.

Senator VITTER [Continuing]. Division equation that is going to yield the average time. Right now, it is 4 months.

So if those projected numbers do not divide into each other and yield something below a month, we still have a problem with no solution in sight. So either it is going to be solved by looking for these new loan officers in non-traditional avenues, and quite frankly, I do not think there is any chance on the face of the earth that it is going to be solved that way based on these numbers, or we need to do something different right now.

So can you get us those projections——

Mr. BARRETO. Sure, absolutely.

Senator VITTER [Continuing]. And tell us what that would yield in terms of——

Mr. BARRETO. No problem at all.

Senator VITTER [Continuing]. The average times? Because right now, it is 4 months.

Mr. Barreto.—Senator, and again, some of the charts that we have provided today are showing you the trend lines that we have seen over—from the beginning of the disaster to right now, and you see that, and we are going to use that information to also be projecting forward, and I will make sure that you have that immediately.

Senator VITTER. OK; what I see in the trend lines is that the loan application trend line is growing quicker than the resolution trend line.

Mr. BARRETO. What you see on the charts is that actually, the applications that we have received spiked up, and they are actually starting to go down now. Now, we cannot assume that they will continue to go down, because the point is there are a lot of people out there who have not decided to apply yet. There are hundreds of thousands of people who could be eligible for these loans, but they have not decided what they are going to do yet.

The reason I give you that number is because usually, for a disaster, usually for a disaster, we see a 20 percent return rate. A 20 percent return rate on 2 million applications is 400,000 applications that we could receive. We have sent out 2 million applications. Now, we have only received 10 percent of those back, but a regular return rate is 20 percent, so we could see more. We have not seen it yet, and we have seen some of the volume starting to go down; especially on the business loans, we have seen that to start go down. But again, we have to prepare for the onslaught of a lot more applications.

Senator VITTER. Well, let us just take the figure 400,000. If it reaches that, it seems to me there is no way that we are going to get the average time down to anything reasonable based on adding loan officers in an environment where you have, quote, "Exhausted the market for business loan officers", close quote. Am I missing something?

Mr. BARRETO. I think it is a product of how many people we can get on board to process these loans. I agree with that.

Senator VITTER. Let me quickly move on to the second topic, which is the need for bridge loans or something like that. What is the difference between our bill's bridge loans and your pilot GO Loans?

Mr. BARRETO. Well, one of the things is that we can do the GO Loans immediately. One of the other things is——

Senator VITTER. What is the difference in terms of requirements, demands, ability to get money to businesses?

Mr. BARRETO. Yes; the lenders have said to us, "Look, we want to do loans up to $150,000. We want an 85 percent guarantee. We want to use our own form. We want to expedite the decisionmaking process. We want to transmit information to you electronically. If you do those things, we can do these loans a lot quicker, and those loans will be profitable to us." What they have said to us is, "We are not philanthropic organizations. We have got to make money on our loans. This is the best way that we think we can do that." That is what we did with SBA Express. That is the reason that the loans that the SBA has done over the last few years have doubled. The number of loans and the dollars have doubled.

Senator VITTER. You're describing process, the difference between the process of bridge loans and GO Loans.

Mr. BARRETO. Right.

Senator VITTER. What is the difference between the substance of the bridge loans and the GO Loans? Because I do not care what we call it.

Mr. BARRETO. Yes, exactly, and, you know, again, look: I have been down to the Gulf States four times in the last 6 weeks, and every time I go down there, somebody will tell me something different. I mean, the truth of the matter is some of these small businesses are not even sure that they want loans. They are applying for loans, but they are not sure they even want to go into debt. Some folks would rather we just give them grants. We explained to them we cannot give them grants. We explained to them that our loans are not working capital and are not intended to be working capital.

And so, you know, when we——

Senator VITTER. Is a GO Loan a working capital loan?

Mr. BARRETO. Yes, it is.

Senator VITTER. So it is, again——

Mr. BARRETO. It is, it is.

Senator VITTER [Continuing]. I want to understand what a GO Loan looks like substantively, not process——

Mr. BARRETO. It is our——

Senator VITTER [Continuing]. Compared to what we are calling bridge loans.

Mr. BARRETO. It is our 7(a) loan up to $150,000 with an 85 percent guarantee and streamlined processing so they can do these loans quicker.

Senator VITTER. Would significantly fewer businesses be eligible for your GO Loans than for our bridge loans?

Mr. BARRETO. I do not know. I do not know what the actual criteria of the bridge loans that you are describing. We are going to use our criteria that we have for our working capital loans, but we think a lot of folks are going to be able to qualify for those loans. Twenty billion dollars——

Senator VITTER. Why did you call the GO Loans a pilot? What is the size and the parameters of the pilot?

Mr. BARRETO. Well, it is for the Gulf States. It will be over, you know, a period of time. We are going to use the existing PLP lenders and the express lenders. We are willing to bring more lenders onto the equation as well. But, you know, we think this could go a long way to getting money in people's hands immediately.

Senator VITTER. Do you have a maximum dollar amount that is devoted to this?

Mr. BARRETO. No, we do not. We do not have a maximum dollar amount. One of the reasons that we are also supportive of the legislation that we have talked about in the past is because we think we ought to increase the lending into the Gulf States by an additional $10 billion on our 7(a) loans and $5 billion on the 504 loans. We think that would go a long way. So we are asking for $15 billion that could just be dedicated to the Gulf States. A lot of that could go through these GO Loans.

Senator VITTER. Would you support the same amount of money devoted in our bill to your GO Loan concept as we have it calling it bridge loans?

Mr. BARRETO. Well, I think that what we are talking about is a much larger amount in our GO Loans. I mean, we are not putting a cap on it. It could be billions of dollars that could go into these loans, billions of dollars.

Senator VITTER. Where is that money coming from? Do you have it in your budget?

Mr. BARRETO. It is part of our budget authority. It is our budget authority that we have. And of course, we are hoping that we are going to get a much larger budget authority; again, we are asking for an additional $10 billion just for the Gulf States on the working capital loans and $5 billion on the——

Senator VITTER. As a way to break the impasse on this bill, can we consider looking at the same amount we have in the bill for the bridge loans going toward your GO Loan concept to be a guaranteed minimum that would be used for this purpose?

Mr. BARRETO. Now, remember, our loans are a zero subsidy loan, so the fees that are generated on our loans pay for the program. But I would be happy to look at that, and we can run, you know, whatever numbers that we need to run and see what we can do on it. I would be happy to talk to you about it. I do not know what the implications of that would be. I know with the GO Loans, we can do those immediately. We can get money in people's hands. I know that the lending community in the Gulf States want these loans. They want this legislation. This is a way to get them engaged.

Senator VITTER. I did not understand your responses before. Why are you opposed to the bridge loans in the bill?

Mr. BARRETO. We just think that there are two different things. You know, the SBA Disaster Program has never done bridge loans. We would rather use the regular——

Senator VITTER. Is the point not that they are two different things?

Mr. BARRETO. Yes, they are.

Senator VITTER. Is not the point not that there is a gap and a need——

Mr. BARRETO. Yes.

Senator VITTER [Continuing]. That is not currently addressed by the traditional SBA menu?

Mr. BARRETO. Well, and we think that these GO Loans go a long way toward filling that gap.

Senator VITTER. So these GO Loans are short-term working capital loans.

Mr. BARRETO. Absolutely.

Senator VITTER. If it is different versions of the same thing, again, why are you so opposed to the bridge loans?

Mr. BARRETO. Again, we just did not feel in our disaster program that we should be adding bridge loans to that. We think that we can fill that gap with the regular loans that we have. These GO Loans, again, and this is in consultation with the lending industry. This is what the lending industry has told us that they want. And so, we believe this is the better way for us to go. We can get money a lot quicker, a lot more money.

We have had a lot of success with these kinds of loans over the last 4 years. We have doubled the number of loans that we do, precisely because we have made these kinds of changes. These kinds of loans now represent 60 percent of the portfolio of the SBA, 60 percent now is what these kinds of loans represent for us. So we have a lot of experience doing these. We understand these. We can

work with the lending industry. The lending industry wants this. We think this is a great way to fill that gap.

Senator VITTER. Thank you, Madam Chair. I would love to come back if we have the opportunity for more questions.

Chair SNOWE. Oh, yes, absolutely.

Just to clarify something, because I think it is very important for the record: we have had a bill pending since September that passed the Commerce, Justice, State Appropriations. Now, did SBA oppose that?

Mr. BARRETO. Oppose what?

Chair SNOWE. Oppose our bill as an amendment to the CJS? Because it was lost in conference. I just want to know if you were seeking expanded budget authority. We have expanded budget authority and more in this legislation, and it was unfortunate it was dropped out at conference. It is pending as a unanimous consent request in the Senate so that we can get it through as well as in the House so that we could move forward in giving you the tools that are necessary.

I just want to make sure we clarify for the moment right here that we are seeking considerable expanded budget authority, and there were bridge loans. And the SBA opposed the bridge loans, which would have been an efficient way. So on one hand, you cannot say, well, we do not have this authority; we do not have this ability; ours are long-term recovery disaster loans and then on the other hand oppose the bridge loans.

Now, you have come up with a new modification in these recent days. That is well and good, but we have lost 70 days in the meantime. So, I just want to be sure that we understand what we are talking about here, because we were long on the road for giving you the tools that you needed months ago, and as a matter of fact, it passed on September 15th, OK? So here we are, and we have now lost it in conference.

So I just want to be clear on that subject. We could have been way ahead of the game by now. And for whatever reasons, you and the Administration opposed this bill. And I simply do not understand why. I simply do not understand why there any objections to this legislation. I simply do not. But we are where we are today.

Mr. BARRETO. We are actually in agreement with most of it.

Chair SNOWE. But you have, at least as I can count up, I would say about 10 provisions that you are opposed to from what I understand, OK? And I see it goes on *ad infinitum* here. I mean, we can sit here and pass around different projects and everything. The bottom line is we need to get it done. And we tried to. We tried to through the appropriations process. We tried through unanimous consent, and all we heard are objections, so we cannot move it. And one was the bridge loans. I kept hearing, well, you have been down there, and people are asking you for things that we cannot do as the SBA.

So we gave you the tools, tried to give you the tools, and you did not want these tools, and you are objecting to these tools. And so, here we are.

Mr. BARRETO. We want most of the tools.

Chair SNOWE. You know, 70 days plus later. I just want to be clear——

Mr. BARRETO. Sure.

Chairman SNOWE. Because we have attempted in many ways.

Senator Landrieu.

Senator LANDRIEU. Let me follow-up with that, and the reason I think our Members seem exacerbated [sic] or exasperated—I cannot even think, I am so aggravated.

Mr. BARRETO. Exacerbated.

Senator LANDRIEU. Or whatever.

Mr. BARRETO. Frustrated.

Senator LANDRIEU. We are losing—we are frustrated. We are losing our patience.

Mr. BARRETO. Yes.

Senator LANDRIEU. Because for Senator Vitter and for myself, this is more than just the politics of Washington. I mean, this is really whether our State is going to be able to pull itself up with partnerships and with help and move on, because the disaster is of such a magnitude, Mr. Administrator, as you know, 81,000 business have been affected, 41 percent of all of the businesses in our State.

So if this does not work, in large measure, the rebirth of South Louisiana is not possible. If you assume, which we understand, that small business is the heart and soul of the economy, entrepreneurship is where it begins and ends, we agree with that. We are trying to help you get these entrepreneurs stood back up.

We understand that your current design does not meet the immediate needs of businesses, but as Senator Vitter pointed out so appropriately, if we do not come up with a design, these 81,000 businesses may go away and not come back. And that causes our long-term recovery to be more difficult.

So this is what we are pressing you for: the Chairman said 7 weeks ago, we gave you more authority. You have rejected it. Now, 7 weeks later, you have come back with a program that is a pilot, not been tested, and you do not have the money in the supplemental, I understand, the $15 billion that we need to get it done.

Mr. BARRETO. That will not require——

Senator LANDRIEU. So we need no money to do this.

Mr. BARRETO. That is right.

Senator LANDRIEU. We need no money to do it.

Mr. BARRETO. That is correct.

Senator LANDRIEU. This is another pilot program——

Mr. BARRETO. Yes.

Senator LANDRIEU [Continuing]. That does not cost the Federal Government any money.

Mr. BARRETO. Absolutely.

Senator LANDRIEU. So it does not cost the Federal Government any money. It can be done. The question is if it did not cost us any money, why did we not do it 7 weeks ago? That is No. 1: if it did not cost us any money, and it is basically painless, and you could get it implemented, and it cost nobody any money, why did we not do it 7 weeks ago?

Mr. BARRETO. Well, as I mentioned before, we have been doing it over the last 7 weeks. We put $100 million through our regular loans into the Gulf area over the last couple of months, $100 million working with the lenders. We did $10 million just last week

working with the lenders. But as we work with the lenders, and we say, "What else can we do? What else do you want? How can we get you to even do more?" They keep coming back and saying, "Increase that loan up to $150,000. Make it an 85 percent guarantee. Streamline the process, let us make the decisions ourselves just like we do with our express loans."

And that is why we are coming back. This is a direct response to what the lending community is telling us that they want. So we have been responsive. We have done $100 million of these kinds of loans, and now, we are enhancing the program to make it even a better situation for the lenders and for the small businesses.

Senator LANDRIEU. Because time is of the essence, we may want to consider doing both, trying to pilot a bridge loan program or, because this is what our State is really asking for, and there are limits, because the State is putting up $10 million. It is not a lot of money, but because the State's budget is $1 billion short, scrounging for every State dollar we can, but the State is making some attempt to put up money. Perhaps following on what Senator Vitter suggested, we could do a bridge loan program and this new GO Loan program and see which one works best. I do not see how one does not cost anything and the other one does.

Mr. BARRETO. Well, the bridge loan program actually would require funding in the bill. The GO Loan would require no funding in the bill.

Senator LANDRIEU. I want to just say for the record that the bridge loan program is a partnership between the 20 regional banks, and it is, you know, something that the Department of Economic Development not just in our State but throughout the Gulf Coast have really asked for, because it is quick, and within the first week, they exhausted——

Mr. BARRETO. I know.

Senator LANDRIEU. You know, within 1 week, they exhausted the money that we had.

But again, not just to stand on the point, but we have to get some help immediately. So if it is this GO Loan program that does not cost the Federal Government anything, that can get money out there, we might be willing, Madam Chair, to redirect our effort.

But again, we have 20 provisions in the bill that was passed 7 weeks ago, and the Small Business Administration, instead of saying we can pass these 10 and not the others, or we will change it, has basically been saying no. So meanwhile, our businesses are not getting the help.

And this is not about the reputation of the Small Business Administration. We are part of a Committee that wants you to be good. The better you are, the better it is for our business. But this is about survival for businesses along the Gulf Coast, and once they go away, it is going to be very hard to get them back.

So let us get on with making whatever compromises are necessary to get the job done. Thank you, Madam Chair.

Chair SNOWE. Thank you, Senator Landrieu.

Senator Thune.

Senator THUNE. Thank you, Madam Chair, and I appreciate being able to listen to the discussion.

Obviously, the Senators from Louisiana are the folks who are most impacted by all this, and we obviously want to be as responsive as we can to their needs and to the needs of the people that they represent, and I know they have more first hand knowledge than any of us about what the needs in the region are and how some of these programs are currently working.

I guess I would just ask a couple of questions, Administrator Barreto, with respect to some of the contracting down there. I know that there has been a lot of focus on some of the larger contracts in the hurricane recovery efforts that are going to larger companies. Is there evidence that small, local businesses are being used as subcontractors in some of these larger contracts as well?

Mr. BARRETO. Yes, there is Senator. I mentioned in my testimony that we have had significant announcements made by FEMA; for example, last Friday, we made an announcement that $1.5 billion was going to be set aside just for small businesses, half of that to minority small businesses. Of course, we have new numbers from GSA. We have new numbers from the Corps of Engineers. We believe as much as 45 percent of the contracting so far has gone to small businesses and minority businesses, so well in excess of the 23 percent.

But we are not complacent about this. We are doing a number of different things down there right now. We have introduced our business matchmaking initiative down there to identify companies that can do contracts, and, you know, they do not have to be large, complicated contracts. Some of these small businesses just need something, you know, to keep going.

Because, you know, one of the things that—listen, I know, and I understand, because I have gone down there, and I have met with officials at every level. There is a tremendous amount of frustration and a tremendous amount of fear, because a lot of these businesses do not know what they are going to do. They do not have places to live. There are places that do not have electricity yet. They have lost all their employees. They have lost their vehicles. There is still debris and ships in the roads. There are areas where they still cannot go back to.

All of these things compound the issue. A lot of these small businesses are saying look: I do not want to go into debt. I do not want to take on a loan that I cannot pay back. Help me get some business. So these contracting initiatives are critically important, and they are going to be important for a long, long time. That is one of the best ways, I think, that we can help to save some of these small businesses.

You know, they are going to have to change the way they do business, simply because two-thirds of the people are gone, and we do not know when they are coming back.

Senator THUNE. Following up on the line of questioning that you were hearing from the Senators and from the Chair is that obviously, capital and being able to recover and having bridge financing and these sorts of things to get back on their feet, but it also would seem to me that a critical component of that would be creating business and work for them to do.

Mr. BARRETO. That is right.

Senator THUNE. Because that, as much as anything, in an area where everything has been wiped out, if we can help them recovery by providing a good scope of work and contracts that they could participate in, along with some of these other larger contractors down there, and there perhaps are a lot of things, I think, that the small businesses could perform.

And right now, as it was noted earlier, so much of the economy not only in that area, across the country, and my State of South Dakota is no exception, is driven by small businesses. When the small business sector starts to come back and is able to get back on its feet again, I think that is going to be so critical to the recovery of the economy of the region.

Now, my understanding is that at least in terms of the broader perception that we view from here that there is a pretty good evidence that the Federal agencies involved in the recovery efforts are coordinating somewhat well in that effort and are presenting a united front to small businesses. My guess is that from a small business standpoint, they do not always care to know the intricacies of the way that Washington works.

But they are dealing with kind of one entity, and I guess my question is what is happening beneath the surface reflective of sort of what we see, and that is the agencies seem to be working pretty well together.

Mr. BARRETO. There is no doubt about it. There has been so much attention that has been paid to this over the last couple of months, I do not think you can go to any agency right now and find them not to be doing something within their own operation to try to find opportunities for the small businesses in the affected area. And some of that has been evidenced by some of the numbers that we are starting to see. Again, as much as 45 percent of it could have gone to small business already.

By the way, we get those numbers off of FPDS. This is the contracting data base where all of the Government agencies report into. So this is the most current, accurate information that we have. It is showing as much as 45 percent of it is going. And again, this is not something that is going to go away. One of the things we have also done, as you probably are aware, is that we are working with the Department of Commerce on the Hurricane Contracting Information Center, HCIC, as kind of a focal point, a one-stop to facilitate all these opportunities, to bring these opportunities in and try to get them connected in with the small businesses.

So, I mean, of course, SBA is doing its own work through its Government contracting. I have got everybody in my agency focused on this. Last week, I took every one of my district directors and all my senior managers into New Orleans, and this was the biggest topic of our meeting that we did there over 2½ days is how can each one of those district directors, even in South Dakota or wherever they are from, help identify contract opportunities for the small businesses that are there?

So there is a high level of interest and focus on this, and we will make sure that that continues ongoing, not just for 1 month, or this year but ongoing until we get some of those small businesses back on their feet.

Senator THUNE. Regarding the legislation that was passed in the Senate and that was referenced here this morning and some of the changes that are being made to it—and I go back to what Senator Snowe said earlier about the Administration's resistance to adopting that—if that is not the model, are there tools, powers, authorities that you could let us know what you need?

Mr. BARRETO. Sure.

Senator THUNE. It seems to me at least that we have tried to come up with what we think is a solution that will enable you to better fulfill the tasks that we have down there. But we have not yet seen final action on that, and I think the reason that was noted, that has been dropped out of different conference settings is that there is resistance from the Administration to that.

So I know you have covered some of this ground already prior to my arrival here, but could you elaborate a little bit more on what——

Mr. BARRETO. Sure, absolutely.

Senator THUNE [Continuing]. You could use that we could enact?

Mr. BARRETO. There is a tremendous amount that we agree on, Senator, and we have talked a little bit about that. We would like expanded budget authority, as much as $15 billion additional budget authority for us to make our regular SBA loans into that area. We have already done $100 million into that area over a very short period of time. We guaranteed $10 million of it just last week.

This GO Loan legislation—not legislation but GO Loan change that we are making we think can help us increase that number even more, and again, as Senator Vitter said, that will help us fill a gap. The disaster loans are long-term recovery. They are not intended for short-term cash infusions. I think there is a lot of confusion about that.

Another confusion is that oftentimes, people confuse our regular SBA budget with our disaster operation, and as you well know, having worked at SBA and being part of the House Committee and the Senate Committee, is those are two different funding sources. We have enough resources right now. We had a significant amount of money that was carried over from last year into this fiscal year.

So we have enough money to hire all the people that we need to hire, to buy all the technology, to do everything that we need to do. We also have enough budget authority on the disaster loan side to do a couple of billion dollars worth of loans. We have only done $400 million to this point, and we think that we are going to do close to $2 billion in this area.

So the thing that we would like to focus in on are those areas of the legislation where we agree: the expansion in budget authority in our regular loans, the expansion of our surety bonds, incentives to bring small businesses back, to allow small businesses a longer timeframe to pay these loans back, some tax credits that could be part of that. Those are things that we agree on and we would like to move on immediately.

With regards to the things we can do short term, I think utilizing the tools that we already have that we know are successful, our regular working capital loans, and the enhancements that we have made through these GO Loans that we just introduced today I think could go a long way to filling a lot of those gaps.

Senator THUNE. Well, I appreciate your answer on that, and I guess I would just simply add that everyone, of course, is watching. And we want to make sure that we get this right, and as I say, folks in my State, like I think most Americans, feel great compassion and great sympathy toward the victims of that area, and to the degree that we have programs here that work, we want to make them work. But to the degree that they do not work or need additional authority, we want to make that available.

And I certainly would defer to my colleagues like Senator Vitter, who as I said, are intimately acquainted with what those needs are on the ground, and I hope that we can take steps legislatively that will give you those tools, because it is absolutely critical that we get the small business sector up and going again and creating jobs if we are going to revive that economy in that region.

So I thank you, Madam Chair.

Chair SNOWE. Thank you.

Just a couple of questions of Mr. Rothwell and Mr. Johnson. Administrator Barreto, before I move to them, on this whole issue of contracting claims, as I mentioned in my initial statement, Secretary Gutierrez said it was 72 percent back in October being awarded to small businesses. You are saying 45 percent, and yet, as I understand, the Federal Procurement Data System excludes Defense and Homeland Security. So how could you get even 45 percent? There is no documentation of these numbers anywhere that I can foresee, and the two agencies are being excluded. And Gutierrez is saying 72 percent in October. You are saying 45 percent.

This Committee would like to have documentation of all of these numbers.

Mr. BARRETO. Sure, be happy.

Chair SNOWE. Because we have no documentation. So how do you get——

Mr. BARRETO. We would be happy to provide you with that.

Chair SNOWE. With Defense and Homeland Security excluded from those numbers, how do you get 45 percent? It is 45 percent of the rest of the agencies.

Mr. BARRETO. These are the numbers coming out of the FPDS.

Chair SNOWE. Yes, but they do not include Defense and Homeland Security, so many of the contracts that go out to small businesses——

Mr. BARRETO. Right.

Chair SNOWE [Continuing]. Are not included in those numbers.

Mr. BARRETO. Right.

Chair SNOWE. So it is 45 percent, I assume, of the rest of the agencies, excluding two major agencies.

Mr. BARRETO. I would be happy to provide you with that documentation.

Chair SNOWE. OK; well, we certainly should, because——

Mr. BARRETO. We will.

Chairman SNOWE [Continuing]. There are major disparities in these numbers.

Mr. BARRETO. Yes, I will make sure you have it.

Chair SNOWE. I think we all should be speaking from the same numbers and what it is.

Mr. BARRETO. I agree.

Chair SNOWE. Because ultimately, it is the victims and the small businesses that are not going to be able to get back on their feet if we are not giving them the assistance, and certainly in the billions of dollars that are being administered by the Federal Government through the contracting process.

And I think that they are doing an end run around small business. I mean, I think it is pure and simple. And that is regrettable. We have to get to the bottom of that. It is unacceptable. Small business has to be part and parcel, front and center——

Mr. BARRETO. We agree.

Chair SNOWE [Continuing]. Of delivering, that's right, and administering these contracts, and they are not.

Mr. BARRETO. Well, on Friday, we announced a $1.5 billion set-aside for small business.

Chair SNOWE. The question was the totality is $1.5 billion. I mean, that is $1.5 billion—of what?

Mr. BARRETO. $1.5 billion from FEMA on housing and maintenance and some other contracting issues related to the recovery. And that is just one. But we made that announcement on Friday.

Chair SNOWE. Well, I will be interested in seeing all of those figures.

Mr. BARRETO. Sure.

Chair SNOWE. And I will ask Mr. Rothwell and Mr. Johnson.

Mr. BARRETO. Sure.

Chair SNOWE. Because I think this is a critical part——

Mr. BARRETO. We agree.

Chair SNOWE [Continuing]. Of the overall recovery program for the Gulf region, because small business is going to be the lifeline, and I think that is without question.

Now, Mr. Johnson, let me just start with you and the Army Corps of Engineers. As I understand it, they recently awarded a $47 million contract for delivery and installation of temporary classrooms for the Alaska Native Corporation that is based in North Carolina. Our Committee asked the Government Accountability Office to investigate this contract, and our review has been provided to you this morning.

It appears that the Alaska firm was given a sole-source award for over twice the price offered by a Mississippi-based company, which was one of the few firms licensed to perform the installation of temporary classrooms in the State of Mississippi. How did this happen? How was it that an award was given to this corporation, based in North Carolina, when there was a company that could have provided it in the area which was devastated, and second, for far less money; in fact, this is going to be a net cost to the Government, a net increased cost of $27 million. How did that happen?

General JOHNSON. Senator, thank you for the question.

I have read the preliminary findings of the GAO report, and I believe the substantive issue was the fact that we may have done what you described as, well, as we may have paid more for this service than we should have.

I have details I would like to submit for the record, but to summarize, the Alaska District of the Army Corps of Engineers, using the Federal Acquisition Regulation and taking into account the urgency of the situation and the need to have these classrooms, and

they are not classrooms for students and schools; some of these were classrooms for the fire department and the police department as well.

We needed to have these things in place in 18 days, and the other competitors could not meet those requirements in one case, and in another case, we could only lease those trailers for 90 days, and we did not know whether 90 days would be sufficient before we would have to give those back. We thought the fire department, police department, the customer, indeed, would need to have those trailers for longer, so we did not know.

So in essence, we ended up probably paying a little bit more than we should have, but we adhered to the Federal Acquisition Regulation. We have learned in the process that maybe our paperwork needs to be a little bit more cleaned up and maybe our processes, as well.

Chair SNOWE. Well, how is the Army Corps working with respect to providing preferences for local small businesses? We are very concerned about the fact, that the Small Business Act, the Stafford Act, they are all being bypassed in giving preferences to small businesses, and these are requirements under the law.

And the fact is many of the areas have not—almost all of the areas in the devastated areas of Alabama, Mississippi and Louisiana, are eligible and certainly would qualify in conformance with the criteria that are stipulated under those two acts alone. So, what is the plan of the Army Corps in giving preferences? Because the awarding of these contracts are essential.

And many numbers are being tossed around here today, but what we do know are that there are no plans for subcontracting, and we do not know what the real problems are with respect to the subcontracting and giving preferences for small businesses. In fact, we believe that these numbers are overstating small businesses' access to these contracts, because we do not have any information to suggest otherwise.

And so, we need to get to the bottom of it. So this disparity between 72 percent, 45 percent of some agencies, we have a real problem on our hands. And small business is given a preference under the law, in several different statutes. And so, we want to know what is the plan for including small businesses in the contracting and subcontracting?

General JOHNSON. Yes, ma'am, good question.

I think I will answer the question by telling you what our performance has been to date, understanding that the denominator for these performance metrics changed daily, and as those performance metrics are measured each day, we have to be aware that we are doing this each and every day, as is the culture of the U.S. Army Corps of Engineers.

We are only restricted in one way of not setting aside for small businesses, and so, we do not do it. Specifically, under the Small Business Competitiveness Demonstration Program, we cannot do setasides for construction. Typically, the small business community competes very well in head to head competitions in the construction arena.

I am going to rattle off some numbers, but again, I will submit them for the record. To date, the U.S. Army Corps of Engineers has

awarded in direct contracts about $1.2 billion worth of contracts. Our goal, of course, is 23 percent to small business. We have awarded 34.83 percent, or about $416.6 million. Our goal for small and disadvantaged businesses, including 8(a) and minority-owned, is 5 percent. To date, we have awarded 16.91 percent.

For women-owned businesses, the goal is 5 percent. We are lagging. We have only accomplished 0.38 percent. For Hub Zone, our goal is 3 percent, and we are hovering at about 2.7 percent as of 6 November. Service-disabled veteran owned, the goal is 3 percent; and we have awarded about 0.84 percent.

But what I need to say about that is what we have learned over the years with a goal of 3 percent for normal operations is that the market really only has about 0.7 percent of these folks in this category. So we probably need to look at our metric and adjust it accordingly.

Overall, I can tell you that for local businesses, not just including small businesses, we have awarded about $348 million or about 29.1 percent. And these statistics I am quoting you, I think it is very important to state that we are talking about monies that have been obligated, because we are concerned that you could measure yourself by commitments, and you could have these hollow contracts that just sit there and do not get used, so no one is really getting business.

We think this is a tighter metric, and we know we can improve the process; we know we can improve how we track. We will continue to work with FEMA, Small Business, HCIC, because we know that this is a fleeting—it is either fleeting good news or fleeting bad news each and every day. And the U.S. Army Corps of Engineers, not only for these operations but in its daily operations aspire, because we understand the value of the small business community. They do all of our work.

Chair SNOWE. According to one of the charts that Senator Kerry had, 99 percent of the small, disadvantaged contracts went to the Alaska Native Corporation. Is that true?

General JOHNSON. Ma'am, I do not believe that to be true, but I do not have the numbers sitting here in front of me.

Chair SNOWE. Why do you not do that, and I think it is important, because we really want to concentrate these contracts in the areas that have been hit.

General JOHNSON. I could probably do the math, but with a $1.2 billion total direct awards——

Chair SNOWE. I believe that is troubling if that is true. Why would SBA Administrator Barreto approve this contract to the ANC? What is your knowledge about it?

Mr. BARRETO. I am not sure we were there when the contract was let. Obviously, the ANCs are an approved small business segment, and my understanding is that some of those contracts now have come back. And so, we are working now with FEMA to identify small businesses that can do this work, especially small businesses in the area and if possible minority small businesses.

Chair SNOWE. According to our charts, it is three different occasions on which SBA did approve it. I think the point is, we have to get back to the intent and purpose of the law—the laws, I should say, because small business is being excluded from this process,

and second, you have to really give focus to those small businesses located in the damaged areas.

Mr. BARRETO. We agree. We absolutely agree. And one of the things——

Chair SNOWE. It is not illustrated by this contract.

Mr. BARRETO. One of the other things that is very important to recognize is the fact that at the very beginning of the disaster, there was a tremendous pressure and rush to find companies that could save people, that could remove bodies, that could remove debris, that could provide housing. Those were the critical needs immediately after.

As time has gone by, and you have less of those critical needs, there has to be opportunities for small business. There is [sic] opportunities for small business, and there will continue to be. And our role is to help facilitate that and help small business. Something that was said, I think, by the Congressman which is also true: you have got some small businesses there who have lost equipment. You have small businesses who lost employees. And now, they may not have the same capacity that they had before.

But they should still have an opportunity to participate in these contracts. One of the things that we think is going to be important is mentoring opportunities, partnership opportunities, bringing small businesses together and maybe, if you put two or three small businesses with a little bit larger business, they will be able to do some of these contracts.

So we are looking for every way for that to happen. Just because somebody has been damaged or affected should not prevent them from being able to go after these contracts, and we have to find every way to make that happen.

Chair SNOWE. Mr. Rothwell——

General JOHNSON. Ma'am, I hate to interrupt.

Chair SNOWE. Yes.

General JOHNSON. But if I could, I did the math. We think that contract was awarded at $47 million or thereabouts. I am going to give you a range. So it was between $40 or $60 million. If I do the math, I get a percentage based on total direct contracts of one over 30 percent, which is about 0.03 percent. It is a small amount of the total amount of contracts we have awarded directly.

Chair SNOWE. On this case, it was on the disadvantaged. Are you talking overall?

General JOHNSON. Yes, I am talking total contract awards. Now, of the total disadvantaged and small business, I do not have the statistics.

Chair SNOWE. Yes, that is what we were saying in reference was that—of the overall totals for the small business, the disadvantaged small businesses.

Mr. Rothwell, I understand that at least three companies, it was actually four, but three of which were given $1.6 billion in contracts that were to companies that were recently cited in the May 2005 GAO report for overstating small business subcontracting achievements in Department of Energy facilities management projects. According to the GAO, these companies employed accounting gimmicks and generated misleading achievement data that did

not provide a true picture of their performance with respect to small business subcontracting.

So because of these overstatements, these companies may not have been entitled to get the Katrina contracts in the first place due to their poor subcontracting accountability. Can you shed any light on these contracts of $1.6 billion?

Mr. ROTHWELL. Yes, ma'am.

Chair SNOWE. Bechtel and CH2M?

Mr. ROTHWELL. With regard to the GAO report, we are aware of that report. Our Inspector General is aware of it, and the companies are aware of it. And that report covered contracts prior to this Katrina matter. But the point is that since everyone is aware of it, and GAO has brought it to our attention, we are looking at this very, very carefully to make sure that this data is correct.

I would separate that fact from the reason that they were given the contracts. They were given the contracts because of the impending storm, and there was an ongoing procurement in process. They were competitors on that, and they were deemed to have the technical capability of actually performing.

Now that they have these verbal contracts, and we are in the process of definitizing them, we are in the process of negotiating the subcontracting plans with an eye to what the GAO has said so to make sure that they do not overstate them.

Chair SNOWE. You are not recompeting these bids, but I gather you are recompeting other bids.

Mr. ROTHWELL. I guess the nuance is that we are competing the requirement, which is a requirement for about $1.5 billion worth of work, that will be awarded to about 15 companies, 8 of which would be 8(a) firms, small disadvantaged firms, the other 7 of which would be small businesses. So the requirement is what is being recompeted. Yes, ma'am, that is it.

Chair SNOWE. But in the future, but in these recompete nationwide, I understand they are going to be bundled contracts except for in the Gulf region; is that true?

Mr. ROTHWELL. That acquisition strategy is not final. We are looking at that. We are trying——

Chair SNOWE. I hope not.

Mr. ROTHWELL. No, what we are trying to do is figure out what is the right acquisition strategy. If we just recompete an acquisition strategy nationwide in anticipation of something that might happen on the West Coast, it is not going to take care of today's needs in the Gulf region. So we are actually still looking at the acquisition strategy, and we are very sensitive to the issue of bundling.

Chair SNOWE. Well, I hope you will look very carefully at the GAO's findings and give due regard to the compliance with the acts, the Small Business Act, the Stafford Act, and every other consideration to small business.

Mr. ROTHWELL. Yes, ma'am.

Chair SNOWE. Senator Vitter.

Senator VITTER. Thank you, Madam Chair.

Mr. Rothwell, just to go back to that compete, I would say recompete, but it was never competed, so initial compete of the four big megacontracts, when will that be done by?

Mr. ROTHWELL. I just want to make sure—are you talking about the ones that I talked about, the $1.5 billion with the 15 firms? We are looking at 100 days until completion, so it would be sometime in February. And again, we have to do two things. It is between doing it urgently, as it was done before, and doing it under the normal process, which would take a long time for a $1.5 billion program. We are trying to get it done in 100 days, realizing that when we do get it finished, there will be companies that we have to debrief as to why they did not get the awards. So even when we award the 15, we just need to do it——

Senator VITTER. And this will replace the current four big noncompete megacontracts under FEMA.

Mr. ROTHWELL. It will supplement them, sir.

Senator VITTER. So they will continue?

Mr. ROTHWELL. They will continue until we have—if you all think of it as 2 things, there is going to be a competition that will replace those 4, and then, there will be a competition for the $1.5 billion, which will be for the 15 firms. And the idea is to make sure that we have capability to do anything that is required in the Gulf region.

Senator VITTER. So those four noncompete megacontracts are being replaced with a different competition.

Mr. ROTHWELL. Yes, sir.

Senator VITTER. And when will that competition be done?

Mr. ROTHWELL. We are looking at 120 days for that. We figure that is going to take a little bit longer, so 120 days for the small and disadvantaged, about 120 for the full and open.

Senator VITTER. And for the 120 day process, is there any requirement of participation by small business?

Mr. ROTHWELL. Yes, sir, absolutely. We are looking at subcontracting goals of about 40 percent.

Senator VITTER. And how will that be phrased in the contract? In other words, what do you mean by goal? Is it a mandate or a goal?

Mr. ROTHWELL. Well, it is a goal, but it is going to be looked at very, very seriously. Everyone realizes the importance of this issue.

Senator VITTER. Under the contract terms, what will happen if a company does not meet the goal?

Mr. ROTHWELL. Well, basically, what happens is that the company has to come in and meet with either the head of FEMA's procurement organization or with me, and we basically work with them to make sure that they do meet the goal. It is not insignificant, I would just point out. I mean, that is a significant step that we would take.

Senator VITTER. Have you considered using any more definitive consequences for not meeting to goal, i.e., money off the contract price, et cetera?

Mr. ROTHWELL. We are. We are actually working with our legal department to see if we can do that, yes, sir.

Senator VITTER. And what sort of mechanisms like that are you considering?

Mr. ROTHWELL. It has not really been decided. I would not even want to mention it here. I mean, basically, but looking at something more disciplined than just the goal concept.

Senator VITTER. I would certainly encourage that, and we have talked about that before. It is great to have goals, but consequences for not meeting the goal that have to do with profit or contract price get people's attention a whole lot quicker.

Mr. ROTHWELL. Basically, in Federal procurement, we are not really allowed to do penalties. We are supposed to do something that is actually more of a liquidated damages thing, but we are looking at that. I understand the point, and we are definitely looking at it.

Senator VITTER. Well, I am not sure exactly what you mean by liquidated damages, but it sounds like you mean substantively the same thing, so it would not matter.

Mr. ROTHWELL. Yes, sir, yes, sir.

Senator VITTER. Within that 40 percent goal, that is for any small business. Is there anything specific to small business in the disaster area?

Mr. ROTHWELL. The way we read the Stafford Act is that we are going to put an evaluation criterion in the proposal that will give extra points for their commitment to basically award contracts in the local area.

Senator VITTER. OK; and General Johnson, let me tell you what I hear from virtually every local government leader in Louisiana in the disaster area regarding debris removal: what I hear is that they either have ongoing, or could have in a very short period of time, a contract for a very fair price with a local debris removal company that they can get going immediately, but generally, what they are told is that if they want to be guaranteed 100 percent payment by the Feds, they need to abandon that, work through the Corps, work through a major contractor who is inevitably from out of State, and then, maybe the locals can subcontract under that local, maybe not. And by the way, that bigger contract through the Corps is always for a higher price than what they could do locally. Tell me why that is a good system.

General JOHNSON. Sir, I do not believe it is, and I do not believe that we are the ones who are telling those contractors to do that. We traditionally, by law, provide FEMA's engineering capability for emergency support function No. 3. That includes debris removal. When FEMA has an emergency, the Corps mobilizes, deploys, and in this case, where one of our districts was affected, we can reach out to the entire nation or entire assets in the Corps, and we deploy people down, and we get contracts in place to do debris removal.

Senator VITTER. I do not mean to interrupt, but I just want to pursue this. But the contracts that you employ are with these very large firms, inevitably from out of State, so it does, unless I am missing something, it does create the scenario I am describing.

General JOHNSON. Sir, what happens is when we first go in, we use the advance contracts to respond immediately. And I think you already know, as we reach a stage, and we still have not cleared all the rights of way, we will get to a point where all those rights of way are cleared, and then, we will not issue task orders on those big contracts. And as we are doing that, we are developing new contracts that include small business, local business, to include working on setasides for those folks.

Senator VITTER. Are you saying that as you make that transition, you can and will go directly to the local contractors who, in literally every situation I know about, do it for less than the prime?

General JOHNSON. Sir, typically, we will use the prime where the district—when we get to steady state, for example, and this is no longer an emergency operation, and the district is operating the way a district works, it is easy to go directly from a district to the contractor.

Senator VITTER. Well, I am not sure what you mean by steady state, but anything approaching that description to me is a long ways off, so I still have this concern: why not, if you have a municipality that can identify a local contractor, even get multiple bids, and get it at a price well below your big megacontract, why wouldn't you go directly to that local contractor?

General JOHNSON. Sir, we consider price, we consider operational capability; it is a best value thing. It is also a challenge for us, I think, from my experience to manage 161 contracts as opposed to one. Quality assurance, quality control becomes an issue for us, because we are required to make sure that whoever is delivering that service is delivering what the Government is paying for.

Senator VITTER. Well, I think you have put your finger on the issue, that the Corps has decided it is a lot easier or better or some combination to manage a big megacontract. I am just telling you what the result is: the result is that these local contractors are all ready to go, who often have a pre-existing contract with the local government is kicked out and asked to maybe try to be a sub for the big guy, the big out of State guy, who is always charging way above what they would do the work for to begin with.

General JOHNSON. Sir, that is an unintended consequence. There are some States, if you look at what is happening in Florida, Florida does not come through us. Florida opts to do its own debris removal. And so——

Senator VITTER. I would encourage you to look at other options, look at other ways to get help either in house or by contracting it out to manage more contracts, because I think if you have that capacity, you can greatly increase local participation, and you can get the work done for less.

General JOHNSON. Sir, I do not disagree with you.

Senator VITTER. And Mr. Administrator, one final question for you: going back to these GO Loans, do I understand right that under this GO Loan concept, it is an 85 percent Federal Government guarantee?

Mr. BARRETO. Yes.

Senator VITTER. And do I understand right that you do not expect it to cost the SBA or the Government anything?

Mr. BARRETO. Yes.

Senator VITTER. OK; then, my question is how does that work, unless you are giving out these loans basically to people who do not need them?

Mr. BARRETO. It works the way that the $20 billion in guarantees that we did this year works, on a zero subsidy, going through our regular underwriting process, except in this case, the underwriting process is streamlined so we can give a decision much, much quicker.

Senator VITTER. My point is if you have an 85 percent Government guarantee and no cost to the Government——

Mr. BARRETO. Right.

Senator VITTER [Continuing]. You are administering the loans in a way that has a minuscule failure rate.

Mr. BARRETO. That is correct.

Senator VITTER. Let me suggest that a loan designed like that with that small a failure rate—I am not proposing we, you know, try to maximize the failure rate, but a loan like that with that small a failure rate is not meeting significant needs in the disaster area following a disaster of this size.

Mr. BARRETO. We are going to use what these business were doing before. We are not going to be using what their current condition is or what their prospects are going forward. And so, we believe that we are going to be able to make a lot of these loans. I mentioned already, we have done $100 million of loans in a very short period of time. The lenders in these communities, they know these businesses. They have relationships with these businesses. They know who has the best opportunity to get going again and become viable.

And we will work through our lending community to make those loans. The lending community, by the way, is making a lot of loans on their own, as you know, without an SBA guarantee. The State is also making some loans through some funds that they have put forward, so there's a number of different, you know, responses to the needs that are out there.

This GO Loan and the SBA disaster loan and the bridge loan, any of those by themselves is not going to fill all the gaps. But if we have enough of these things going, if we do enough of these disaster loans, if we do enough of these economic injury loans, if we do enough of these GO Loans, if we do enough of our regular loans, if we do enough of the 504 loans, we get a lot closer to start filling these gaps.

Senator VITTER. Well, again, just to summarize the point: if these GO Loans have an 85 percent Government guarantee——

Mr. BARRETO. Yes.

Senator VITTER [Continuing]. And no cost to the Government——

Mr. BARRETO. Yes.

Senator VITTER [Continuing]. That means that they are not reaching all sorts of businesses which are on the cusp which can be saved, and so, there is still a huge gap in terms of the need following this disaster.

Mr. BARRETO. I mentioned before that many of the people that apply for loans to SBA actually do not even want a loan. They want to go back to FEMA and be able to get a grant. Of course, FEMA has made an announcement last week that they are going to make that $26,200 available on a much wider scale. That might be able to fill some of these short-term needs that people have.

Senator VITTER. Thank you, Madam Chair.

Chair SNOWE. Thank you, Senator Vitter, and thank all of you and Administrator Barreto and Mr. Rothwell and Mr. Johnson. We appreciate your cooperation here today, and most importantly, I hope that we have a plan to address in a proactive fashion the seri-

ous and significant issues that we continue to confront in responding to this disaster of unparalleled magnitude.

So I would like to see a plan in all respects from the contracting to you, Administrator Barreto, I would like to see a timetable——

Mr. BARRETO. OK.

Chair SNOWE [Continuing]. Submitted to this Committee on how the SBA intends to respond in a timely fashion with the 180,000-plus applications that are still pending and what the timetable is, what the resources you have and will require in the future. But we need to get it done.

Mr. BARRETO. We will provide it as soon as possible.

Chair SNOWE. And I think that is the purpose of this hearing. I know it is an unusual circumstance, but nonetheless, we have to measure up to the task at hand. So I thank you, and I appreciate it.

Mr. BARRETO. Thank you very much.

Chair SNOWE. Thank you. I appreciate it.

Chair SNOWE. And now, we will have the third panel come forward.

Mr. BARRETO. Thank you, ma'am.

Chair SNOWE. OK; would the hearing please come to order? Thank you. OK; our third panel, and I thank you for your forbearance and patience here this morning. I am sorry that it has taken so long, but you can see there are so many issues that we are trying to explore with respect to this response, so I certainly appreciate the fact that you are both here.

First, I would like to introduce Walter Isaacson, Vice-Chairman of the Louisiana Recovery Authority. The LRA was created by Governor Blanco to assist with the planning and coordination of Louisiana's recovery. I want to thank you, Mr. Isaacson, for being here today. It is good to see you again. I know we have had the ability to talk about all of these issues, and I am delighted to see you in the capacity that you are in. I think you will be a great resource and benefit to the State of Louisiana.

Mr. Isaacson. Thank you.

Chair SNOWE. And I would also like to introduce David Cooper, Director of Acquisition and Sourcing Management for the Government Accountability Office. And Mr. Cooper's responsibilities include oversight of the Department of Defense, NASA, Homeland Security, and the Department of State, and I thank you for the work that you have done with respect to this report that we requested, and it is going to be very helpful to us as we continue to explore some of the dimensions of the subcontracting, contracting issues with Defense and Homeland Security in particular. So I thank you, Mr. Cooper, as well.

Mr. Isaacson, would you begin? Thank you.

STATEMENT OF WALTER ISAACSON, VICE-CHAIRMAN, LOUISIANA RECOVERY AUTHORITY

Mr. ISAACSON. Sure, thank you very much, and I will provide a copy of my remarks, which if you would give me permission, we can insert into the record so I do not have to read them all to you, and I am sure it would be easier.

Chair SNOWE. Without objection, so ordered.

Mr. ISAACSON. Thank you, Madam Chair, and Senator Vitter for all your help.

I want to actually talk from the heart for a moment, which is what you are doing is awesomely important. I know you all know that, because that is why you are on this Committee, and Senator Vitter knows it because of being on this Committee and being from Louisiana. But this is what we need the most. We need to be able to bring ourselves back, not ask for handouts, and it really means getting small businesses back.

And I know, Senator Snowe, that that has been some passion of yours for some long time, but that is why we are all here now, and I am somewhat astonished, having listened this morning at the defensiveness, the excuses, and the stuff, and the ability to say, well, how does this plan differ from that, and you cannot get the plan together, when I would have assumed that anybody from the SBA would say this is why we were put on this planet. This disaster may happen. This is why we go into the issue of helping small businesses. Let us be creative and do all that we possibly can.

And I know that there are some complexities between the GO Loan program and the bridge loan programs and various things and what the State of Louisiana has already done with all of the money it could scrounge together, but this is a real emergency. Thanks. This is a great Committee here. That was not the—and it is just—latte. But I just cannot emphasize enough that there are really two priorities we have in Louisiana now: one is to get our levees back so that we can start building again and the restoration of the coast that goes with it, and the other is just small businesses.

And I cannot tell you how frustrating it was listening to some of what you had to do. So thank you both, and thank Senator Kerry and Senator Landrieu and Senator Thune and others for just really pushing this. Do not let it go. The fact that it is pulled out of, you know, that it has been pulled out of the reconciliation and stuff, this is an emergency, and I think this is why there is such a Committee as this. This is why, you know, when the founders created Congressional oversight, they had this thing in mind.

And with the SBA needing some real oversight in this case and some juicing up and some push so that we can get this thing out and not just lose it is so important to me. I do want to thank the Administration for extending the SBA loan deadline. That is a first step.

I also want to thank the Administrator, Hector Barreto. He came down to Louisiana. I think he cares. It is just frustrating to listen, though. And I was down in Plaquemines Parish 3 weeks ago, and they were looking forward so much to his visit. I mean, this is a lifeline to all these businesses. And I know he has got problems, but I was up and down from Empire to Port Sulphur to every other place in that parish, and there were not boats blocking the way on all of the highways. There were people getting back to work, but they could not get the SBA loans.

And the reason you are not getting the SBA loans is not because boats are blocking the highways, as I think he said, because we certainly got all over the place, including with great respect, the Guam National Guard replacing the North Dakota National Guard

down there, which is a true sight to behold in Plaquemines Parish, Louisiana.

[Laughter.]

Mr. ISAACSON. So I also want to thank Al Hubbard. We met with him at the White House, and he said that he is going to get a daily monitoring of SBA loans, because he was, well, I will not speak for him, but he was concerned to be on top of this case. So I am glad that the White House is really on top of this case as well.

And all of this, you know, is why this is of such importance to us. We did a bridge loan program down in Louisiana. Governor Blanco, Senator Vitter, and Senator Landrieu understand what it was. It was funded by as much money as we could get out of the entire rapid response fund, which is $10 million. That type of bridge loan is what is desperately necessary. As I kept hearing today, the SBA is not prepared for disaster assistance. They do not respond to short-term emergency needs.

Well, that is why you have an SBA. That is why you have this Committee. Let us figure out how to get this done. We need these interest-free, 180-day short-term loans, and the State's $10 million is not enough to do the needs, so we were hopeful that it was going to come out of the provision that Senator Vitter and you, Madam Chair, and Senator Kerry and Senator Landrieu put in, and that provision has not been retained during the conference. I do not understand what you can do, but I just hope you can do something, because we need the bridge loan thing to keep going.

And as I kept hearing this morning, the SBA disaster loan programs just are not working. Well, we cannot wait to fix them. I mean, we have people, my cousin, my uncles, but everybody I know down there waiting to get their businesses back, and even if they do not need the loans, they need the people, their neighbors, to get the loans. Otherwise, they cannot be opening up shops, selling the computers, doing the things that, you know, my friends do.

So I am not going to summarize all the statistics in here, because you have heard them, and certainly, you have come down hard on them. I will just skip right to our priorities, which is please allocate, if you can, somehow figure out how to get it out of the conferences and stuff, the $200 million for a bridge loan program. That is just a lifeline. You do not let people sit there in the choppy waves after a hurricane without throwing them a life vest.

And they will be able to swim. They will be able to get themselves back on their feet. But just help with this bridge loan program to continue the State of Louisiana's existing bridge loan program, because you have not yet come up with a way to do that yet at the Federal level. Obviously, you want to expedite loan processing. We do need a business recovery fund, and I would suggest that it is just the exact same thing that you did after 9/11 when I lived in Manhattan.

I mean, if you can do those type of grants, I know it may seem somewhat expensive, but what it does is it brings an economy back. We are not talking about money flushed down the toilet. We are talking about getting businesses started so that they are paying taxes again, so they are employing people again. And so, if you can do—just model it over the exact same thing that happened for the city of New York. We are not asking anything more than that. But

it is business retention grants and technical assistance programs and stuff.

And New York officials, I was there: they will tell you, that saved them. It was that sort of thing. So I do not quite understand why we cannot just say we do not have to reinvent the wheel. Let us just use the wheel we used after 9/11 through HUD and everything else.

And the President suggested the Gulf Opportunity Zone. I assume these GO Loans are probably a part of that or whatever. But this is great. Let us do the Gulf Opportunity Zone. The GO Loans are not—they are a pilot program. They are at above interest rates. I think Senator Vitter kept pointing out, and, I mean, everybody can see, it is not for the people right on the brink and on the cusp. But if you want to put that as part of the package, fine. Give us the Opportunity Zone.

We are not asking for handouts. We are just asking to bring our businesses back. We are focused really on getting the businesses back. That is our priority with the levees. We need the loans, the grants, and the other opportunities that are just in the normal course of business. I think, and I will admit, that we in the State all made a mistake by asking for everything at once at the beginning, and it may have hurt our credibility a little bit.

So we set the priorities, and the priorities are very clear: this is one of the top two priorities, this and levees, small business loans and levees, and then, we will pick ourselves up and get ourselves working.

I want to thank you for the opportunity. I know this is more impassioned. I have a much more reasonable and dry testimony here which I am sure will be entered into the record, but I wanted you to know how much we feel this partnership is necessary and how much we feel it is imperative that you keep doing what the two of you have been doing, which is the role of Congressional oversight that the founders so carefully put into our constitutional system and pushing them, getting them back to do things.

[The prepared statement of Mr. Isaacson follows:]

Testimony of Walter Isaacson, Vice Chairman
Louisiana Recovery Authority

Madam Chairwoman and distinguished members of the committee,

Thank you for the invitation to speak on behalf of my native state, Louisiana. My name is Walter Isaacson, and I serve as the vice chairman of the Louisiana Recovery Authority, which was created by Governor Kathleen Babineaux Blanco to be the planning and coordinating body that will assist in implementing the Governor's vision for the recovery of Louisiana. The authority will identify and prioritize the short- and long-term needs of the recovery.

I would like to start by thanking the Administration for extending the SBA Disaster Loan deadline last week. It's important that these programs remain in place as long as possible for our struggling businesses to have access to loan financing.

I would also like to thank Hector Barreto for taking such an interest and coming down to Louisiana last week. When I was in Plaquemines Parish right before his arrival, people there were thrilled that he was coming personally to get things moving.

Also, I want to mention the support of Al Hubbard at the White House. When we visited him there two weeks ago, he promised to monitor the SBA loan-making progress on a daily basis. That type of engagement is certainly needed, and appreciated, since the SBA has thus far not been able to process or make the loans that could help in this critical situation.

On behalf of the LRA Board, I would like to commend Chairwoman Snowe, Senators Kerry, Landrieu, Vitter and other members of the committee for pushing to support Louisiana's small businesses with S.1807. We would ask that the Administration, House, and Senate move quickly to a final version of that legislation, which would provide financing and changes I will describe in my remarks.

Right after the hurricane, Louisiana and its delegation tabled what amounted to a wish list of everything that would be needed to get the state back on its feet. Many people in Washington rightly pointed out that the state should actually set some hardnosed priorities and also should show what it was doing for itself. That was good advice, and we are now following it.

The LRA voted an established eight priorities. There was only one – proper levees and coastal restoration – that ranked higher than what we are here to talk about today. Right up there with it, on the top of our list of priorities, is to help small businesses with expedited loans, bridge loans, and necessary grants.

In other words, what you do in this committee is of utmost importance to us. You realize, like we do, that if small businesses can come back, Louisiana and the nation will both benefit. We are not asking for relief or pure charity but for help in rebuilding businesses so our folks can go back to work and create a stronger economy.

<u>Background:</u>

- **FEMA declared 37 parishes (counties) as major disaster areas (that is, eligible for Individual Assistance coverage) after Hurricanes Katrina and Rita. Of these 37 parishes, 13 are considered severely impacted. In these 13 parishes, there were approximately 81,000 businesses prior to the storm, which represents 41% of all the businesses in the state.**

- **Of the nearly 81,000 businesses, 68,000 had less than $5 million in annual sales. These aren't deep pocketed, multi-millionaires with endless resources. They are family businesses.**

Louisiana's Action:

- **Governor Blanco & LED launched the Louisiana Bridge Loan Program on October 17th to get "Life-Line Funds" to small businesses**
  - **The Bridge Loan Program has been funded by the reallocation of the State's $10 million Rapid Response Fund.**
  - **The loans are interest-free for 180 days and range from $5,000 to $25,000 per small business.**
  - **A partnership between 20 regional banks and the LA Public Facilities Authority under the trusteeship of JP Morgan administers the program.**

- **The State's $10 million is not enough to meet the needs:**
  - **Louisiana allocated the initial funds into four pools, and by the end of the first week, there were no funds left for the Rita impacted area.**

- **In just three weeks (between October 17th and November 3rd), 467 applications were approved totaling $8.8 million.**
- **We have additional valid applications, but remaining funding is not enough to meet those needs.**
- **We conservatively estimate a need for 8,000 more of these bridge loans during the entire recovery process.**

SBA Disaster Loans Aren't Working:

- **We need our small businesses to return to the affected parishes and restart operations, so jobs will be available and our families can move home.**
- **When hurricane damaged businesses seek assistance, the only programs that exist to help them recover are the SBA Disaster Loans.**
- **We created the state's Bridge Loan program with an awareness that SBA loans in general are not processed quickly.**
- **However, given their importance, it's devastating that approvals of SBA Disaster Loans applications have been so extremely slow. Further, the rejection rates appear alarmingly high.**
- **The LRA requested input from Governor Blanco and Louisiana Economic Development Secretary Mike Olivier. Since Katrina (just over two months ago) the SBA – by its own reporting as of Nov. 3rd – has received 11,378 business loan applications for physical infrastructure investments from Louisiana businesses, but has only approved 135 loans – 1%.**

- **For the Economic Injury Disaster Loans, which can provide working capital to businesses, only 1,257 applications have been received, with 141 applications having been approved.**
- **We're aware the SBA is asking for retired bankers and CPAs to come to work for the SBA on contract while they process the record amount of disaster loans they have received. This should help.**
- **As possibly a faster and more community driven alternative, the LRA Board has also suggested that the SBA allow local banks to assist with the evaluation, approval, and loan issuance process, similar to the way Louisiana handled its Bridge Loan Program.**
- **As the SBA Administrator Hector Barreto reflected to LRA Director Andy Kopplin at a recent Back to Business seminar in Plaquemines Parish, SBA disaster loans are not built to address immediate cash needs of struggling companies and, indeed, are far from adequate to meet the current challenge faced by Louisiana's businesses. Administrator Barreto commented that there's a tremendous amount of need and the SBA programs can truly only address a small portion of the problem.**

Four ways to save Louisiana's businesses and spur economic recovery:

Priority 1: Allocate $200 million for bridge loans to continue the existing Louisiana Bridge Loan Program.

- **The state does not need a full grant in this amount, but we do need a guaranty that will cover the cost of the interest and any potential losses.**

- **The history of Florida in their bridge loan program reflects that almost 90% of the bridge loans made to businesses impacted after multiple hurricanes were paid back.**

<u>Priority 2:</u> Direct the SBA to expedite loan processing.

- **As described above, we need to dramatically improve the pace of SBA Business and Economic Injury Disaster Loan approvals and seek ways for immediate loan approvals to occur within a week or less to advance capital to applying companies – possibly on the same criteria as the bridge loans.**

<u>Priority 3:</u> Provide a significant business recovery fund that parallels the grant program provided to Lower Manhattan businesses after 9/11.

- **New York received $2.7 billion for a business recovery grant program after 9/11. The 9/11 economic recovery programs included small business recovery grants similar to business interruption insurance, large business retention grants, technical assistance programs and worker training programs.**
- **New York officials have stated that, more than the tax credits and bonds, these grant funds were the most important aspect of their economic recovery efforts.**
- **Like the 9/11 program, our most devastated communities need radical initiatives to assist with their long-term economic recovery. The state is seeking the**

same treatment as Congress recognized was critical for New York, but which must be applied to a much larger region and business population.

- **The World Trade Center attacks affected a 16-acre area. After Katrina, 960 square miles in Louisiana alone was impacted. 9/11 caused massive disruption, but the period of disruption did not last nearly as long as what Louisiana's devastated parishes will suffer. The size of our disaster is both larger in size and will be longer in duration than that experienced by lower Manhatten.**
- **The $2.7 billion in economic recovery funds were appropriated through HUD three months (by November 2001) after the 9/11 terror attacks. If Congress is to match the timeline that it delivered for New York's economic recovery, these actions need passage by Thanksgiving.**
- **We need a long-term program to revive and retain our businesses.**

Priority 4: **Creation of the Gulf Opportunity Zone, which should include programs that emphasize individuals returning to devastated communities, business investment, and the authorization of tax exempt private activity bonds.**

- **We want to extend our thanks to the Administration, as well as Congressmen McCrery, Jefferson, and Chairman Thomas and members of the House who have filed legislation to create the Gulf Opportunity Zone.**

- **H.R. 4155, creating the Gulf Opportunity Zone, is a great start to meet Louisiana's needs for incentives for reinvestment. It is our hope that Congress will move quickly to enact this legislation.**
- **The LRA and Governor Blanco have asked that this GO Zone also include incentives for individuals to return to the most devastated communities. This could be done with housing investment incentives, income tax holidays, or relocation expense incentives.**
- **The LRA Board has also had discussions with former HUD Secretary Jack Kemp and former Congressman J.C. Watts about proposals for additional changes to the GO Zone bill. We believe these additional suggestions merit consideration by Congress.**
- **The House version of the Zone includes a tax-exempt private activity bond program, which is very important. Louisiana asks that the Senate consider increasing the size of the bond allocation given the size of region requiring reinvestment. These tax-exempt bonds have no cost if they go unused, and have the ability to truly spur reinvestment.**
- **The World Trade Center attacks affected a 16-acre area, which received $8 billion of Liberty Bonds from Congress – all of which were needed to finance reconstruction of the WTC as well as spur commercial and residential investment. As I mentioned earlier, the size of our hurricane disaster and the duration of the impact on our small businesses is far worse than 9/11.**

The size of the impact will require a larger amount of tax exempt private activity bonds from Congress.

- **We want you to know that Louisiana is focused on getting Louisiana businesses back to business.**
- **Still, every day that passes where we can't do more for these struggling businesses means more businesses are failing and more citizens are left without a job.**
- **We are taking steps toward building a better and stronger economy. The greatest key to our businesses' success is access to capital.**
- **We need the assistance of this committee for loans, grants, and other opportunities that will give our businesses the lifeline they need to survive, thrive, and prosper.**
- **This is why your committee exists – and is so important. And this is why the SBA exists – and is so important. We hope that the people at the SBA will feel the passion we in Louisiana feel and many of you share: that we have been put in the roles we each have today for a purpose, and that purpose is being tested in an urgent by the current emergency. We will be judged – and in the end we will judge ourselves – not by our ability to say no or to delay, but by our ability to bring extraordinary methods and wise creativity to the greatest challenge to small businesses this country has ever faced.**

Chair SNOWE. Thank you. Thank you very much.

Mr. Cooper.

STATEMENT OF DAVID E. COOPER, DIRECTOR OF ACQUISITION AND SOURCING MANAGEMENT, U.S. GOVERNMENT ACCOUNTABILITY OFFICE

Mr. COOPER. Madam Chair, thank you for the opportunity to be here today to discuss GAO's work on Federal efforts to respond to the disasters on the Gulf Coast.

Let me first begin by saying that you can be assured that GAO is placing a very high priority on this work. The Comptroller General is personally involved in GAO's efforts, and we are working very closely with other accountability agencies at the Federal, State, and local levels to make sure that we look at all significant issues that need attention.

As provided for in our Congressional protocols, we are conducting this work under the Comptroller General's statutory authority since it is an issue of interest to the entire Congress and to Committees in both Houses. Numerous questions are being asked about the Government's ability to effectively respond to the disasters. Many of those questions, as we have heard here this morning, relate to whether small businesses and local firms are getting a fair share of the Federal contracts.

Ultimately, we need to understand what went right and what went wrong and to apply these lessons to strengthen the Government's response and recovery operations now and in the future. GAO has already had teams in the hurricane stricken areas collecting information and gaining the insight that will be necessary to identify lessons learned and improvements needed for future emergencies.

In that regard, I would like to share some insights that we have gained in reviewing the contract you mentioned earlier about classrooms for Mississippi schools. While this is only one contract, I believe there is a lot to be learned from the way it was done. It offers valuable insights for improving Federal contracting efforts and being better prepared to respond to future emergencies, particularly as it affects local companies and small businesses.

GAO received a tip through its fraud hotline that the Government was paying highly inflated costs for the classrooms. In response to that tip, we are reviewing the contract that the Army Corps of Engineers awarded on behalf of FEMA to purchase 450 portable classrooms.

Our work over the years has shown that three key conditions must exist if agencies are to get good acquisition outcomes: to ensure successful contracting outcomes, agencies must have sound acquisition plans and plans that incorporate and consider small businesses and local firms when a disaster occurs; significant knowledge, sufficient knowledge to make good business decisions; and an adequate means to monitor contractor performance and ensure accountability.

Planning and knowledge are particularly important in responding to disasters, because there is a premium on responding quickly and effectively. Agencies cannot wait for disasters to happen; the planning and the knowledge collection has to be done ahead of

time, and we have heard from several witnesses today that initiatives are now being undertaken to address small business and local firms. What I am trying to emphasize is those plans need to be in place before the disaster occurs.

In reviewing the classroom contract, we found acquisition planning was absent. We found no information in the contract files like supplier lists or pricing histories that would have helped the Corps contracting staff purchase the classrooms. Absent that information and faced with a very short timeframe to buy the classrooms, the Corps contracting staff found themselves in a very difficult situation.

To meet the requirement, they placed an order without competition, as you have previously noted, on a previously existing contract established by the Army Contracting Agency in Fort Eustis, Virginia. The agreement was not intended to be used for buying classrooms; rather, it was intended to be used to acquire and install portable buildings on Army installations. Not surprisingly, the agreement did not include information that would have been useful in purchasing the classrooms; specifically, it did not include prices, designs, or specifications for the classrooms that were needed.

Our review of the contract documents and discussions with the contracting officials in Vicksburg clearly indicates to us that they were unprepared to buy the classrooms and lacked the knowledge needed to do so. We found that a local firm approached the Corps contracting staff about providing the classrooms. The Corps staff, however, because of time pressures, decided to use the pre-existing agreement and awarded an order to buy the classrooms for $39.5 million.

As part of our review of the Federal efforts to respond to the hurricanes, we will continue to review this contract and others to determine how Federal agencies identified, selected, and are managing contractors to meet their response and recovery responsibilities, including how they are considering small businesses and local firms in their acquisition decisions.

Madam Chair, that concludes my statement, and I would be glad to answer any questions you have.

[The prepared statement of Mr. Cooper follows:]

United States Government Accountability Office

GAO

Testimony
Before the Senate Committee on Small Business and Entrepreneurship

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HURRICANES KATRINA AND RITA

Preliminary Observations on Contracting for Response and Recovery Efforts

Statement of David E. Cooper, Director
Acquisition and Sourcing Management

GAO-06-246T

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Highlights

Highlights of GAO-06-246T, a report to the Committee on Small Business and Entrepreneurship, United States Senate

November 8, 2005

HURRICANES KATRINA AND RITA

Preliminary Observations on Contracting for Response and Recovery Efforts

Why GAO Did This Study

The devastation experienced by those throughout the Gulf Coast in Louisiana, Mississippi, Alabama, and Texas in the wake of Hurricanes Katrina and Rita has called into question the government's ability to effectively respond to such disasters. The government needs to understand what went right and what went wrong, and to apply these lessons to strengthen its disaster response and recovery operations.

The federal government relies on partnerships across the public and private sectors to achieve critical results in preparing for and responding to natural disasters, with an increasing reliance on contractors to carry out specific aspects of its missions. At the same time, the acquisition functions at several agencies are on GAO's high-risk list, indicating a vulnerability to fraud, waste, abuse, and mismanagement.

GAO was asked to provide an overview of (1) its role in evaluating the contracting community with regard to disaster preparedness and response, (2) GAO's plans for reviewing the performance of the federal government and its contractors in preparing for and responding to the hurricanes, and (3) what GAO has learned so far about the performance of the federal government and its contractors in preparing for and responding to the hurricanes.

www.gao.gov/cgi-bin/getrpt?GAO-06-246T

To view the full product, including the scope and methodology, click on the link above. For more information, contact David E. Cooper at (202) 512-4841 or cooperd@gao.gov.

What GAO Found

The private sector is an important partner with the government in responding to and recovering from natural disasters such as Hurricanes Katrina and Rita. Such partnerships often include multiple federal agencies; for-profit contractors, including small businesses and local firms; not-for-profit organizations; and state and local governments. Importantly, federal agencies are relying increasingly on contractors to carry out specific aspects of their missions. The government's response to Katrina and Rita, for example, depended heavily on contractors to deliver ice, water, and food supplies as well as the effort to patch rooftops and supply temporary housing to displaced residents and evacuees. GAO can draw on its large body of knowledge to evaluate the procurement and contracting community's preparation for and response to Katrina, Rita, and other disasters. GAO's past work has shown that far too often, poorly planned and executed acquisitions have resulted in the government's inability to obtain quality goods and services on time and at a fair price—an outcome that is unacceptable, particularly in the current fiscal environment.

GAO's work on contracting issues related to Hurricanes Katrina and Rita will focus on agency planning, contract execution, and monitoring of contractor performance. To ensure good contracting outcomes, agencies must have sound acquisition plans, sufficient knowledge to make good business decisions, and the means to monitor contractor performance and ensure accountability. These components are critical to successfully managing contracts following any disaster, especially catastrophic disasters such as Hurricanes Katrina and Rita. The fact that natural disasters are not precisely predictable must not be an excuse for careless contracting practices.

GAO's preliminary observations about the purchase of classrooms by the Army Corps of Engineers (Corps) illustrate what can happen when sound contracting practices are not followed. The Corps was faced with a significant challenge in this acquisition because the classrooms were purchased in a short time frame and negotiations were compressed. GAO has concerns that the government may be paying more than necessary and questions whether Corps contracting officials had sufficient knowledge to ensure a good acquisition outcome. As a part of our ongoing work on Katrina and Rita, we will continue to review the facts and circumstances of this particular contract and other contracts supporting hurricane recovery efforts as we assess the overall contracting environment and practices in place.

Madame Chair and Members of the Committee:

Thank you for inviting me here today to discuss the nation's response to Hurricanes Katrina and Rita. We have witnessed many heroic efforts by dedicated public servants and volunteers working long hours to reduce the pain and suffering of those affected and to restore some sense of normalcy to the affected regions. Yet as you know, the devastation experienced by those throughout the Gulf Coast in Louisiana, Mississippi, Alabama, and Texas has undermined the nation's confidence in its government's ability to effectively respond to such disasters. Ultimately, we need to understand what went right and what went wrong, and to apply these lessons to strengthen the government's response and recovery operations as we look toward our long-range 21st century challenges.

GAO has already had teams in the hurricane-stricken areas, which have begun collecting information and gaining the insight that will be necessary to identify lessons learned and improvements needed for future emergencies. Our work is being coordinated with the rest of the accountability community at the federal, state, and local levels to ensure that all significant issues associated with relief and recovery are addressed while avoiding unnecessary duplication of efforts. The Comptroller General is personally involved in GAO's efforts and is working closely with other accountability organizations. While the inspectors general are expected to be on the front lines of reviewing agencies' response and recovery efforts, GAO plans to take a more systemic, crosscutting look at a broad range of issues, including how agencies provided for the use of small businesses and local firms in their acquisition decisions. As provided for in our congressional protocols, we are conducting hurricane-related work under the Comptroller General's statutory authority since it is an issue of interest to the entire Congress and numerous committees in both houses. We plan to review the use of Katrina- and Rita-related funds by various federal agencies.

My statement today will highlight GAO's role in evaluating the federal contracting community with regard to disaster preparedness, response, and recovery; our plans for conducting hurricane-related work in the future; and what we have learned so far about the performance of the federal government and its contractors in their preparations for and response to Hurricanes Katrina and Rita.

GAO's Approach to Assessing the Impact of Hurricanes Katrina and Rita

GAO has a broad and deep reservoir of knowledge, which we will draw on to conduct our work. Much of our response and recovery work was done in the aftermath of the terrorist attacks of September 11, 2001, and the subsequent creation of the Department of Homeland Security in March 2003. In all, we have published over 120 reports on disaster preparedness and response and other issues raised by the hurricanes.[1]

Our framework of analysis for this work will be based on the National Response Plan.[2] We will draw on our large body of knowledge to address several crosscutting issues, one of which is contracting. Our past work on preparedness—programs to prevent disasters or prepare in advance to respond—has identified needed improvements in a number of areas, including balancing efforts to prepare for terrorism with efforts related to natural disasters; providing training, exercises, evaluations, and lessons learned to first responders; providing flood control and protection; and improving public health preparedness. Our prior work on disaster response also has identified needed improvements, including coordination of federal, state, and local responses; the role of the military; and the medical and public health response capabilities. Finally, our work on recovery—programs to help affected communities get back to normal—has identified challenges related to federal assistance to recovery areas, private nongovernment assistance efforts, and lessons from overseas recovery programs. In many of these areas we have made a number of recommendations, some of which have yet to be implemented.

Contractors Play a Key Role in Response and Recovery

The private sector is an important partner with the government in responding to and recovering from natural disasters such as Hurricanes Katrina and Rita. As we noted early this year, such partnerships increasingly underlie more and more government operations and

[1]GAO has posted on its Web site (www.gao.gov) more than 120 prior reports and testimonies related to preparedness, response and recovery from natural disasters and terrorist attacks. The list includes, for example, our reports on the federal government's response to Hurricane Andrew in 1992, including the military's role in South Florida. GAO's past work has noted a host of needed improvements in a variety of government programs related to Hurricane Katrina and other natural disasters.

[2]The National Response Plan, prepared by the Department of Homeland Security, establishes a comprehensive all-hazards, both natural and man-made, approach to enhance the ability of the United States to manage domestic incidents.

missions.[3] Networks that are being created often include multiple federal agencies, for-profit contractors and not-for-profit organizations, and state and local governments. Importantly, federal agencies are relying increasingly on contractors to carry out specific aspects of their missions. The government's response to Katrina and Rita, for example, depended heavily on contractors to deliver ice, water, and food supplies, as well as the effort to patch rooftops and supply temporary housing to displaced residents and evacuees.

With hundreds of billions of tax dollars spent each year on goods and services, it is essential that federal agency acquisitions be handled in an efficient, effective, and accountable manner. However, as the government increases its reliance on contractors, GAO and other accountability organizations, inspectors general, and agencies continue to identify systemwide weaknesses in key areas of acquisition. The acquisition function at several agencies has been on GAO's high-risk list for over a decade,[4] and in January 2005, we added interagency contracting to this list.[5] For Katrina relief alone, Congress has appropriated over $62 billion—over 95 percent of which is being administered through the Department of Homeland Security. In January 2003, we designated DHS's formation through the merger of 22 agencies as high-risk because of the size and complexity of the effort and the wide array of existing challenges faced by the components being merged into the department.[6]

Far too often, the result of poorly planned and executed acquisitions has been an inability to obtain quality goods and services on time and at a fair price. Given the fiscal challenges we currently face and are likely to continue to face for decades to come, the federal government must improve its ability to acquire goods and services in a cost-effective manner.

Key elements must be in place to manage risks and achieve successful contract outcomes. To ensure good contracting outcomes, agencies must

[3] *21st Century Challenges: Reexamining the Base of the Federal Government*, GAO-05-325SP (Washington, D.C.: February 2005).
[4] GAO's High-Risk Series identifies areas in the federal government with vulnerability to fraud, waste, abuse, and mismanagement.

[5] *High-Risk Series: An Update*, GAO-05-207 (Washington D.C.: January 2005).

[6] *Major Management Challenges and Program Risks: Department of Homeland Security*, GAO-03-102 (Washington, D.C.: January 2003).

have sound acquisition plans, sufficient knowledge to make good business decisions, and the means to monitor contractor performance and ensure accountability. These components are critical to successfully managing contracts following any disaster—especially catastrophic disasters, such as Hurricanes Katrina and Rita. The fact that these disasters are not precisely predictable must not be an excuse for careless contracting practices.

Achieving Successful Contracting Outcomes Will Be the Focus of GAO's Work on Katrina and Rita Contracting Practices

Our preliminary fieldwork indicates that agency contracting practices in preparing for and responding to natural disasters are in need of review and revision. GAO's work on contracting issues related to Hurricanes Katrina and Rita in both the near and the long term will focus on agency planning, execution, and monitoring of contractor performance.

Among the issues that warrant consideration in assessing agency approaches to emergency contract planning are

- the strategies and flexibilities agencies used to plan their procurements to avoid the risks associated with undefined contracts;
- the knowledge agencies used to identify, select, and manage contractors, including small businesses and local firms, to achieve successful outcomes;
- the foresight to have competitively awarded contracts in place prior to the event against which orders can be placed as needed; and
- agencies' decisions to use national or local contractors.

In assessing the execution of these contracts, we will consider such issues as how effectively agencies

- communicated and coordinated among themselves and with contractors,
- provided for the participation of small businesses and local firms in response and recovery contracts,
- defined contract terms and conditions to avoid excessive costs and ensure desired performance, and
- monitored contractors.

We will consider the possible underlying causes of the problems we identify in agency planning and execution, such as

- the capability of information systems to provide visibility into financial and contracting operations;

- the skills and training of the acquisition workforce;
- the alignment of responsibilities among the key officials in managing the award and oversight of contracts; and
- the policies, procedures, and guidance for managing contracts.

Preliminary Observations from One GAO Review

To illustrate what can happen when sound contracting practices are not followed, I would like to discuss some preliminary observations about the purchase of portable classrooms for the state of Mississippi. In response to a tip received through GAO's hotline[7] that the government is paying highly inflated prices, we are reviewing a contract the Army Corps of Engineers (Corps) awarded on behalf of the Federal Emergency Management Agency to purchase portable classrooms for Mississippi schools damaged along the Gulf Coast.

The Corps faced a significant challenge in this acquisition. It was faced with acquiring the classrooms in a short time frame, and negotiations were compressed. To meet the requirement, the Corps placed a non-competitive order on a preexisting agreement established by the Army Contracting Agency in Fort Eustis, Virginia. The agreement was intended to be used to acquire and install portable buildings (not specifically classrooms) on Army installations. In negotiations, the contractor proposed to provide the classrooms for $39 million, and that amount was accepted. Since being awarded, the order has been amended several times to adjust the type and quantity of classrooms provided and other work required.

We have concerns that the government may be paying more than necessary. We question whether Corps contracting officials had sufficient knowledge to ensure a good acquisition outcome. For example, we found information in the Corps' contract files and from other sources that suggest the negotiated prices were inflated. Further, we found the Corps modified the contract after it was awarded to allow the contractor to substitute a different mix of classrooms than required by the contract. However, we found little evidence that the Corps conducted a complete analysis to determine the impact of the modifications on the contract price.

[7]The purpose of the Government Accountability Office's FraudNET is to facilitate the reporting of allegations of fraud, waste, abuse, or mismanagement of federal funds. Allegations are received via e-mail at fraudnet@gao.gov.

In this situation, the Corps was heavily dependent on information provided by the vendor and did not have the benefit of competition. These circumstances, as we have shown in prior work, increase risk and often result in poor outcomes. We will pursue the question of whether the contracting staff had sufficient information to make a sound business decision.

As a part of our ongoing work on Katrina and Rita, we will continue to review the facts and circumstances of this particular contract and other contracts supporting hurricane recovery efforts as we assess the overall contracting environment and practices in place.

In closing, as federal agencies prepare for and respond to unforeseen devastation that results from hurricanes and other natural disasters and terrorist attacks, they must be effective in planning and executing contracts with private firms to achieve critical mission outcomes and ensure accountability. We will continue to work with the accountability community and have already reached out to relevant congressional committees, federal inspectors general, and state and local auditors in the affected states to coordinate our efforts and most effectively utilize our resources.

Mr. Chairman this concludes my statement. I would be happy to respond to any questions you or other members of the committee may have at this time.

GAO Contact and Acknowledgments

For further information regarding this testimony, please contact David Cooper at (202) 512-4841 or cooperd@gao.gov. Individuals making key contributions to this testimony included William T. Woods, Penny Berrier, John Needham, Ralph Roffo, Karen Sloan, and Katherine Trimble.

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Chair SNOWE. Thank you. I appreciate it. Thank you very much. I appreciate both of you being here, and I thank you for your patience.

Obviously, these are critical issues, and we are trying to sort through them and determine fact from fiction so that we can rectify some of the problems to move this program forward in a more timely fashion. Walter, what is your sense on the ground there in Louisiana, on the front lines, about what are the impediments to small businesses getting access to loans from the SBA? What do you think is happening there?

Mr. ISAACSON. I think that they are not using our local banks. I mean, one of the things that we did at the LRA when we heard from the bankers, and I heard the complex discussion this morning, so I am not going to untie that Gordian knot for you, but there are a lot of banks in the State of Louisiana doing very well and those should be used in the process of handing out loans.

There is a sense that it is an enormous bureaucratic and slow and lethargic nightmare and that people just do not get it. And every day that a business cannot operate, you know, that they do not have the capital, that they are shut down means it is less likely that those persons will ever have a business again; you know, that that business will just be destroyed.

And I would say that the highest amount of frustration comes when we just cannot get a bridge loan or a grant or an emergency thing. And people do not really feel that is a handout. They feel that is what happened after 9/11. That is what happens in big disasters. That is why we have an SBA. And I think they would be astonished to hear testimony that, well, the SBA really is not geared to do this sort of thing. Well, you know, pray tell, we are going to be judged, and we are going to judge ourselves by how well we do that sort of thing.

So it is a sense that maybe you should use the local banks a little bit more; maybe you should find some more creative solutions instead of everybody saying no to a solution that somebody else comes up with and maybe just go down there, and it is like right after the hurricane: somebody should have just said let us go in there and get some things sorted out. You have to have another month or two to try to do that, and all of a sudden, money is being pulled out of whatever you call it, the conference or the reconciliation.

Chair SNOWE. Yes, and they have been down there a number of times. I mean, the Administrator himself has been down there on four different occasions. I know the staff, our staff, has been down there, and we have identified what we think the issues are and what needs to be done. It is just not happening. And I agree with you. I think there is a lethargic response to this whole issue. You have to really give impetus to the bureaucracy to respond to the urgency of the circumstances. You have got to move it, and you have got to——

Mr. ISAACSON. I will give them credit, though.

Chair SNOWE. You have to amass the respect to ensure it occurs, and it is just not happening. And that is our frustration, too, because one of the issues we did identify early on was the bridge loans as part of the entire package, which we thought would be

very useful. In fact, it was reinforced by the testimony of small businesses that were represented here more than a month ago from the various States in the Gulf region that indicated they needed that bridge loan.

And so, but we had included it in our package, and that is what is so disappointing, because I am not sure whether or not what this—it may be fine; who knows. But again, we are sort of having to sort of try it out.

Mr. ISAACSON. But, I mean, I am going to go down Thursday for the big meeting down in New Orleans of the LRA and a big AIA conference down there on rebuilding; I mean, can I bring some word back that we are going to try to get the bridge loans, or is that—that is what people need the most, the bridge loans and the——

Chair SNOWE. You are not getting a modification, I know, and you know, that is our frustration because of what happened in the House-Senate conference on the entire package that we have now also pending concurrently in the Senate in hopes of being able to pass it under unanimous consent.

But as I indicated earlier, there are 10 objections from the SBA and the Administration within the bill. There are 10 provisions that they are objecting to, including the bridge loans. So they have come up with this modification. Whether or not that is going to address the issue remains to be seen.

Mr. ISAACSON. But the modification seems to be for loans that are with higher interest rates and that are only incredibly safe and are not going to cost anything. Well, heck, you do not need—that is not what you need.

Chair SNOWE. Exactly.

Mr. ISAACSON. I mean, heck, I could give those loans.

So I would just say that what people cannot quite get, and I am so astonished, I am not sure I am going to be able to explain it to them—everybody realizes you need the bridge loan program, which Louisiana already has, but it scraped together every bit of money.

I will say something I probably should not say: I was able to get $200 million for loans for the Gaza Strip, because, you know, everybody knows we have got to build the Gaza Strip. That is easy. You have people coming in like crazy on that. Why you cannot act as fast when it is, you know, our folks in Mississippi and Louisiana and the Gulf Coast is astonishing to me.

So we need the bridge loans and grants, and maybe it will come out that neither Congress nor the Administration can figure it out, but that would—that is really bad in the long run. It is not just a matter of cost. You are creating unemployed people and destroyed businesses. This does not make economic sense. We are not saying please build, you know, flower gardens for us or something. We are saying just give us a bridge loan so our businesses come back.

Chair SNOWE. I know. That was the single most important recommendation made by the small business owners who were here.

Mr. ISAACSON. And I did not hear the answer.

Chair SNOWE. I know, it is, and you are right about the GO Loans. I mean, the interest rate is going to be market rate, and so, it is similar to a regular loan. That may help in some instances,

but clearly not in a number of them and also for the processing of these applications.

So we are going to continue to try to address these issues and these objections, because we still have the entire package pending in the Senate in hopes of moving it on a unanimous consent basis. In fact, we thought that we were pretty close to getting unanimous support for it so that we could just move it through and have it signed by the President. But obviously, there are objections even within the SBA, and so, it is beyond me as well, because we need to get to the heart of the situation and get small businesses up and running in the final analysis.

Mr. ISAACSON. I mean, can you just give us a little to keep the State program going? You know, is it——

Chair SNOWE. How much is the total that you have given? Is it $10 million for that?

Mr. ISAACSON. Well, it was $10 million.

Chair SNOWE. Was it $10 million?

Mr. ISAACSON. I feel like I could just go around to a rich individual to just do that for us. It is certainly something that in our overseas, we are always giving hundreds of millions of loan guarantees.

I would think, I mean, what we are looking for is a $200 million bridge loan to continue the existing one that is up and running and has the offices in place, has the people there ready. If we could just do that, just get that going, that would tide us over until you all sorted out GO Loans versus whatever loans.

Chair SNOWE. Right. We will have to work it through. I agree, and we will do everything we can, because I know it is the basis of your recovery. That is the essence of all of this.

Mr. ISAACSON. It is going to cost more in the long run if all of these businesses go under. I mean, ever since our founding, we have had as our backbone small businesses, shopkeepers. I mean, it is a Nation of shopkeepers that keep our economy going. If you want to destroy those shopkeepers, just wait another 2 months and do not give them the bridge loans. But then, you will have a real devastated economy, not just in Louisiana, but all across the region, and it will affect the United States.

Chair SNOWE. I know. It is exactly right, so it will reverberate. And so, we are going to try to do everything we can to see if we can get this assistance in the final analysis and see if we can overcome the objections, because it clearly should happen.

Mr. ISAACSON. You know, New York got, what was it, $2.7 billion in just pure business recovery grant programs? Now, this is not something I was against. I think it was fine. But that was a much smaller area for a one-time event that was kind of manageable. I mean, I was there. I have been in both of these places. There is a difference in some ways.

That is a $2.7 billion grant program. So, just something comparable to New York, or even treat us half as good as New York, but just something along those lines, just do the same type of program. And then, keep our bridge loans going until you sort out the Go versus no-Go ones.

[Laughter.]

Chair SNOWE. If that is possible around here, Go, no-Go.

From the experience that you have had thusfar in Louisiana, has there been a noticeable difference at all with respect to small businesses getting up and running, I mean, any impact from SBA in the application process? Have you seen any discernible difference in the economy?

Mr. ISAACSON. The SBA should be the backbone or the help for small businesses. Small businesses are getting back. I mean, in Plaquemines Parish, I don't know what the Administrator saw, but I went all over there: they are working like crazy. People are not just sitting there waiting for either the Red Cross or the SBA to show up or something. I was astonished at how hard people are working.

When I would go back to New Orleans or to Plaquemines or to Jefferson Parish or Calcasieu, you would see businesses really just working. But they are not getting the business loans, so about a third of them just cannot make it.

So it is happening, but not because of the SBA, and that is almost retarding it, because they do not have access to capital. So it is the biggest crisis. You heard from them when they came up here, but every time I am walking around, they just—that is the thing people grab me on. Two things people grab me on: you have to make sure the levees do not just break on us next time, you know, the shoddy construction or whatever, and No. 2, can't we get the same thing everybody thought you were supposed to get in disasters, which is emergency loans, bridge loans, disaster grants, whatever you want to call them?

That is the only two things they say. And I am kind of sorry that the State—it is our fault. We kind of asked in our original thing, we kind of squandered some of the good will by saying we need this, this, this, this, and this and that. Let me tell you: we need two things: we need levees that do not break, and we need small business loans.

Chair SNOWE. Well, the small business loans are a reasonable request.

Mr. ISAACSON. So are the levees, but that is——

[Laughter.]

Chair SNOWE. No, that is true, and also the tools to help them do their job. We were in that situation 2 months ago where we could have given them the tools if they were prepared to receive them.

Mr. ISAACSON. Everybody is kind of writing the history of this.

Chair SNOWE. And so we will just figure another way, because it is critical.

Mr. ISAACSON. There are more books being written about this. I keep saying get focused. It is on, you know, it is not Red Cross type stuff. It is how do you get businesses back and the infrastructure back? And I think history is going to judge us pretty harshly if we do not get focused real quick.

Chair SNOWE. I agree, and the other part of this with respect to small business is the awarding of contracts to small business. Mr. Cooper, I think that you have made some very good suggestions and recommendations in your review and report. It is clear that the Homeland Security Department and the Army Corps did not have

any acquisition or accountability plans. Do you think they have them in place now?

Mr. COOPER. Not yet.

Chair SNOWE. Not yet? How long does that take, do you think?

Mr. COOPER. Well, it is probably going to take a long time to do that.

Chair SNOWE. A long time?

Mr. COOPER. We have heard this morning that they are going to break out some contracts for small businesses. That is kind of an afterthought. It was not anticipated in the planning. I think what is needed, you know, we are going to have hurricanes in that area again. It is inevitable. And I think in terms of contracting, we need to identify those local firms that have capabilities that can clean up debris, can provide classrooms, and I think classrooms are a classic example of where the company that came to the Corps was one of two companies in the State of Mississippi that was certified by the State Department of Education to provide and install classrooms.

Chair SNOWE. You heard the answer today by Mr. Johnson. What is your answer to that?

Mr. COOPER. I am not sure it was as complete as I would like to see.

Chair SNOWE. Yes.

Mr. COOPER. But I talked to the contracting people at Vicksburg. I went down there personally. I talked to the companies, people in the companies that were there. And, I mean, it is just unexplainable why we did not use a local firm. In fact, I think the intent was to use a local firm, at least in a subcontract manner. And then, that did not even materialize. That went away.

Chair SNOWE. It sounded to me like they had not even made, you know, they had not specified the qualifications for this particular contract, did not decide how long it was going to be, so on and so forth. So it just seemed easier.

Mr. COOPER. Well, things were done very, very quickly. I mean, negotiations virtually took place in 3 days, and negotiations is a loose term. The Government accepted whatever price the contractor provided here so——

Chair SNOWE. Do you think that is true across the board right now?

Mr. COOPER. You know, this is one example, and I have seen this kind of thing happen in a lot of other Federal contracting situations, even in nondisasters, you know, the best of time situations, and it is a concern to us. GAO has several Federal agencies on its high risk list for not getting good contracting outcomes. There is just a lot of work ahead of us.

Chair SNOWE. What do you think this Committee could do with respect to enforcing the Small Business Act and the Stafford Act in designating small businesses for contracts and subcontracts?

Mr. COOPER. I think you need to hold those agencies' feet to the fire. I am talking about FEMA. I am talking about the Corps, DHS, and have them come back and explain to you what they are able to achieve. I mean, you have talked about some numbers here this morning that are almost phenomenal to me, because I have done work for you in the past and reported on small business achieve-

ments. Information on small business participation in Federal contracts, either at the prime or the subcontract level, is hard to come by. And when I see a number of 72 percent, that cannot be right.

Chair SNOWE. Well, that was our reaction, too, 72 percent. That is three times the rate of awarding contracts in the——

Mr. COOPER. The other point I would make, and it kind of struck me when the SBA Administrator said that he used FPDS data for the 45 percent, FPDS data is not accurate and reliable. We have made two reports in the last 2 years to OMB to try to get better data, more reliable data, so we know where Federal contracting dollars are going, and, I mean, I have testified before you on contract bundling, and I have provided information about large companies getting contracts intended for small businesses and report it as a small business award, I mean, the data is just not good.

Chair SNOWE. Well, we have a lot of work ahead of us.

Mr. COOPER. Clearly.

Chair SNOWE. That is clear to me when you think about the amount of money, and the fact is it is, again, a key to the economic restoration of the region and, you know, making sure that many of these contracts are awarded to local contractors, small contractors, small businesses, and that is simply not happening to the degree that it should and is required under the law and plus the fact that is even more—above and beyond everything else is that it is costing the taxpayers more money, and we are seeing waste and inefficiencies, and unfortunately, it is coming down to more dollars on the part of the taxpayer than is otherwise necessary or required. So that's disconcerting to say the least.

Mr. COOPER. That is a concern of ours.

Chair SNOWE. Yes, it is a concern, and these numbers are not accurate. That is unfortunate. There is no data to document what they suggested here today in terms of the awards to small businesses, either prime or subcontracting. And that is the frustration, and we have got to get to the bottom of it again because of the fact that they have no standards for acquisition, no accountability within the Defense and the Homeland Security Department.

Mr. COOPER. Right.

Chair SNOWE. I mean, we are talking about significant agencies that are responsible for billions of dollars.

Mr. COOPER. They spend the most.

Chair SNOWE. Hundreds of billions of dollars.

So, in any event, that is very disturbing. So we will have to continue. I really appreciate your work and your guidance, and our staff will be following up with you, because we really want to see if we can pinpoint some specific issues that we can call them to account for, you know——

Mr. COOPER. OK.

Chair SNOWE [Continuing]. And develop the accountability and transparency that is essential in making sure that these programs are being done in an efficient fashion.

Mr. COOPER. We look forward to working with you.

Chair SNOWE. Thank you, Mr. Cooper, and Walter, too. Thank you for being here. We appreciate it, and hopefully, we can give you some good news on this score, because small business is central, we think, to the revitalization of the region. We want to make sure

that small business and the Small Business Administration can be shining at this moment that is so pivotal to our Nation and to the Gulf region.

So thank you. This hearing is adjourned.

[Whereupon, at 1:10 p.m., the Committee was adjourned.]

APPENDIX MATERIAL SUBMITTED

STATEMENT OF SENATOR GEORGE ALLEN

Chair Snowe, I appreciate this hearing today to review the progress that the Small Business Administration is making as it tackles this unprecedented natural disaster and begins the long term recovery process for the small business owners harmed by Hurricanes Katrina and Rita..

On August 29, 2005, Hurricane Katrina hit Louisiana, Mississippi and Alabama as the sixth strongest storm on record, wiping out entire neighborhoods in some areas with levee breaches and leaving most of the historic city of New Orleans flooded. Federal Disaster declarations blanketed over 90,000 square miles of the United States, nearly the entire size of Great Britain.

While tens of thousands of Katrina victims were preparing and ultimately evacuating the region, the employees of SBA's Office of Disaster Assistance were gearing up to head into the heart of the disaster. In response, SBA under Administrator Barreto has quadrupled the number of employees in the Office of Disaster Assistance; expanded the size of their processing facility; and as the rebuilding continues, SBA is working to make sure small businesses are involved in contracting opportunities.

In September of 2003, Hurricane Isabel hit my Commonwealth of Virginia, causing flooding and significant damage amounting to more then $1.6 billion. The SBA worked enthusiastically to assist the people in the clean-up and rebuilding effort, just as they are now in the Gulf Region. The major difference is that Katrina affected 10 times as many people as Isabel did in 2003. To date SBA has received over 220,000 applications in an incredibly short period of time.

The SBA is up against a huge challenge, and I want to recognize the hard work being made by Administrator Barreto and the employees of the SBA. I sincerely hope that this Committee and the SBA use these hearing constructively to help guide the process as we continue to rebuild and restart small businesses in Louisiana, Mississippi and Alabama. Let us work constructively together in good will to appropriately assist people and provide the Small Business Administration with the tools to get the job done.

Hearing Statement for Senator Bayh
"Strengthening Hurricane Recovery Efforts for Small Businesses"
November 8, 2005

Hurricane Katrina physically and economically devastated the Gulf Coast. It has taken hundreds of lives and left many thousands without homes, businesses or livelihoods. Like many Americans, I was horrified by the damage, and shocked by the inadequacy of the federal government's response in the first days after the Hurricane struck. The United States Government's most solemn responsibility is to protect its citizens, particularly the most vulnerable among us. Yet, in this case, we all witnessed an unacceptable failure of government at every level. Hurricane Katrina has shown that, despite assurances to the contrary, the federal government is not sufficiently prepared to deal with major emergencies, and there is much work to be done.

Small businesses in the Gulf region were gravely affected by this calamity, and it is essential that the necessary steps are taken to ensure their survival. They are the engine that drives our economy. Therefore, this will aid not only in jumpstarting local economies, but will get more Americans back to work and back into their communities.

I have been collaborating with my colleagues to expedite the process of rejuvenating small businesses in disaster areas. I am an original cosponsor of the Small Business Hurricane Relief and Reconstruction Act of 2005. This legislation will allow affected small businesses to refinance previous debt, lower interest rates, defer payments on Small Business Administration (SBA) disaster loans and extend application deadlines. In order to ensure that small businesses and their employees are able return to their home towns as quickly as possible, the bill requires that 30 percent of prime contract dollars and 40 percent of subcontracting dollars are directed to small businesses in the affected regions. The sooner businesses are able to open their doors, the sooner Americans will be able to get back to work and support their families. It is essential that the rebuilding efforts be expedited so that we can ensure businesses return to their community.

Small businesses are extremely vital to the success of our economy. This is demonstrated in the Small Business Administration (SBA)'s report that states small businesses represent 99.7 percent of all employers, and provide 75 percent of the net new jobs added to the economy. With that, we must focus on helping small businesses in the Gulf Coast area, so that the community and the economy will be up and running.

We must move swiftly respond to the needs of these small businesses. I am concerned about a recent report states that of the over 28,000 businesses that have requested loans, only 840 have been approved. Only17 percent of loan applications received by the SBA from individuals and small businesses have been resolved by being denied, approved or withdrawn. Equally troubling is the fact that less than 3 percent of contract dollars awarded to FEMA are going to small disadvantaged, minority or women-owned businesses. The federal government's procurement goal is 23 percent, so there is clearly a wide gulf between what the government has promised to do and what is actually happening in the Gulf Coast. It is imperative to understand the enormity of this issue,

and to work together to assure businesses that measures will be taken to promptly execute the rebuilding process.

In the challenges that lie ahead of us, I encourage the SBA to work expeditiously and efficiently with us in bringing vitality back to the affected businesses in the Gulf Coast. SBA should work to do a better job identifying qualified small businesses for procurement contracts. I cannot place enough emphasis on the pressing nature of this issue. The future of the local economy in the damaged areas is largely dependent upon the restoration of the small business community, and it is our duty to provide all the resources necessary to make that happen as soon as possible

Statement of Senator Michael B. Enzi
"Strengthening Hurricane Recovery Efforts for Small Businesses"
Senate Committee on Small Business & Entrepreneurship
Tuesday, November 8, 2005

As we all know, Hurricane Katrina was a storm of epic proportions. The power of the hurricane created an area of destruction spanning 90,000 square miles. To add insult to injury, Hurricane Rita followed closely on the heels of Hurricane Katrina. Displaced from their communities, thousands of Gulf Coast residents have lost their possessions, their livelihood, and their loved ones. Since the event, Senate Committees have sprung to action to hold oversight hearings and introduce legislation. Federal assistance is playing an important role as small businesses recover. I've been able to work through the Small Business Committee and through the Health, Education, Labor and Pensions Committee to examine whether federal assistance is timely, responsible and successful for small businesses. In that examination, we have discovered room for improvement.

For example, because thousands of businesses literally have been washed or blown away, I introduced S. 1769 with Senator Kennedy to authorize a pool of money to the Department of Health and Human Services to work with state insurance commissioners to provide three months of temporary health insurance premium relief to individuals and businesses of 50 or fewer employees. To decrease financial burdens on individuals and businesses affected by Katrina, insurers are prohibited from canceling policies or raising rates during the three-month emergency period. Health care costs are a challenge for functioning small businesses, those that have been devastated by Hurricane Katrina assistance even more.

There are other issues of as much importance as health care that I am pleased are being explored by the Small Business Committee today. Specifically, I am very interested in hearing the testimony regarding the Small Business Administration's process for disaster loan approval and small business participation in response and recovery contracts.

I recognize that recovery will take more than 90 days and that the SBA's disaster loans are meant for long-term recovery. However, given the high volume of loan applications that SBA has received and the, as yet, low response rate, I look forward to Administrator Barreto's testimony sharing SBA's plan to increase loan application turn around. One of the few bright linings of the disaster is increased small business interest in federal contracting opportunities. Small businesses have been contacting my office requesting information on Katrina contracts. Though I agree that as many contracts as possible should go to local small businesses in the affected areas, I also want to ensure that the contract information available to small businesses in Wyoming is easily accessible and transparent. I look forward to the testimony this morning on efforts to award Katrina contracts to small businesses.

Small businesses are the lifeblood of our economy. Helping small businesses open their doors again will continue the healing process and jump start the economies of the affected areas. The SBA will play an integral part in this process. I look forward to the testimonies and suggestions that will be given today. Thank you Madame Chair.

Small Business Committee Hearing

Opening Statement for Sen. Thune

Chairwoman Snowe, Senator Kerry, other Members of the Committee, I would like to thank you for convening this hearing today. Congressman Thompson, Administrator Barreto, Major General Johnson, Mr. Rothwell and our other panel of witnesses, I would like to thank you all for participating today.

The hurricanes we experienced this season were devastating to the Gulf Coast. Homes and businesses were deserted as their owners attempted to take shelter. Hurricanes Katrina and Rita destroyed billions of dollars worth of infrastructure in their path.

Now the storms are over, residents are returning, and the rebuilding has begun. Our witnesses today each bring a perspective that is important for our Committee to hear as we provide oversight to the Small Business

Administration as well as promote and protect America's small businesses.

Specifically, we are here today to focus on how small businesses are fairing since Hurricanes Katrina and Rita. In Louisiana alone, there were nearly 81,000 businesses impacted by the hurricanes. Most of these were small businesses. To provide some perspective, in my home state of South Dakota there are approximately 73,000 small businesses in our entire state.

Over the last 30 years, two out of every three new jobs in this country were created by a small business. I have heard it said that what is good for small business is good for America. I think the same can be said during this rebuilding effort in the Gulf Coast. What is good for small businesses is good for the Gulf Coast.

Many small businesses will be able to help with the rebuilding process by partnering with the government agencies. Local Gulf Coast small businesses can be used by the federal government to provide a range of

vital services - from providing ice and food to clearing debris and rebuilding the damaged infrastructure.

FEMA, the Corps of Engineers and other federal government agencies at work in the Gulf Coast cannot do the job they have been tasked without the help of small businesses in Louisiana, Mississippi and Alabama. The best way to get the Gulf Coast economy back on its feet is to get small businesses back in business. This is going to happen when small businesses take advantage of available government contracts. I look forward to hearing about the progress we are making to include small businesses in the recovery efforts.

Other small businesses will need helping hand from the state or federal government before they can get back to work. Some of these small businesses and homeowners will need a Small Business Disaster Loan to get back on their feet.

SBA has years of experience in providing these loans. I should know, I used to work at the SBA. I

again saw the disaster loan process in action while I served in the House of Representatives. In 1997, my home state of South Dakota saw some devastating flooding that required a presidentially declared disaster and a response from FEMA and SBA. While neither SBA, nor any other federal agency has experienced a natural disaster of the magnitude of Katrina, SBA's programs should be scalable and capable to handle the increased demand.

Some press reports have characterized the SBA Disaster Loan approval process to Katrina and Rita as slow and unresponsive. I am interested to hear from Administrator Barreto about these characterizations. Like most initial reports, I am sure there is some truth to them, but perhaps some overreaction as well.

It is important to remember what SBA Disaster Loans are and what they are not. They are loans. They are not emergency grants. There is an approval process that must be completed. If the approval process is not handled with care, then I suspect instead of having

this hearing today, we would be having a hearing a year from now on all the absurd loans that were approved without thorough vetting.

It is my hope that after this hearing SBA and the other government agencies represented today will know that we want them to find that balance between speed and diligence. We want a fast recovery, but we also want a prudent recovery. I look forward to the testimony.

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September 26, 2005

Daniel Heath
Economic Advisor
The White House
Via email

re: Gulf Coast Rebuilding

Dear Mr. Heath:

This is a follow up to our conversation Friday evening concerning opportunities for Black owned businesses in the rebuilding of the Gulf Coast and the potential for job opportunities for the residents of the affected areas.

Let me first say a few words about the letter to Claude Allen, President's Advisor, by the Honorable Albert Wynn requesting that the White House get engaged with the National Black Chamber of Commerce and me to ensure optimum opportunities for African Americans in this giant effort. That letter was not solicited by this office but I am deeply humbled by it. To see that the highest political caucus, the Congressional Black Caucus, has put confidence in the NBCC. We will not disappoint Congressman Wynn. Our interest, mission and plans will not alter from our total commitment to the economic development of Black communities throughout the United States. That specific mission makes us unique amongst all other organizations. The preponderance of business participation with the federal government by the Black business community is due to the accomplishments of members of the Congressional Black Caucus and for that, we are indebted and deeply appreciative. We take their call for action very seriously.

Through the years, the NBCC has tested, proven and initiated programs that indeed provide inclusion of all businesses in a project or program. Projects that we have been involved in, invited or not, have demonstrated how representatives of all minority groups and genders can be incorporated into a system of procurement without the vast majority still going to companies owned by white males. Is it revolutionary to ensure that 15%, 20%, 30%, etc. of the procurement pie go to others who are capable and would be at that

procurement table if not for historical and real/current discriminatory practices? Despite the far right wing view that the nation can now be "color blind", discrimination, racism and sexism in the daily practices of this country are real and inpactful. Many times it is plain greed that spawns such negative atmospheres, but still the impact is great and devastating. It is quite contradictory that such good and positive programs can exist for a certain period or within a particular geography but they are not replicated or given proper due for emulation elsewhere.

Of late, we are very alarmed at the symbolism and timing of messages being sent out by this Administration. First, the so called US Commission on Civil Rights has been turned into a virtual anti-civil rights entity protecting the advantages and ill got gains of the white male. The recent study put out by this newly assembled right wing conservative leaning commission proclaims that affirmative action procurement programs have been declared illegal by the US Supreme Court. They insist that "race neutral" programs must be implemented. What is the use of that when all records show that race neutral equates to "whites only"? What they claim is an outright lie that extends to the brazenness of the early Bolsheviks and Nazis. Such a big lie with racial animus coming from a so called US Commission on Civil Rights is very offensive.

Then, as the emergency procurement for the Katrina aftermath gets underway the Administration decides to suspend Affirmative Action and prevailing wages under the Davis Bacon Act. What this told the large African American population of the Gulf Coast is that "you are now out of work and the chances of you regaining employment has just gotten much tougher – we are going back to the bad old days of the 1950's – and even if you do find a job your pay will be significantly worse." Just as statistics showed that poverty in the nation for the first time in many years increased the Administration set new policy to "fan the flames". It was a great assault. Salt on the wounds came as the anointed four companies that were each given $500 million in debris contracts each claimed they would need a little extra time before they start advertising employment opportunities. They would first have to adjust downward all the pay scales. This is promoting poverty not ending it.

How do you administrate large procurement programs without sacrificing quality, cost and ensuring inclusiveness from all segments of America? Allow me to share some examples with you:

Example 1. In 1989, I was appointed to the position of Deputy Commissioner for Minority Business Development for the State of Indiana. What swung open the gates of opportunity started from the number one executive office, the Governor. Governor Bayh wrote a letter to each member of his cabinet declaring that he was totally in support of the efforts of the office of Minority Business Development. He requested a letter of support from each of his cabinet members and another letter from them going to each of their procurement executives. This exercise put the whole administration in support of inclusiveness and started a team approach. New ideas, creative outreach and a whole new approach to public notice evolved. The State of Indiana went from 0.5% in minority business participation to 6% within 18 months. There were no rigid set-asides, price

preferences, etc. It was pure competition and the people of Indiana had something to be very proud of.

Example 2. A major automobile company began building a new plant in Kokomo, IN. It decided it was not going to even interview any Black owned contractors with offices located within the state of Indiana. Members of the NBCC notified this office that their FEDEX packages containing their statement of qualifications were being refused by the construction office of the Fortune 100 company. The solution was easy. At the encouragement of the NBCC, the Indiana Black Legislative Caucus demanded the Lieutenant Governor's office to recall the $8 million in free land that was given to the automaker for the building of this plant. The Honorable William Crawford proclaimed, "This legislature did not give up this money for someone to discriminate against our businesses". This caught the attention of the corporation's CEO who now realized that his construction division was failing him, the company and its shareholders. There was immediate change and significant contractual work was realized by the local Black business community. There was also a sharp increase in Black employment on the work site as a result of this correction. Also, the project came in seriously under budget because the new Black owned contractors demanded the best price from their subcontractors as opposed to the "good ol' boy noncompetitive rate".

Example 3. Cities such as Chicago, Detroit, and Philadelphia have made mockeries of so called set-aside programs. They claim high participation but yet there are no gains in real minority business development or employment within their urban communities. These shams do no good. So when United Airlines announced it was putting a $1 billion maintenance hub in Indianapolis, we had concerns. We notified United Air Lines that the state and the city may not monitor and insist on compliance with their contractual agreements concerning minority business but we certainly will. As predicted the Program Manager for this construction project started producing false reports. We had the legislative Black caucus obtain these false reports and began exposing the fraud. We would take the falsehood and show what would have happened in terms of jobs and local economic development if it were true. Eventually, UAL relented and started doing the right thing. We brought in over $200 million in contracts and jobs that would not have happened if the status quo would have been accepted. Also, newly elected Mayor Stephen Goldsmith, noticing what had happened, committed his administration to inclusion and made Indianapolis, under his administration, a model city for diversity.

Example 4. Indianapolis Public Schools had given a 10 year construction management contract to a mid-size politically connected firm for a fee of 5% of construction (this was nearly 3 times the industry standard). As the term was ending, we persuaded the school board to have open competition for both construction management and architectural services. We set the scoring rules and made them as objective as possible. We recruited bona fide and qualified Black construction and architectural firms and convinced them that the "playing field" this time would be level. There were 35 construction firms and 30 architectural firms competing for the top 5 positions in each category. By open evaluation positions 1, 2 and 4 in the construction competition were Black owned firms. In architecture positions 1 and 3 were Black owned firms. It stunned the public that all

along Black firms were capable and able to perform work they had previously been denied access to. There are 14 schools in Indianapolis today that were built or rebuilt by local Black owned construction management firms and 8 schools designed by local Black architects. Some of the largest firms could not provide better qualifications. They had just been nurtured by political schemes.

Example 5. We performed an initiative in the mid-1990's for stadium projects. If a major construction manager performed admirably or poor in terms of minority inclusion, the entire infrastructure of city elected officials would know about it. The Mayor of St. Louis cancelled a contract for a new hockey arena because the NBCC sent documentation of discrimination by the newly appointed construction manager. We started rating the major firms working on stadium events and publicizing their performance. Within a very short term, the vast majority of stadium construction managers started doing due diligence, not just for the local community, but for their own future and reputation. A smart, responsible firm would seek a letter of recommendation from the NBCC.

Example 6. As I am listing these fine examples for the Administration to consider, one of the best examples is within the Administration but is "unsung" and not emulated for some reason. The US Department of Housing and Urban Development, HUD, is a fine example of executive direction and expectation. Secretary Alphonso Jackson is dedicated to small business and expects the businesses performing work for HUD to "look like America". He has done an excellent job of letting his staff know his expectations. Consequently, HUD has made significant gains in minority participation at all levels of HUD procurement. Constituents of the NBCC sing praises for HUD. We awarded the agency for its consistent performance at our last convention. We seldom give out awards and it is only when we find it necessary to recognize impressive and unusual results. I would be remiss if I omitted former Secretary of State Colin Powell. The State Department had a deplorable track record until Secretary Powell came on the scene. They have made great improvement and are continuing under Secretary Rice. It speaks volumes for the leadership. In essence, the President has the answer right within his own cabinet.

I have listed the above examples to present "case studies" that actually work within American society. If anyone within your circle wants to know what we believe is needed I provide the following, not as "pie in the sky" or "in a perfect world" suggestions but as proven successes that did not sacrifice quality, price or time:

- Restore affirmative action. It is as proven as the GI Bill in terms of including representation of all America and a vehicle out of poverty.
- Restore prevailing wages. While the abuses of the Davis-Bacon Act are worthy of strong debate, now is not the time to say "curtains!" Especially in this part of the nation that is rampant with poverty and high unemployment. What has happened is like pouring gasoline on a fire.
- Encourage all prime contractors to have on-the-job training programs and internships for local residents. These traditional vocation training schools and

other formal out of the worksite programs do not place the participants into real life jobs. On-the-job training is the best and ensures the highest percentage of new employment.

- The President should write a specific letter to all cabinet secretaries expressing his desire for diversity in the procurement arena as well as employment arena. The secretaries should put their commitment in writing to the President and should write to all applicable procurement managers to emulate the same. Quarterly monitoring prepared by each Secretary should be forwarded to the President.
- Specifications in all bids (scope of work) and in all contracts must ensure factual reporting of all participation in procurement. Diversity must be a requirement not an added treat. Bona fide and certified representatives of each classification (Black, Asian, Hispanic, Women, etc.) must be verified and documented. Monitoring by the applicable procurement agency or representative of that agency must be accurate and accountable. Detected misrepresentation and/or fraud must be prosecuted with a vengeance by the Attorney General.
- The results of monitoring the primes and their subcontractors should be made quite public. Corporate America and local governments should know who the committed contractors are and who the uncommitted are. With proper exposure, the vast majority will become committed.
- FEMA is totally overwhelmed. While we are glad to see the Army Corps of Engineers handling the Public Works arena of the rebuilding, we see no other reputable entity helping with the rest of the procurement. The Corps should do a better job of verifying minority business performance however. Emergency housing should become the responsibility of HUD. Putting faith-based entities into this emergency will result in a wholesale disaster. Let the expert do it. Also, consider immediate training of FEMA procurement agents by experienced HUD procurement agents.
- Housing Projects, large public housing units, have been eyesores in our urban communities. As we rebuild the Gulf Coast, let us concentrate on single family communities. Utilization of Section 8 vouchers versus locally run multi-family structures will be the best use of federal money and the best investment in quality of life for the returning residents. The conversion of Section 8 vouchers into 15 year mortgage notes should be exploited. It is legal and should become popular.
- Utilize the expertise and infrastructure of the Small Business Administration. The SBA has the best database in the world for quality minority contractors. It also has representatives with a strong knowledge of federal contracting. We have absolute faith in Administrator Hector Barreto. Also, his assistant, Allegra McCullough, has shown a high amount of competence and we look forward to working with her and her associates.

The NBCC stands firm in its mission. We will not falter nor turn our head. I, personally, have put faith in our President and will continue to support his overall leadership. However, that does not mean that I will become a political soldier and ignore that which I cannot stomach. Proudly I am a veteran and a bona fide patriot. I will act and lead this organization as I see what is best for America. In the name of all Americans, we say

please consider the above. Call on us whenever and wherever – we will be there. "Fortune favors courage".

Sincerely,

Harry C. Alford
Harry C. Alford
President & CEO

cc: Honorable Albert Wynn

LOUISIANA RETAILERS ASSOCIATION
THE VOICE OF FREE ENTERPRISE
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September 29, 2005

The Honorable John F. Kerry
Russell Senate Office Building
Washington, DC 20510-2102

The Honorable John F. Kerry:

Thank you for your support of the citizens of Louisiana that were impacted by Hurricanes Katrina and Rita. The purpose of this letter is to urge you to continue supporting the people whose lives were altered by the recent natural disasters in Louisiana. As you know, hundreds of thousands of Louisiana citizens are now unemployed. In order for our state to recover, we need your help in creating jobs for our citizens. As the leading trade association for retailers in the state of Louisiana, the Louisiana Retailers Association is doing its part to financially assist retailers in the rebuilding effort. The Louisiana Retailers Association has created the Louisiana Retailers Relief Foundation to help displaced and temporarily closed retailers rebuild and reopen as soon as possible. Small businesses must reopen and succeed in order to restore our state's economy.

In order to revitalize the economy in Louisiana, Congress must consider providing grants to small businesses that want to return home and service their communities. Congress must also support President Bush's idea of a Gulf Opportunity Zone that will encourage investment in the affected areas. Tax credits for job creation are a vital component in rebuilding our state's economy, as the most important step is putting our citizens back to work.

Please do not lose sight of the devastation that Hurricanes Katrina and Rita have caused in the state of Louisiana. We urge you to do whatever is needed to help rebuild this area of the nation that is so important to the overall wellness of the United States.

Sincerely,

Dawn B. Johnson, Executive Director
Louisiana Retailers Association

Project On Government Oversight

Exposing Corruption Exploring Solutions www.POGO.org

Written Testimony of
Project On Government Oversight's Executive Director,
Danielle Brian on
Government Contracting
and the Negative Impact on Small Businesses
before the Senate Committee on
Small Business and Entrepreneurship

November 8, 2005

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I would like to thank Chairwoman Olympia Snow, Ranking Member John Kerry, and the entire Committee for this opportunity to provide written testimony for the record. I am the Executive Director of the Project On Government Oversight (POGO) which investigates, exposes, and seeks to remedy systemic abuses of power, mismanagement, and subservience by the federal government to powerful special interests. Founded in 1981, POGO is a politically-independent nonprofit watchdog that strives to promote a government that is accountable to the citizenry.

On May 17, 2005, POGO's General Counsel Scott Amey testified before OMB's Acquisition Advisory Panel (http://www.acqnet.gov/aap/), highlighting concerns in five areas that have been the target of contractor-driven "reforms." POGO recommended that the Panel strengthen federal government contracting laws and regulations in the following areas:

1. Cozy Negotiations - To make every effort to get the best value for the taxpayer, the government must promote aggressive arm's-length negotiations with contractors;

2. Inadequate Competition - To better evaluate goods and services and get the best value, the government must encourage "competition" so that it can correct the current trend of entering into non-competitive contracts in nearly 50 percent of government purchases;

3. Lack of Accountability - To ensure that taxpayer dollars are being spent responsibly, the government must regularly monitor and audit contracts after they are awarded;

4. Little Transparency - To regain public faith in the contracting system, the government must ensure that the contracting process is open to the public, including contractor data and contracting officers' decisions and justifications; and

5. Risky Contracting Vehicles - To prevent abuse, the government must ensure that certain contract types that have been abused in the past (including performance-based contracts, interagency contracts, time & material contracts, share-in-savings contracts, purchase card transactions, commercial item purchases, and other transaction authority) are only used in limited circumstances and are accompanied by audit and oversight controls.

All of those weaknesses have a negative impact on small businesses. For example, the second supplemental bill for Katrina increased the emergency "micro-purchase threshold" from $15,000 (generally $2,500 in non-emergency circumstances) to $250,000. That increase essentially eliminated competition in a large number of contracts. While full and open competition may not be possible in every circumstance considering the immediate needs, limited competitions (i.e., limited in solicitations or length of the bidding period) for less immediate purchases should be encouraged. By opening federal contracting to competition to all contractors (including small and minority owned businesses), the government would expand its opportunities beyond the currently closed club of federal contractors. In the reconstruction effort, the federal government should strive to award contracts to the best and brightest contractors and not rely on the familiar and convenient.

In addition, we have heard from small businesses and are familiar with media reports that Katrina contracts were bundled together into super-sized contracts, awarded via contracting vehicles (i.e., the schedules and interagency contracts), and/or were not publicly posted on FedBizOpps.gov, all of which exclude small businesses. As a result, agencies were able to steer work to the usual contracting suspects.

Equally troubling is the fact that many of those usual suspects have numerous instances of misconduct that should prevent them from receiving future government contracts. Large contracts were awarded to contractors (Bechtel, Halliburton, and Fluor) with histories of misconduct when other large or small contractors, with proven track records for being responsible, could have provided the same goods or services to the federal government. For years POGO has called on the government to create a centralized database that lists instances of contractor misconduct so that government procurement officials can make better informed contracting determinations prior to committing federal funds. Without such a tool for the procurement workforce, taxpayer dollars will continue to go to contractors with questionable records.

Attached to this testimony is POGO's list of contracting recommendations, many of which will level the playing field for small businesses. I would also like to announce that POGO is investigating and will be releasing a report on the federal procurement system and its negative impact on small businesses. Thank you for holding this extremely important hearing and please contact me or Scott Amey if you have any questions or comments.

POGO'S Government Contracting Recommendations

1. LACK OF COMPETITION

- Pass legislation to repeal the $250,000 micro-purchase threshold
- Require three (3) competitive bids for task or delivery orders for goods and services from companies already on federal schedules, IDIQs or GWACs
- Conduct full and open competition for all non-urgent purchases
- Conduct limited competitions for all urgent purchases
- Treat Alaskan Native Corporations (ANC) like other 8(a) businesses, e.g. competing for contracts over $3 million (or $5 million for manufactured goods) and having a socially and economically disadvantaged owner

2. LACK OF TRANSPARENCY

- Require public posting of all task and delivery order opportunities on FedBizOpps website
- Require copies of task and delivery orders awards be made publicly available on the Federal Procurement Data System (FPDS) website
- Require timely, consistent, and accurate contracting information from all federal agencies on the FPDS website

3. INADEQUATE OVERSIGHT

- Change the definition of "commercial item" to only those items that are actually sold in substantial quantities in the commercial (non-governmental) marketplace
- For non-commercial goods or services, apply Truth in Negotiations Act (TINA) and Cost Accounting Standards (CAS)
- Rebuild and properly train staff in federal contracting and audit offices that have been cut to the bone over the past decades to ensure these functions are preformed by career civil servants

4. CONTRACTOR MISCONDUCT

- Create a centralized database which lists instances of contractor misconduct so that government procurement officials can make informed contracting determinations prior to committing federal funds
- Require the consideration of past contractor misconduct in contract award determinations

5. INHERENTLY GOVERNMENTAL FUNCTIONS

- Congress should revisit and study whether "inherently governmental functions" such as oversight and contract decisions, are being preformed by political appointees or private contractors rather than career civil servants

6. THE REVOLVING DOOR

- Close the loophole that allows former government employees to work for a different department or division of the same contractor they oversaw as a government employee

- Political appointees and Senior Executive Service policymakers (people who develop rules and determine requirements) should take an oath that they will not receive compensation from contractors who were regulated by or benefitted from the policies the official formulated while in public service

TESTIMONY BEFORE THE SENATE COMMITTEE ON SMALL BUSINESS AND ENTREPRENEURSHIP

November 8, 2005

By: Henry T. Wilfong Jr., MBA, CPA
President, National Association of Small Disadvantaged Businesses

OVERSEE FOR US-SMALL AND DISADVANTAGED BUSINESSES in THE GULF REGION REBUILDING,,,

The announcement said:
"The offices of inspectors general from agencies involved in ongoing hurricane recovery and reconstruction work are coordinating efforts to implement a "proactive and aggressive" audit program to oversee contracting activities resulting from Hurricane Katrina, Richard Skinner, the Department of Homeland Security's IG, told the House select committee investigating the use of contractors in the aftermath of the disaster on Nov. 2."

We wonder if we (Small Disadvantaged Businesses) are included in their plans? Probably not. We had hoped we would be included, but we tend not to hear about that part that concerns us, and how we're involved. We tend to hear about the "financial" part of these audits. But, little or nothing, is said about the "compliance" part.

Let us explain why that is so important.

See, we have these Laws, enacted by Congress.

We might liken them to the building of those levees down in New Orleans-you know the ones that were breeched. It seems that much of the blame might be ultimately placed on the "quality", the "standards" which was applied to their construction. Oh, the auditors will no doubt find that the money was actually spent, paid to whomever it was to be paid.

But, a purely "financial" audit will not get into the quality, the standard-whether what was intended to be put in place was put in place, with sufficient diligence as to accomplish what was intended.

We see these Laws, enacted by Congress to be somewhat like the building of those levees.

Public Law 95-507, P.L. 99-661, P.L 100-656, P.L. 101-510, P.L. 105-35, P.L. 106-554,.L. 106-50...these are all Laws passed by Congress to enhance the full and true integration of "The Designated Groups", into the Government procurement arena.

We need to have a "management audit" component inserted into this overseeing. It's not hard to do. As a matter of fact to do so, would involve only a "tweaking" of the audit program. To not do so, would be a serious breech of the levees designed to assist we "disadvantaged" firms of the business world.

Much has been made of the need to reconstruct and reinforce the levees in New Orleans, so they could withstand a Category 5 hurricane. Much has also been made of the fact that the revitalization of the business community in New Orleans, has to do with assuring them of the fact that the levees will hold in the future. We believe that restoring the confidence of the business community will be enhanced, if they saw more folk who look like them, doing more of the rebuilding.

So, how do we do this-increase the involvement?

Let's start with the obvious, at least to this CPA. Let's start with the audit team. We know the

Inspectors I.G. are charged with conducting the audit. When we were practicing Auditing, our firm did a lot of work for the I.G. office.

We have a fairly significant number of minority and women CPA firms who can do the same for this group of I.G.s.

Are minority and women-owned firms to be a part of the I.G.'s effort? If not, why not?

On our recent trip to New Orleans, one of NASDB's construction firm members met us there. Another, came in the day we left, having been briefed on what to look for, and who to talk with. Two more went in this week. Much of our "problem" was in finding who to talk with, without being "talked around". That needs to be fixed. Centralize the contact points. Then let the point be made known.

Teaming arrangements ought be encouraged. Mentor/Protege agreements ought be explained and implemented.

Several of our firms are already teaming with each other. And, they're willing and ready to do the same with local firms.

We have a couple ANCs (Alaskan Native Corporations) in NASDB. They have been aggressively seeking out opportunities that some of our smaller firms can't handle themselves, and offering to team with them. They're willing to provide the same offer to locals-if a "fit" can be made.

We're ready to act if called upon. But, will we be called.....

Respectfully submitted,

Henry T. Wilfong Jr., MBA, CPA
President
National Association of Small Disadvantaged Businesses (NASDB)

The U.S. Senate Committee
On
Small Business and Entrepreneurship
Testimony of
Glenda B. Glover, Ph.D., J.D. CPA
Dean, College of Business
Jackson State University
Center for Business Development and Economic Research

Senator Kerry and Senator Snowe, and members of the Committee, I welcome the opportunity to present these remarks regarding the difficulties faced by small business enterprises in the wake of Hurricane Katrina and the business opportunities associated with disaster relief. These remarks are the result of conversations and counseling sessions with the staff of the Center for Business Development and Economic Research, which is a unit of the College of Business at Jackson State University. I come to you as an academic dean with professional credentials as a certified public accountant, a licensed attorney, and business economist. If questions or concerns remain after these remarks, I am available for further discussion.

The national images of Hurricane Katrina on the Internet and on news programs bring tears to even the hardest heart. In my almost 50 years of life, I have experienced few things that bring me more pain.

Rebuilding the Gulf Coast will not be easy. The economic revitalization of this region depends on residents being able to support the lifestyles they once enjoyed. Jobs and businesses to provide those jobs are vital. But the classic situation of the 'chicken and the egg' arises. Without people, there can be no businesses; without businesses, there can be no jobs; without jobs, there can be no people.

This 'chicken and egg' situation mirrors the problems that small business owners faced when searching for help to rebuild their enterprises. In addition to working to provide for their families' basic needs, business owners continue to face hurdles in locating meaningful assistance to resuscitate their livelihood. While business loans are available in various forms, how sensible is it to expect collateral from businesses located in such a devastated region? How can any business person be expected to have copies of deeds, financial statements, tax returns and the like when courthouses, telephones, computers, and banks were destroyed. In some cases, lenders suspended the collateral requirements.

Despite the suspension of collateral, the financial needs of most small businesses are great. Is it reasonable to expect businesses to be in a position to take on more debt? Some businesses are risking more debt and applying for the various loans that are available through the Small Business Administration and others. Nevertheless, many still report the hassle of being referred from one place to the other, without any real results.

Government contracts represent the most reliable form of assistance available to small businesses. The only requirement should be ability to deliver quality products and services on time and within budget. This, too, has proved to be a 'chicken and egg' situation for small business owners. There are numerous websites that tout being a one-stop shop for information on contracting, but if your computer was lost in the storm, where do you start. The library? A friend's home or office? Bear in mind that cargo vans, trucks and cars were destroyed in the storm. Realistically, how can evacuated business owners first get to a computer or then spend the several hours needed to wade through the information on the web site on a borrowed computer?

These people still have to ensure that their families are safe, secure permanent housing for their families, get children to their new schools, get in line for the next free meal, and the list of tasks for day-to-day survival goes on. The problems most small business owners face are just that tedious and insurmountable.

Let's talk about local businesses that were not affected by the storm and are interested in a disaster-related contract. This information is on the web, but our experiences with small business owners has been that by the time that they are able to get reliable information on the contract, the opportunity has been let and is nearing completion; in effect, rendering the online information meaningless and untimely.

This goes back to my barnyard examples. The real requirement is to know which early bird has the worm.

Some business owners got to the information early, but received no response to repeated emails telephone calls and letters requesting more information. Small business owners also report to us that with regard to construction contracts, information on bonding assistance is not readily available. Without a reliable bonding source, small firms cannot successfully bid on contracts. Other small business owners were able to secure contracts, but were slow in receiving payment for the work that they performed, making it difficult to maintain a group of reliable employees. Small business owners also have reports of violence at work sites, contract infringement, and lack of technical assistance to comply with constant changes in government reporting requirements.

Small contractors also report the special treatment that larger corporations receive in the Gulf Region. Lodging and board for workers of large contractors is arranged on military bases, while, in many instances, small contractors are forced to live in make-shift

campground like settings, or drive for hours after working twelve-hour days. Prime contractors also have access to safe office spaces arranged by government entities, while small contractors conduct business from the seat of their trucks.

The current situation faced by the Gulf region is not unlike that of many third-world countries--no infrastructure, limited access to utilities, no housing, no jobs. As such, we should approach rebuilding the Gulf coast as we would in developing a small country. Employ those households that are most likely to remain in the region. In so doing, we create an economic base that gives the redevelopment effort a strong boost, and creates long-term relief through a simple multiplier effect. This also reduces the cycle of people--businesses--jobs--people, and effectively rebuilds the region from the inside out.

Like many developing countries, the Gulf region is already to target of financial exploitation. Groups from around across the country and around the world have gathered to craft the opportunities that first extract personal gain, and allow local businesses to cull through what remains. Local businesses need transparent information at all levels of government, with no group excluded from the table of solutions. We are all Americans and all Americans should help and be helped in this rebuilding effort. Not just Republicans. Not just Democrats. Not just Texans and Floridians. Not just white people. Not just people of various minority groups. However, Mississipians, whites, minorities, and all Americans should have equal access to information and opportunities that are timely, meaningful, and useful to all stakeholders in the effort to rebuild the Gulf Coast region.

SUMMARY

- Build Mississippi from the inside out. Hire Mississippi companies and Mississippi residents to work on disaster-related business opportunities.

- While the information on where to receive assistance is plentiful, securing assistance has proved difficult for evacuated families.

- Small business owners in the affected region do not have adequate resources to search for business opportunities, and lack access to the required documentation to secure business loans.

- Owners of business enterprises located in areas not affected by Hurricane Katrina still have difficulty securing meaningful and timely information on business opportunities.

- When small business owners work through the requirements for doing business with prime contractors, much of the work is completed or little opportunity is left.

- All small businesses in the affected area need more than a website of information and a business loan to access business opportunities as a result of this disaster.

- Small businesses need equity investments to secure expanded bonding capacity, and working capital to meet additional payroll requirements to take advantage of business opportunities related to Hurricane Katrina.

Statement for the Record

By Donald Wilson

President, Association of Small Business Development Centers

For the Hearing on

Strengthening Hurricane Recovery Efforts for Small Businesses

Committee on Small Business and Entrepreneurship

United States Senate

November 8, 2005

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Committee on Small Business and Entrepreneurship
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November 8, 2005

Chair Snowe, Ranking Member Kerry, and Members of the Committee on Small Business and Entrepreneurship, I am Donald Wilson, President of the Association of Small Business Development Centers (ASBDC). I would like to thank you on behalf of the ASBDC, and the nearly 6,000 dedicated men and women who are a part of America's Small Business Development Center Network, for inviting the Association to submit a statement for the record of this important hearing on Strengthening Hurricane Recovery Efforts for Small Businesses.

ASBDC's members are the 63 state, regional and territorial Small Business Development Center (SBDC) programs comprising America's Small Business Development Center Network. SBDC programs are located in all 50 states, the District of Columbia, Puerto Rico, The Virgin Islands, Guam and American Samoa. The SBDC network is the federal government's largest small business management and technical assistance program, with over 1,000 service centers nationwide serving more than 1.3 million small business owners and aspiring entrepreneurs each year.

As you know, the SBDCs in the hurricane-impacted Gulf Coast states are making extraordinary efforts to meet the needs of devastated small business owners. They have worked out of makeshift offices, used donated equipment, and relied on out-of-state SBDC volunteers living and sleeping in motor homes to help small business owners whose livelihoods have been destroyed. They are helping small business owners reconstruct their financial records, identify and obtain the capital they need to rebuild, and start new ventures to replace those that are not coming back.

Responding to disasters is not new to America's SBDC network. SBDCs are economic leaders in their communities, able to bring together the resources of local, state and federal agencies, chambers of commerce, workforce boards, economic development agencies and others to assist devastated small businesses. Last year, for example, in the aftermath of Hurricanes Charley, Frances, Ivan and Jeanne, the Florida SBDC helped lead a statewide effort to get the small business community -- and the state's economy -- back on its feet. For its leadership, the Florida

SBDC was recognized with the U.S. Department of Commerce Excellence in Economic Development Award, for Excellence in Economic Adjustment Strategies.

I want to commend you, Chair Snowe and Ranking Member Kerry, for all that you have done to try to ensure that small businesses destroyed or damaged by the recent hurricanes, and the SBDCs that serve them, have the resources they need to rebuild and recover. You led the effort for disaster assistance funding in the appropriations bill; you sent key Small Business Committee staff to the disaster areas to assess the situation and recovery efforts first-hand; you worked to enable out-of-state SBDC counselors to volunteer in hurricane-ravaged communities; and you worked to target resources to the areas of greatest need. You have been true champions of small business development in every way.

I particularly want to thank you, Chair Snowe and Ranking Member Kerry, for the letter that you sent with Senator Grassley and Senator Baucus to the Commissioner of the Internal Revenue Service (IRS), asking the IRS to expedite the delivery of tax records to small business owners faced with reconstructing financial records after the hurricanes. Commissioner Mark Everson and IRS personnel responded immediately to your request, and they worked diligently with the ASBDC and the SBDCs in the hurricane-impacted states. They have made it possible for small business owners to obtain transcripts of their tax records within 24 hours, so they can begin working with their SBDC counselors to recreate their financial records and apply for loans in a timely manner. This simple but important arrangement is an excellent example of government going the extra mile to assist small businesses in a crisis situation.

There are three recommendations that the ASBDC would like to make to the Committee that could greatly assist efforts to rebuild small business communities in the hurricane-impacted states, and in future natural and man-made disasters. First, the ASBDC recommends that the Small Business Act be amended to allow an SBDC counselor from any state, region or territory in the nationwide SBDC network to travel to a state that has suffered a natural or man-made disaster, if such assistance is requested by the SBDC state or regional director in the disaster-impacted state and approved by the volunteer counselor's SBDC state or regional director. As you know, soon after Hurricane Katrina struck, the ASBDC asked for volunteers from all across the nationwide SBDC network to go to the Gulf Coast to assist with local SBDC recovery efforts. More than 100 counselors from SBDCs throughout the country volunteered to travel to the hurricane-impacted states. They knew they would be facing scenes of human and physical devastation unlike anything they had ever seen, and they knew they would be working long hours under difficult conditions, living in motor homes and other makeshift accommodations. But they volunteered nonetheless.

The Administrator of the U.S. Small Business Administration (SBA) did as much as he felt he could to allow the travel of these out-of-state SBDC counselors to the hurricane-impacted states. However, he felt that the Small Business Act prevented him from authorizing travel by SBDC counselors from states that are more than 1,200 miles from the disaster areas. The Small Business Act gives the SBA Administrator the discretion to permit an SBDC to provide assistance to out-of-state small businesses, but only to the extent that such businesses are located within "close geographical proximity" to the SBDC.

The ASBDC is deeply grateful to the SBA Administrator for interpreting the law as broadly as he felt he could. However, the 1,200 mile limit on travel by out-of-state SBDC counselors to the disaster areas prevented many willing and able SBDC counselors from providing desperately needed assistance to small business owners who had been devastated by the hurricanes. The ASBDC therefore recommends that the Small Business Act be amended to allow SBDC counselors from any state, region or territory in the nationwide SBDC network to travel to a state that has suffered a natural or man-made disaster to assist with recovery efforts, if such assistance is requested by the SBDC state or regional director in the disaster-impacted state and approved by the volunteer counselor's SBDC state or regional director. It is only logical that SBDC counselors from states that are far from a disaster area, and therefore least impacted by the disaster and best able to lend assistance, should be able to assist in disaster recovery.

Second, the ASBDC recommends that the Small Business Act be amended to clarify that, in the event of a major natural or man-made disaster, a state, regional or territorial SBDC network is not limited to one portable assistance grant. Soon after Hurricane Katrina struck the Gulf Coast, the membership of the ASBDC voted unanimously to forego applications for portable assistance grants by any state that was not impacted by the recent hurricanes, so that all available portable assistance grant funding could go to the hurricane-impacted states. However, a question was subsequently raised as to whether the law allows more than one portable assistance grant to be made to a state, regional or territorial SBDC network. The ASBDC believes that the law in fact allows more than one such grant to be made to a state, regional or territorial SBDC network, and staff members of the SBA have stated that they interpret the law in the same way. However, to ensure that state, regional and territorial SBDC networks facing major natural or man-made disasters in the future have access to all the portable assistance grant funding they require, the ASBDC believes it would be prudent to amend the law.

Third, the ASBDC believes that funding for the disaster recovery activities of SBA resource partner programs, such as the SBDCs, should be included in SBA disaster supplemental appropriation requests to Congress. Assisting small businesses in disasters is a necessary part of what SBDCs do. However, the regular resources of the SBDCs in disaster-ravaged states are not sufficient. The Mississippi SBDC for example, estimated that it would cost the SBDC a minimum of $2 million in additional funding to address the needs of Mississippi's hurricane-ravaged small businesses -- more than twice as much as the Mississippi SBDC receives in federal funding each year for the regular operations of the entire Mississippi SBDC network. The situation is similar for SBDCs in Louisiana and other disaster-impacted states. After terrorist attacks, hurricanes and floods, the SBDCs are on the front lines of helping small business communities get back on their feet. But the SBA has not included funding for its resource partners in its disaster supplemental appropriations requests to Congress. If the SBA is to be effective in its disaster recovery efforts, it must ensure that its resource partners have the funding to address the needs of small businesses that are destroyed or damaged by natural and man-made disasters.

Chair Snowe and Ranking Member Kerry, your continuing and untiring efforts to help the small business communities devastated by this year's hurricanes are deeply appreciated. On behalf of America's Small Business Development Center Network, thank you for your leadership and for the opportunity to submit this statement for the record of this hearing.

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November 22, 2005

Via E-Mail

Senator Olympia Snowe
Chairman, Senate Committee on
Small Business
428A Russell Senate Office Building
Washington, DC 20510

Re: Written Testimony for the Record

Dear Senator Snowe:

SEBAC applauds your genuine commitment to issues facing small businesses, especially in light of challenges arising from, and illustrated by, Hurricane Katrina. Enclosed, please find written testimony of the Small Environmental Business Action Coalition in connection with the November 8, 2005, hearing of the Senate Committee on Small Business entitled "Strengthening Hurricane Recovery Efforts for Small Businesses."

Please let us know if we can provide you with any further information related to SEBAC's testimony, the effect of the Hurricane on our members, or their efforts to provide relief in the disaster area.

Sincerely,

Paul Goldsmith
President

Enclosure

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Written Testimony of The Small Environmental Business Action Coalition (SEBAC)

For the record of the Senate Committee on Small Business and Entrepreneurship

Strengthening Hurricane Recovery Efforts for Small Business

November 8, 2005

I. Introduction

SEBAC is a nonprofit trade group providing advocacy, information, and support for small businesses that provide environmental remediation and related services to the federal government. We represent the interests of all types of small businesses in the environmental industry. SEBAC's membership includes Small, Small Disadvantaged, 8(a), Women-Owned, Veteran-Owned, HUBZone and Native American-Owned businesses that perform environmental investigations, design, engineering, remediation, operations and maintenance, construction, and explosive ordnance disposal work.

Several SEBAC member companies are currently working in the Hurricane Katrina recovery efforts, illustrating the vital importance of small business participation in federal contracting. One member company mobilized within 24 hours of landfall, initially tasked with providing emergency cleanup services to the Environmental Protection Agency. Owing to the extent of devastation, their role in the first two weeks was expanded to include search and rescue operations. During this time, FEMA, EPA, and other federal personnel turned to the firm's internal supply system to obtain gas for boats and vehicles. The firm now has over 800 personnel working in the disaster area, and 30 percent are from areas affected by Hurricanes Katrina and Rita. Further, the firm has agreements with over 25 local vendors and suppliers. Another SEBAC member was one of two firms awarded a prime contract for debris removal within New Orleans. Although the firm is not small for purposes of the relatively low construction size standard applied to this contract, it is worth noting that the firm is a small business under the environmental remediation size standard. Their contract has a requirement to direct 73.5 percent of subcontracts to small business, and they are utilizing at least 55 small and local firms to date.

The contribution small businesses make in the relief, recovery, and reconstruction prove correct the Small Business Act's statement that the "...security and well-being [of the Nation] cannot be realized unless the actual and potential capacity of small business is encouraged and developed." See 15 U.S.C. § 631. We believe that the small business procurement goals

continue to foster a robust industrial base of small government contractors. Such small businesses are characteristically quick, flexible, innovative and competitive, providing the government and Americans with quicker and more cost-effective services. Going forward, SEBAC has the following suggestions related the short and long-term relief efforts, as well as implementing lessons learned.

II. Improve Small Business Utilization in Reconstruction After Katrina

Agencies can improve the quality and pace of relief efforts by focusing on several barriers to small business participation. Given that two months have passed since the storm, the necessity of huge contracts to industry-dominant firms is quickly diminishing. Specifically, we encourage the agencies to adopt challenging small business goals for prime contracts, subcontracts, and set-aside awards under multiple-award contracts and to monitor large contractor performance. Failure to meet small business goals should have consequences. We believe that these and other measures to increase small business utilization will require additional federal contracting personnel, including additional contract officers, procurement center representatives, and commercial market representatives.

III. Insure Small Business Participation in Disaster Response Plans

Increasing the volume of contract awards to small businesses makes good sense, in economic and human terms. Small businesses are more agile and provide quicker and more cost-effective contract performance. Moreover, small businesses create most new jobs in the U.S. economy. Awarding contracts to small and local businesses affected by disaster gives disaster victims – contractor and subcontractor employees, vendors, and the local business communities – strong incentives to return and rebuild. These and other considerations are at the root of the Stafford act, which requires that, insofar as is feasible and practicable, federal agencies utilize local businesses in disaster relief.

We submit that the feasibility of small and local business utilization corresponds to the availability of federal procurement personnel. Further, the effect of personnel limitations is not entirely explained by the rush to respond in the aftermath of a storm – it also limits the attention paid to small business in the process of contingency contracting. We believe that agencies should submit budgets, which include sufficient personnel, resources, and oversight to insure that small businesses are included in disaster planning. Congress should give such requests thoughtful consideration. Quite simply if the government does not plan for small business utilization, then small businesses can only play a peripheral role when disaster strikes. Agencies should include small businesses in disaster response and contingency contracts, perhaps through such measures as set-aside contracts, reserved awards under multiple-award contracts, and requiring large businesses to direct a large portion of subcontracts to small and local businesses.

Another available method of increasing small business participation is to utilize a unique feature of the Small Business Administration's 500-employee size standard applicable to Environmental Remediation contracts - NAICS code 561920. This unique size standard allows agencies to obtain services in an unlimited number of NAICS codes, so long as a) the contract

objective is to restore a contaminated environment and b) no NAICS code comprises more than 50 percent of the total cost.[1] Using this size standard for federal contracts will allow the government to obtain from small businesses a variety of services that might otherwise require an award to an industry-dominant large business. Environmental Remediation firms regularly provide architectural and engineering services, facilities and other support services, and construction, along with services traditionally associated with environmental remediation. Thus, by consolidating remediation work with FEMA's usual contracting requirements under the umbrella of the Environmental Remediation size standard, the agency could substantially increase small and local business participation. (See attached letter to FEMA)

IV. Insure Small and Local Business Participate in Mitigation Projects

While much attention has been directed to relief and reconstruction, it must be noted that small businesses have much to offer in long-term hurricane mitigation efforts. The federal government is likely to direct substantial resources toward the goal of restoring Gulf Coast wetlands that act as a barrier to storm surges and hurricane-force winds. In order to provide long-term economic stimulus, we believe that Congress should pay particular oversight and legislative attention toward insuring that small and local firms play a key role in these projects.

V. Conclusion

Increasing the volume of contract awards to small businesses makes good sense in economic and human terms. Small businesses are more agile, so the government can expect quicker and more cost-effective contract performance. Moreover, small businesses create most new jobs in the U.S. economy. In conclusion, contract awards to small businesses affected by disasters translate into more tangible incentives for their employees– and employees of subcontractors, vendors, and their local business communities – to return and rebuild.

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[1] SBA regulations provide: "b) For purposes of classifying a Government procurement as Environmental Remediation Services, the general purpose of the procurement must be to restore or directly support the restoration of a contaminated environment (such as, preliminary assessment, site inspection, testing, remedial investigation, feasibility studies, remedial design, remediation services, containment, removal of contaminated materials, storage of contaminated materials or security and site closeouts), although the general purpose of the procurement need not necessarily include remedial actions. Also, the procurement must be composed of activities in three or more separate industries with separate NAICS codes or, in some instances (e.g., engineering), smaller sub-components of NAICS codes with separate, distinct size standards. These activities may include, but are not limited to, separate activities in industries such as: Heavy Construction; Specialty Trade Contractors; Engineering Services; Architectural Services; Management Consulting Services; Hazardous and Other Waste Collection; Remediation Services, Testing Laboratories; and Research and Development in the Physical, Engineering and Life Sciences. If any activity in the procurement can be identified with a separate NAICS code, or component of a code with a separate distinct size standard, and that industry accounts for 50 percent or more of the value of the entire procurement, then the proper size standard is the one for that particular industry, and not the Environmental Remediation Services size standard. See 13 CFR § 121.201 at Fn. 14(b).

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October 18, 2005

VIA E—MAIL WITH HARD COPY VIA REGULAR MAIL

Patricia English
Acting Chief Financial Officer
Federal Emergency Management Agency
500 C Street SW
Washington, DC 20472

Re: Hurricane Recovery Contracting Strategy

Dear Ms. English:

The Small Environmental Business Action Coalition (SEBAC) is a trade association composed of small business concerns (SBCs) that perform environmental investigations, design, engineering, remediation, operations and maintenance, and ordnance and explosives work for numerous federal agencies. SEBAC members include disadvantaged, 8(a), woman-owned, veteran-owned, HUBZone, and Native American-owned SBCs. Our membership performs a substantial portion of all environmental remediation work done for the Department of Defense, including the Army Corps of Engineers, the Air Force Center for Environmental Excellence, and the Navy Facilities Engineering Command. One of SEBAC's primary goals is to pursue policies, regulations and laws that foster a fair level of participation by small environmental engineering, remediation, and unexploded ordnance businesses in the government marketplace.

In reference to the FEMA press release, dated October 11, 2005, we understand that the agency intends to execute a two-track strategy for recompeting technical assistance contracts awarded after Hurricane Katrina. One track will consist of full and open competition for nationwide technical assistance contracts; the other will consist of technical assistance contracts reserved for small business concerns ("SBCs") certified through the SBA's 8(a) program.

We applaud FEMA's attention toward 8(a) firms, but respectfully note that 8(a) firms are only a small segment of the small business community.[1] FEMA could easily increase its small business utilization – both in the Gulf Coast area and nationwide – at minimum, by reserving a number of first-track awards for SBCs generally or, ideally, by reserving a minimum number of awards for firms in each SBC category. Alternately, we request that FEMA add a third nationwide track consisting of awards to SBCs.

Second, we understand that FEMA typically delegates contracting for debris removal and related services to the Army Corps of Engineers. However, we want to bring to your attention a unique feature of the Small Business Administration's 500-employee size standard applicable to Environmental Remediation contracts, NAICS code 561920. This unique size standard allows agencies to obtain services in an unlimited number of NAICS codes, so long as a) the contract objective is to restore a contaminated environment and b) no NAICS code comprises more than 50% of the total cost.[2]

Environmental Remediation firms regularly provide a wide spectrum of services – including architectural and engineering services, facilities and other support services, and construction – along with services traditionally associated with environmental remediation. Thus, by consolidating remediation work with FEMA's usual contracting requirements under the umbrella of the Environmental Remediation size standard, the agency could substantially increase small and local business participation.

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[1] The Small Business Act states: "It is the policy of the United States that small business concerns, small business concerns owned and controlled by veterans, small business concerns owned and controlled by service-disabled veterans, qualified HUBZone small business concerns, small business concerns owned and controlled by socially and economically disadvantaged individuals, and small business concerns owned and controlled by women, shall have the maximum practicable opportunity to participate in the performance of contracts let by any Federal agency…" *See* 15 U.S.C. § 644(d)(1).

[2] SBA regulations provide in pertinent part: "For purposes of classifying a Government procurement as Environmental Remediation Services, the general purpose of the procurement must be to restore or directly support the restoration of a contaminated environment (such as, preliminary assessment, site inspection, testing, remedial investigation, feasibility studies, remedial design, remediation services, containment, removal of contaminated materials, storage of contaminated materials or security and site closeouts), although the general purpose of the procurement need not necessarily include remedial actions. Also, the procurement must be composed of activities in three or more separate industries with separate NAICS codes or, in some instances (e.g., engineering), smaller sub-components of NAICS codes with separate, distinct size standards. These activities may include, but are not limited to, separate activities in industries such as: Heavy Construction; Specialty Trade Contractors; Engineering Services; Architectural Services; Management Consulting Services; Hazardous and Other Waste Collection; Remediation Services, Testing Laboratories; and Research and Development in the Physical, Engineering and Life Sciences. If any activity in the procurement can be identified with a separate NAICS code, or component of a code with a separate distinct size standard, and that industry accounts for 50 percent or more of the value of the entire procurement, then the proper size standard is the one for that particular industry, and not the Environmental Remediation Services size standard." *See* 13 CFR § 121.201 at Fn. 14(b).

Increasing the volume of contract awards to small businesses makes good sense, in economic and human terms. Small businesses are more agile, so FEMA can expect quicker and more cost-effective contract performance. Moreover, small businesses create most new jobs in the U.S. economy. In short, contract awards to small businesses affected by Katrina translate into more tangible incentives for their employees– and employees of subcontractors, vendors, and their local business communities – to return and rebuild.

To conclude, we encourage FEMA to provide a greater segment of SBCs with access to set-aside competition, and to consider how the agency could make good use of the environmental remediation NAICS code. We appreciate your consideration, and invite you to let us know if you would like further information.

Sincerely,

Susan Brock
Corporate Secretary

Cc: Linda Sudhoff
Director, Acquisition Support Division

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