



U.S SMALL BUSINESS ADMINISTRATION
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TESTIMONY OF

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“Doing Business with DOD: Unique Challenges Faced by Small and “Mid-Sized” Businesses”

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Chairman Shuster, Ranking Member Larsen, and members of the House Armed Services Committee, thank you for inviting the U.S. Small Business Administration (SBA) to testify today. My name is John Shoraka and I am the SBA’s Acting Associate Administrator of Government Contracting and Business Development.

Our top priority at the SBA is to maximize opportunities for small businesses and ensure that the benefits of our programs flow to the intended recipients. My office works each day to get federal contracting dollars into the hands of small and disadvantaged businesses. Contracting with small business is a win-win. Small businesses, who are drivers of the American economy, get the revenue they need to grow and create jobs. Meanwhile, the federal government has the opportunity to work with the most innovative and responsive companies in the country.

My office’s primary objective is to ensure that eligible small businesses receive their fair share of federal prime and subcontracting dollars. One way we do that is through our oversight of the federal government’s efforts to meet the statutorily mandated small business goals, which include prime contracting dollars, awarding:

- 23% to Small Businesses;
- 5% to Small Disadvantaged Businesses;
- 5% to Women-Owned Small Businesses;
- 3% to Service-Disabled Veteran-Owned Small Businesses; and
- 3% to Historically Underutilized Business Zone (HUBZone) firms.

Over the last two years, the federal government has made significant improvements in contracting to small businesses. For example, in fiscal year 2010, small businesses won nearly \$100 billion, or 22.7% of federal prime contracting dollars. This marks the second consecutive year of percentage and dollar increase after three consecutive years of decline and was the largest two year increase in over a decade. Small businesses also won \$74 billion, or 35.4% of subcontracting dollars, which was a marked increase from 2008 and 2009 when 28.6% and 31.8% of subcontracting dollars were awarded to small businesses, respectively. The SBA remains committed to working with federal agencies to get even more contracts and subcontracts into the hands of small businesses in coming years.

Small Business Procurement Scorecard

Throughout the fiscal year, we track and monitor federal agencies' small business contracting performance closely and publish the annual Small Business Procurement Scorecard. These scorecards reflect the percentage of federal prime contracting and subcontracting dollars that are awarded to small businesses and provide a quantitatively-driven assessment of the government's performance for all of our stakeholders. Each Scorecard shows achievement in three primary categories: (1) Prime Contracting, (2) Subcontracting, and (3) Plan Progress. In addition, each Scorecard contains an overall letter grade, "A+" through "F", based on the weighted score from each of the categories. The DoD's Scorecard, as are all federal agencies' Scorecard, is calculated based on goals set and agreed-upon during the goal setting process.

In Fiscal Year 2010, DoD achieved a "B", reaching 95.8% of its small business contracting goals. The Department awarded 20.94% (\$61.120 billion) of its federal contracts to small businesses. The Department awarded \$10.472 billion in prime contracts to Women-Owned Small Businesses, \$20.773 billion Small Disadvantaged Business, \$5.303 billion to Service-Disabled Veteran-Owned Small Businesses, and \$8.753 billion to Historically Underutilized Business Zones (HUBZones). In FY2010, DoD significantly exceeded its overall subcontracting goal of 31.70% to small businesses, awarding 37.30%. The Department awarded 6.30% of subcontracting awards to Women-Owned Small Businesses, 5% to Small Disadvantaged Business, 1.90% Service-Disabled Veteran-Owned Small Businesses, and 2.40% to Historically Underutilized Business Zones (HUBZones). DoD submitted a fully responsive plan to increase small business contracting within its procurement. In addition to outreach and training events mentioned above, the Department was fully receptive to SBA during the reporting period and demonstrated its procurement data was fully and accurately reported.

Recent Key Small Business Contracting Initiatives

Accelerated Payments to Small Businesses

The Administration has implemented a handful of key initiatives to create an environment where small businesses can find more success in the federal procurement marketplace. For example, in September 2011, the President asked all agencies to cut the amount of time it takes them to pay small business contractors in half, from 30 days to 15 days. The QuickPay initiative means that small business contractors will get paid more quickly for the innovative products and services they provide. This is important because when you consistently pay a small business more quickly, it results in a permanent increase in their cash flow levels. That allows small businesses to put more capital towards expanding their businesses, marketing their products, and creating jobs - all while helping to eliminate many expensive interest payments that are usually required to finance a small business.

The Department of Defense was a leader among the federal agencies of the QuickPay initiative, changing the Defense Federal Acquisition Regulation Supplement (DFARS) in April 2011 to extend the Department's accelerated payment policy uniformly to all small businesses. DoD estimates that approximately 60,000 small businesses will benefit from the use of accelerated payments, increasing their cash-flow nearly one-third faster than they would normally get paid.

The Small Business Jobs Act of 2010

Congress passed the most significant piece of small business legislation in a decade with the Small Business Jobs Act (SBJA) of 2010, and we continue to roll out the many benefits to small businesses. Along with OMB and the Department of Commerce, in 2010 the SBA led the Interagency Task Force on Federal Contracting Opportunities for Small Businesses to address key barriers for small businesses in federal contracting. The Task Force provided thirteen recommendations, many of which were adopted in the SBJA. The SBJA contains 19 contracting provisions that will help redirect billions of contracting dollars into the hands of small businesses and create an environment where more small businesses can succeed in contracting. The SBJA is a huge win for small business government contracting.

The SBA has been busy implementing these 19 provisions with extensive input from the small business community. These provisions will have a significant impact on not only small businesses, but also in improving the contracting processes. Among changes already enacted include:

- Helping federal agencies to meet each of the government's small business contracting goals by reaffirming "parity" to ensure that contracting officers will be free to choose equally among businesses owned by women and service-disabled veterans, as well as businesses participating in HUBZone programs and 8(a) programs.
- Repealing the Competitiveness Demonstration Program and reinstating the ability to set-aside contracts in 11 industries where small businesses typically excel.
- Conducting a detailed review and making appropriate adjustments to industry size standards to ensure the requirements for small businesses reflect current market conditions.
- Clarifying guidance to prevent unjustified contract bundling, a practice that makes it more difficult for small businesses to compete.
- Holding large prime contractors more accountable to their own subcontracting plans by requiring written justification when plans aren't met and when small businesses subcontractors aren't paid on time or in full.
- DoD's Office of Small Business Programs (OSBP), communicating to senior procurement executives and senior program managers the importance of achieving small business goals to the acquisition community.
- Strengthening the skills of the federal acquisition workforce by developing small business training that is accessible to all of the acquisition workforce and revising existing certification requirements to include information on strategies for increasing small business participation in federal contracts. .

Small Business Administration Collaboration with the Department of Defense

While the SBJA has made marked improvements to the federal procurement environment for small businesses, contracting with a large and complex agency like the Department of Defense naturally comes with unique challenges. My office works regularly with all of the branches of DoD and their small business communities – conducting outreach and training events and finding new ways to support small businesses and help DoD hit and exceed its small business contracting goals. We have significantly increased our collaboration with the Department to help get more DoD contracts into the hands of small businesses.

For example, DoD's OSBP conducts frequent small business procurement conferences around the country. In May 2011, DoD teamed up with SBA to host a small business training conference in New Orleans. The conference focused on new developments (changes to size standards, updates to the HUBZone program, and implementation of the SBJA), and requirements specific to applying for and winning DoD contracts. The conference was unanimously considered a success and has set the precedent for future engagement.

Because of the significant amount of contracts coming from DoD, my office is in constant contact with the DoD's OSBP and other Agencies' Office of Small and Disadvantaged Business Utilization (OSDBU) to track and monitor small business contracting goals. Monthly, SBA chairs the Small Business Procurement Advisory Council (SBPAC) meeting, where we collaborate with OSDBUs from across the federal government, including DoD, to find out how we can best support agencies and address any issues they have with their small business contracting work. In collaboration with the White House, SBA is further engaging senior officials at DoD to meet and hold them accountable to the small business procurement goals.

The Department of Defense's Commitment to Small Business Contracting

DoD has continued to work to increase small business contracting opportunities for small businesses, demonstrating strong top-level commitment to small business contracting. For example, in August 2011, Secretary of Defense Leon Panetta issued a memorandum urging the Department's acquisition workforce to identify opportunities to increase contracting with small businesses. The Secretary's prioritization of small businesses was praised by Senator Mary Landrieu, Chair of the Senate Committee on Small Business and Entrepreneurship. In addition to Secretary Panetta, the senior leaders of each Military of the DoD issued detailed memoranda to their respective acquisition teams and program buyers to encourage the increased use of small businesses. Acquisition teams were urged to take immediate short term steps, including:

- utilize market research and the Small Business Maximum Practicable (MaxPrac) Opportunity tool to identify the capabilities of small businesses,
- consider socio-economic status when identifying contracting opportunities from the Federal Supply Schedules (FSS),
- encourage small business set-asides when using Indefinite Delivery Indefinite Quantity (IDIQ) Multiple Award Contracts (MAC), and
- reward highly qualified small business prime contractors that are participants in DoD's Mentor Protégé Program.

In addition, the teams were asked to improve long-term acquisition processes for small business engagement.

Small Business Innovation Research (SBIR) and Small Business Technology Transfer (STTR) Programs

Other significant tools that encourage small business participation and innovation in the defense industry are the Small Business Innovation Research (SBIR) and Small Business Technology Transfer (STTR) programs. **We at SBA want to thank Congress for recently reauthorizing the SBIR and STTR for another six years.** This long-term reauthorization increases allocations and award levels, shortens timelines for award decisions, increases the focus on commercializing innovative products that will change the world, and provides certainty and stability for the small businesses that leverage these programs to create jobs. The reauthorization strengthens SBIR and STTR, providing more funding for small businesses to drive innovation, create jobs, and grow our economy.

SBIR and STTR invest about \$2.5 billion a year in America's most promising small research and development companies through a highly competitive award process administered in phases by large federal agencies and overseen by the SBA. Through SBIR and STTR, DoD provides competitive awards to help small businesses bring their best innovations from the drawing board to the defense marketplace. SBIR and STTR operate in three phases, providing support for research, development, and commercialization. The reauthorization has also provided small businesses the opportunity to compete for higher awards, giving DoD the discretion to allow companies to skip Phase I and apply directly to Phase II. Ultimately, SBIR and STTR are a win-win. They help DoD meet their R&D needs, while small businesses get the chance to bring their innovations into the defense marketplace, and, in many cases, go on to achieve significant commercial success in applications in many other industries throughout the private sector. The reauthorization ensures that small businesses will have access to much needed investments.

Moving Forward

In working to hit the Department's small business contracting goals in FY2012, SBA and DoD are working together and building off of our great collaboration in FY2011. We are redoubling our efforts early on in the Fiscal Year to reach our goals and optimize small business opportunity to the greatest extent possible. My office is in regular communication with DoD's OSBP and together we continue to develop new strategies and tactics that will increase small business participation in the defense industry and put more DoD contracts in the hands of small businesses.

As demonstrated by our initiatives and collaboration outlined in this testimony, the SBA is committed to maximizing the contracting opportunities available to small businesses and are continuously looking for ways to increase small business participation in federal contracting. The DoD shares our commitment to hitting and exceeding our small business contracting goals and increasing small business participation in the defense marketplace.

Thank you for allowing me to share SBA's views and initiatives with you today, and I will be happy to answer any questions you may have.

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