



**THE AMERICAN INSTITUTE OF
ARCHITECTS**

STATEMENT OF
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*“The Effect of Proposed Small Business
Standards on the Architectural Community”*

United States House of Representatives
Committee on Small Business

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May 5, 2011
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Introduction

Chairman Walsh, Ranking Member Schrader, and members of the Committee, I am Walter J. Hainsfurther, FAIA, President of Kurtz Associates Architects, a seven-person architectural firm based in Des Plaines, Illinois, and former National Vice President of the American Institute of Architects (AIA). I want to thank you for the opportunity to testify today on behalf of my firm and the AIA.

The current economic crisis has affected every American, but, as this Committee knows all too well, it has hit small businesses like mine particularly hard. For example, our firm had a significant practice in the design and construction of retail buildings. In the past two years we have constructed one new building and are about to start a second. Prior to that, we designed as many as 50 buildings annually. We are grateful for the assistance that the Small Business Administration (SBA) has given to our members. However, we have concerns about the SBA's proposed size standard changes.

Architectural profession and the recession:

Architects are, by and large, small businesspeople; 95 percent of U.S. architecture firms employ 50 or fewer people.¹ In fact, the vast majority practice in one or two person firms. They are truly the engine that drives the design and construction industry. Architects are job catalysts – they are the first workers to be involved in the construction process when they develop designs. Hiring an architect leads to employment in other construction-related fields, from engineers and manufacturers, to steel and electrical contractors. In fact, there is one architectural service worker for every 34 construction industry workers in this country,² creating over \$1 trillion in economic activity in 2008.³ In fact, a study by the George Mason University Center for Regional Analysis found that every \$1 million invested in design and construction creates 28.5 new full-time jobs.⁴

¹ http://info.aia.org/aiarchitect/thisweek09/1009/1009b_firmsurvey.cfm

² U.S. Department of Labor

³ www.census.gov/const/C30/total.pdf

⁴ www.naiop.org/foundation/contdev.pdf

Architectural activity is a harbinger of construction work: the AIA Architecture Billings Index (ABI), which surveys work on the drawing boards, is a leading indicator of construction activity nine to 12 months down the line.⁵ Between January 2008 and January 2011, the index showed the profession to be contracting at an alarming rate. Finally, the ABI turned slightly higher. In March, The ABI landed at 50.5, which is a small decrease from February's 50.6 number.⁶ Any score above 50 shows an increase in architectural billings, so this indicator shows a modest increase in billings. Economic indicators have shown signs of slow, but steady growth. Clearly, we are starting to get out of the woods, but we are not out yet.

Billings at my company are down 80 percent from two years ago. Construction starts are very few, primarily because clients are:

- Unable to get the necessary credit to help finance new construction or remodels. This is due to a series of conflicting banking policies that require higher levels of loan to value ratios, significantly higher levels of capital investment in a project, and revised pro forma statements that are affected by current levels of foreclosures, short sales, pre-leasing levels of projects that are often unrealistic and other factors;
- Facing falling property values, along with new construction values that are being significantly affected by appraisals when compared to short-sale real estate transactions.
- States and Municipalities that have cut back so heavily on budgets, personnel, and services that capital projects are not being considered unless absolutely necessary. In Illinois, it took almost ten years to pass a capital improvement bill through the legislature due to lack of funding. In 2008, a bill was finally passed, but the funding is currently held up in court. In the interim, our infrastructure is crumbling around us. For example, asbestos located in the legislative office building on Springfield remains.

Last year, when I told a client who owns shopping centers throughout the country that we were starting a new, 20,000 square foot center, he said: "That's great because you are the only one I know of. We don't see building anything new for at least three more years."

I have gone from a firm of 25 architects five years ago down to 5 architects today. I have not taken a salary in two years so that I can keep the lights on and pay my employees. As you can

⁵ www.aia.org/aiaucmp/groups/aia/documents/pdf/aia076074.pdf

⁶ <http://www.aia.org/practicing/AIAB088918>

see, I fit the definition of a small business and I don't need any further competition. We are losing some of the contracts available because larger firms are "bottom feeding." They are going after projects where several years ago they wouldn't submit proposals just to pay their bills. Clients are also negotiating fees downward, using the threat that they can always find someone to do the project for a greatly reduced fee. The proposed SBA rule would further increase competition and keep me and other small businesses out of government contracts, which is not the purpose of the change. We want to work together with the SBA to help American small businesses.

Proposed size standard and the effect on the architects

When the SBA makes changes to its small business standards, AIA members pay attention. Currently, the SBA is reviewing a third of their size standards; the architecture, engineering, mapping, interior design and landscape architecture professions have been included in this review. The SBA's goal is to ease the administrative oversight by limiting the number of exemptions from standards and reduce the number of levels that they have for small business standards. To move this standard, the SBA has introduced new levels for businesses: \$5 million, \$7 million, \$10 million, \$14 million, \$19 million, \$25.5 million, \$30 million and \$35.5 million for this set of reviewed employers.

The SBA also wants to increase the number of businesses that qualify as a small business, and it has proposed to increase the size standards accordingly. Their analysis states that it will increase the number of businesses that qualify for SBA programs from 35 percent to 41 percent in the reviewed categories.⁷ For our members it has a far different effect. The AIA estimates that over 91 percent of architecture firms fall under the current \$4.5 million standard. If the standard is raised to \$19 million, over 97 percent of firms will qualify as a small business.⁸ The proposed standard is being increased 322 percent, which would encompass not just a majority, but a super-majority of architectural firms. In short, the SBA is asking firms that have five employees compete against those that have 50 employees. As you can see, the SBA's goal of increasing participation in the architectural market is too broad and their proposal has over-reached.

The SBA's proposed grouping of several related fields would greatly harm the architecture industry. The SBA's rationale for combining architecture, engineering, interior design, landscape

7 <http://www.regulations.gov/#!documentDetail;D=SBA-2011-0008-0001> at 14337.

8 <http://www.aia.org/advocacy/federal/AIAB088628?dvid=&recspec=AIAB088628>

architecture and mapping into the same \$19 million limit is due to the consolidation of these employers into multi-disciplinary firms. The SBA's view is that many architects practice with engineers or individuals who provide other related services. The AIA strongly challenges this assumption. Architects are the prototypical small business owners and many do their jobs with few, if any, employees. Architects create designs with a minimum of equipment, and their largest expense is their employees. We do not require the heavy equipment of other professions to do our jobs. Lumping our firms together with those from other professions like engineering will place us at a competitive disadvantage in the marketplace.

Use of receipts as a metric

A related issue to the SBA's proposal is how subcontractor payments are calculated in the net revenue of an architectural firm. In the past, AIA members have stated that over 50 percent of their gross revenue can be attributed to payments that flow through to subcontractors. Those payments affect the firm's gross revenue number, but are not part of the firm's revenue. To suggest that a firm is not a small business by counting in its revenue money that it merely passes on to a sub is not fair. The AIA has presented these arguments to SBA in the past, but the SBA has not been responsive to them. The SBA is not proposing any changes to this part of their standard in the current rulemaking. We would like your support in recommending that if the SBA continues to require the use of revenue, it counts only the revenue that accrues to the firm and not the revenue that is passed through to contractors.

Another issue is the SBA's use of receipts as a metric for small business designation. Typically, service industries have a net revenue standard, while a small percentage of manufacturing and sales industries have a standard set at number of employees. Although there is the potential to change the architectural standard from net receipts to employees, the SBA is not contemplating this and it would likely take a legislative effort. We would like your support on changing the architectural standard from net receipts to employees, so that it will more accurately reflect the nature of the architecture business.

Timing

The consensus is clear among AIA members that the proposed increase in the threshold to \$19 million is too high. The AIA is continuing to gather comments from our members on the proper recommendation to make to the SBA. However, the AIA represents over 76,000 architects, intern architects and allied professionals, many if not most of whom will be impacted by these changes.

In order to find the best recommendation for SBA, we ask the Committee to join with us in encouraging the SBA to extend the response period. We would appreciate another 60 days to continue to gather and compile information from our members so that the SBA can make the best decisions, using the best and most accurate data, possible.

In conclusion, I would like to thank Chairman Walsh, Ranking Member Schrader, and members of the Committee for giving me the opportunity to testify before you today. I want to commend you for your dedication to the problems that small businesses face in this economy and your leadership in advancing legislation that helps small business drive the recovery. The challenges that we as small businesspeople face are serious, but so is our commitment to play a leading role in rebuilding and renewing our country.