

**Testimony of Margot Dorfman, CEO
U.S. Women's Chamber of Commerce
Before the House Small Business Committee for the Hearing "State of the
Small Business Economy"
Wednesday, February 13, 2013, at 1:00 p.m.
Rayburn House Office Building, Room 2360**

Chairman Graves, Ranking Member Velázquez and members of the Committee, thank you for the opportunity to speak today on behalf of the U.S. Women's Chamber of Commerce and our 500,000 members, three-quarters of whom are American small business owners and federal contractors. In preparation for today's hearing, we surveyed our members.

We see that small businesses are anxious to get moving forward. They are looking for opportunities, resources, connections and a positive business environment. While business budgets are tight, and access to capital is in the top three needs of our small businesses, access to contracts and affordable benefits are clearly the most requested when our members are asked how we can help them reach the next level.

On The Hill, the budget obstacles you face impact our members. According to one member, "Budget uncertainty on the part of our clients in federal, state and municipal sectors is a big issue. Many of them cannot move forward to get their projects going because they do not know what is going to happen with agency budgets." Even so, there are a number of things you can do today to help small businesses grow, prosper and fuel our economic recovery.

Help small businesses secure affordable access to capital, and not just for the larger "small" businesses and the gazelles. Help access to capital get down to mainstream businesses including women-owned, veteran-owned, startups and rural businesses. For example, women own nearly 30% of all firms in the United States, but are still receiving only 12 to 13% of SBA backed loans. One member states, "Access to capital is very difficult in this lending environment. I am finding that unless you are established, have assets on hand banks will not loan you money." And another member says, "lending is now taking place outside of the box- with private lenders and investors. For small business this is a risky situation because they usually ask to take controlling interest in your company." You have it within your power to compel the SBA to significantly increase their commitments to helping all small firms access the capital they need to grow their businesses and fuel the growth of our economy.

Help small businesses secure affordable business benefits so that we can compete for quality workers and support our own families. We still need access to affordable health care and related insurance products like disability insurance, access to affordable business insurance, and access to affordable workplace retirement programs. Many industry barriers exist, and big business privileges enable large businesses to access these important and necessary benefits far more affordably than tight-budgeted small business.

Help small businesses secure access to federal contracts. While the SBA claims small businesses are receiving nearly 23% of all federal contracts, their efforts need to be stronger to assure our fair share of contracts is really being awarded to small businesses. The Small Business Administration Office of Inspector General reports that there are still a large number of big businesses included in those statistics, as well as large businesses that establish pass-through companies to funnel federal expenditures through small business programs.

The Inspector General's October 2012, "Report on the Most Serious Management and Performance Challenges Facing the Small Business Administration In Fiscal Year 2013," states, "Previous OIG audits and other governmental studies have shown widespread misreporting by procuring agencies since many contract awards that were reportedly awarded to small firms were actually being performed by larger companies. While some contractors may represent or erroneously calculate their size, most of the incorrect reporting results from errors made by government contracting personnel, including misapplication of small business contracting rules. In addition, contracting officers do not always review the online certifications that contractors enter into the governmental database prior to awarding contracts. One member pursuing a \$50million dollar job at Camp Pendleton stated, "When I looked at the list of attendees at the pre-walk I was astonished to see the names of (5) large primes that in no way qualify as small business."

The SBA needs to ensure the contracting personnel are adequately trained on small business procurement and are reviewing this data prior to awarding contracts." The OIG goes on to say, "The SBA (has) made little progress on this challenge."

I would add, the SBA should be undertaking significant training of government contracting personnel relative to all small business programs. Most importantly to my constituents at the U.S. Women's Chamber of Commerce is the training and use of the Women-Owned Small Business and Economically Disadvantaged Women-Owned Small Business set-aside program. Many of our women-owned small businesses report that contracting officers remain unaware, untrained and unmotivated to make use of this program that was put into place to end the more-than-a-decade of shortfalls in the paltry 5% goal for contracting with women-owned firms. Another member stated, "As a WOSB and EWOSB company, I have to express my extreme frustration with access to contracts. The WOSB targeted set-aside is one of the most complicated set asides to procure. Very few agencies are using this set aside to target WOSB."

And, finally, I implore you to help the health of the economy by avoiding undue fiscal austerity and fiscal calamity that will impact the growth of small businesses through reduced federal spending, federal layoffs that will drive down consumer spending, and cuts in important programs that add revenues to our economy.

Thank you.

**Further Comments are below.

What is your number one obstacle to growth?

- Discrimination against WOSB. More must be done to target, assist and support existing/new WOSB contractors in securing contracts. Not short-term, but long-term contracts. Long-term is essential, as it provides continuous cash flow, thus ensuring we maintain jobs for existing staff, create more jobs, provide fringe benefits to keep our staff, business expansion (nationally/internationally) and secures a solid foundation for our family (the future).
- This country's lack of a requirement for ultra-precision, production manufacturing. Due to the global outsourcing of manufacturing jobs, our customers are concerned with price as their first consideration in order for them to compete on with China and India's low labor rates. With rising minimum wages, increased group healthcare costs, stifling regulations on manufacturers and a stagnant economy, we are not growing. Additionally, many of the larger companies are passing along the financial risk to the supplier via the means of horizon purchase orders for small-quantity jobs; consignment inventory requirements, etc. The entire "culture" of manufacturing does not value the vendor/supplier. And it's hard to find experienced help.
- Not enough business (clients) and operating costs are skyrocketing; actually, downsizing continually. Accessing new contracts would support growth.
- Budget uncertainty on the part of our clients in federal, state and municipal sectors is a big issue. Many of them cannot move forward to get their projects going because they do not know what is going to happen with agency budgets.
- Access to CONTRACTS is the most challenging.. as in our field (mostly USAID oriented, as we work in communications/marketing for public health and environmental projects), there are very few set asides that are technical in nature, and we have wasted so much of our time and resources responding to sources sought, as well as the limited set asides (such as TASCIV -- over two years ago.. and it still has not been awarded!) We invested approx. \$50K in that bid and since it has never been awarded, it gives us pause to know if RFPs are really worth the time and investment.
- Funding seems to always be in the forefront of our 'growth'. Our banking relationships will only lend if the cards are stacked completely for them- lending is now taking place outside of the box- with private lenders and investors. For Small business this is a risky situation because they usually ask to take controlling interest in your company. For small business that has certifications to maintain, it is not an option. For my business (manufacturer), we are searching for lending to establish our own manufacturing facility. To secure a private lender loan, without them having any interest in my company, I have to provide them with 'proof' / contract that shows the payback is there. (That is what we are working on now).
- THE CONTINUING RESOLUTION IN WASHINGTON DC!!!!!!!!!!!!!! As a small contractor I am experiencing the wrath of contracting personnel trying to justify their

existence. They are delaying processing of paperwork in order to appear busy; they are using new policies to evaluate old tasks, without fully comprehending the basis for or intent of that new policy; they are issuing limited contracts and these are going to "favorite son" contractors. We are surviving off of old projects and pursuing everything we can private and public works sector to survive.

- There has to be a fundamental change in the way government contracting is handled. While there have been policies put in place to aid in leveling the playing field (i.e. F.A.R.) the bases here in Southern California are finding ways around it. There are numerous 8(a) companies that are graduating out of the program only to start up again under another names. The bases are aware of this and prefer it because it means their work is easy.
- When you have a small business set aside it should stay small business. We are going to be pursuing a large project at Camp Pendleton. It is a \$50million dollar job. When I looked at the list of attendees at the pre-walk I was astonished to see the names of (5) large primes that in no way qualify as small business. This concerned me and was going to follow up with NAVFAC when I received an article in my inbox talking about how "Large Primes see the writing on the wall with Federal work drying up. They will be pursuing all projects regardless of set aside status." PLEASE ASSURE ME THAT THE FEDERAL GOVERNMENT IS NOT GOING TO ALLOW THESE LARGE PRIMES TO PLEAD MERCY FOR THE LAST FEW YEARS. IF THEY DID NOT MAKE GOOD USE OF THEIR RETAINED EARNINGS THEY SHOULD NOT BE ALLOWED TO EAT UP THE ONE AND ONLY PROJECT THAT WOULD ALLOW SOME OF US SMALL CONTRACTORS TO START BUILDING OUR OWN RETAINED EARNINGS!!!
- As a WOSB and EWOSB company, I have to express my extreme frustration with access to contracts. The WOSB targeted set-aside is one of the most complicated set asides to procure. Very few agencies are using this set aside to target WOSB and I am told again and again by Procurement Officers it is a very complicated procurement. There are a total of 9 steps you have to take before you can "target" a WOSB company. This needs major reform to simplify the procurement process if SBA or the gov is going to make real progress in awarding contracts to more WOSB or EWOSB companies.
- As a tiny company (less than 10 employees) competing with the big boys so to speak becomes near impossible. My exp over the last 7 yrs is large and medium size businesses are there for you but ONLY if you demonstrate to them "what is in it for me". They really do own the contracts and getting ahead to compete with them is very complex. The gov for years and agencies have continued to push for small business procurements but at the end of the day, if those small businesses don't have a large business on their side we don't win. Most set asides require PF and in some cases requires the prime SB to carry all the PF which makes it impossible to win without a large business on your team. Once you get involved with the large business they dominate you. I have example after example where I have pulled in a large business to help me win something and give me significant work share then months, years go back and they give nothing in return. They

say they will but when it comes down to giving work share, they just don't. I hear this again and again from my small biz colleagues. Until someone holds the large business "feet to the fire" they do nothing. I am facing a situation right now with a very large IT partner I pulled in to win an IT project and they have never achieved our agreed up on work share, now they are having to cut the project and they are cutting MY positions (not theirs) even though they never achieved the work share agreement. This happens all the time to small businesses.

- Access to capital is very difficult in this lending environment. I am finding that unless you are established, have assets on hand banks will not loan you money. I was recently able to secure a line of credit for 100,000 for my company which was a huge win for me. I wanted 200,000 but they only gave me ½ of what I requested. My financials were strong, I showed a 30% profit end of year cash on hand and grew 200% last year. I was told by the bank that I am a "high risk because I grew too fast". Weird.... I think access to capital for small companies like mine who are disadvantaged and don't bring very many assets to the table are difficult.
- Affordable benefits are just out of the question. I have 5 f/t employees I cover right now with CareFirst insurance (PPO and HMO), I am paying for those 5 people \$42,000 per year to cover them! I just met with my broker and she told me the CareFirst premium is increasing because of Obama care by 30%! This is just fundamentally wrong. 3 of my 5 employees NEVER go to the doctor but only 1 a year. They are not considered high risk covered employees. I can't reduce my benefit plan to bring my premium down because they are very valued long standing employees and I don't want to lose them. Access to affordable benefits for a company of my size is nonexistent.
- Many times a small business contractor may not have the capital to fund a project the first 45-60 days of a contract, which is the amount of time that normally transpires before the contractor will obtain their first revenue draw. In order to compete effectively, there needs to be a contract based loan product available from commercial lenders backed by the SBA for small businesses once the contracts are successfully acquired from a federal agency. The underwriting guidelines for the contract based loan product can be structured in such a way as to limit and or significantly reduce the chance of default by the contractor.
- Obtaining a loan without contract revenue would merely mean a small business entity might spend a significant amount of the loan principal servicing debt rather than using the proceeds to grow their business.
- There has been a major slowdown in government contractor revenue growth because of significant budget reductions. With the slowdown in government contractor revenue, we need to be sure that the small business participation and specific socioeconomic category goals are met. Enforcement and accountability actions need to be in place in case the federal agencies do not meet the procurement set aside goals. Right now, many federal agencies consistently do not meet their small business set aside goals. The message this

sends is that expectations for doing business with small and disadvantaged businesses is not a priority for every agency.

- I want to see:
 - Contract based loan product backed by the SBA needs to be created which will allow Small Business Concerns working capital once a contract is awarded.
 - Enforcement mechanisms and accountability of small business procurement goals needs to be enhanced in case the outlined small business set aside goals are not met.(Increase Enforcement—ensure existing small business goals are actually met)
 - There needs to be an increase in contract acquirement assistance from the local SBA District offices.