



**Opening Statement of
Chairman Joe Walsh
House Subcommittee on Economic Growth, Capital Access and Tax Hearing:
"Professional Services: Proposed Changes to the Small Business Size Standards
May 5, 2011**

Good morning everyone and thank you for joining us. The hearing will now come to order.

The issue before the subcommittee this morning is at the core of all small business issues: who exactly is a small business? The answer to that question determines whether a company is eligible for capital or entrepreneurial assistance from SBA, and whether the company can compete as a small business in the \$500 billion government contracts market. SBA is trying to take an objective and analytical approach to this question, and is revisiting all of its size standards over the next five years. Today, we are looking at the size standards SBA is proposing for the scientific, technical and professional services industries. These include the legal services, accounting and tax preparation services, architectural and engineering services, computer systems related services, management services and advertising today.

There is a joke that if you ask any business, they will tell you that they are definitely small, but that their next largest competitor is clearly large. The difference between being small and large in the government contracting market has very real consequences. In FY 2010, over \$151 billion in Federal prime contracts were awarded in the profession services industries – over a quarter of all Federal contracts. Over \$32 billion of these dollars went to small businesses – that is nearly one third of the \$109 billion in prime contracts award to small businesses that year. Clearly, determining who is a small business in these industries is very important.

SBA's proposed rule would increase the number of small businesses in this category by 9,450 firms, which represents 1.2 percent of total firms in affected industries. While this may seem like a small number, in some industries, such as architecture, over 98% of businesses would qualify as small. Indeed, some small

businesses would see their size standard increase by 400% -- that is massive growth. It is my understanding that some of our witnesses today are going to talk about what that will mean to their industry. In contrast, firms in the computer systems design industries are only seeing an increase of 2%, even though those industries have seen major changes in the past few years. I'm looking forward to our witnesses comments on these issues as well.

Another topic I hope our witnesses will address is whether SBA should proceed with its proposal to reduce the number of size standards. Currently, SBA has 41 size standards, based on receipts, number of employees, or other industry specific factors. Thirty of the current standards, including the standards we are discussing today, are receipt based. When SBA proposes a size standard, it looks at industry factors such as average firm size; start up costs and entry barriers; industry competition; distribution of firms by size; and success in the government contracting marketplace. The resulting number then would become one of the size standards.

SBA is now proposing that there only be eight receipts based standards, and that each industry be put in the closest appropriate size standard. These new standards would range from \$5 million to \$35.5 million. Since the old standards started at \$750 thousand and went to \$35.5 million, I'm curious as to whether the new standards really fit all of the industries as well as the old size standards – we seem to have cut out the truly small size standards. Will limiting the number of size standards simplify the size standard process, or will it unduly constrain SBA and keep them from developing industry specific size standards? If moving to a set number of size standards is a good idea, are these the appropriate standards?

Likewise, SBA is proposing grouping related industries into common size standards. I know that two of our witnesses today, being architects and engineers, would now be sharing a size standard along with seven other industries. Does this make your life simpler? Presumably, smaller businesses are less likely to participate in more than one industry, so such a proposal may favor larger businesses. However, given that the industries are so closely related, removing the confusion as to which NAICS code is appropriate may assist small businesses attempting to identify Federal contracting opportunities. Additionally, a single industry standard would not allow contracting officer to choose a NAICS code in order to include or exclude certain companies, so this would reduce the number of protests filed over the incorrect NAICS code being used.

Finally, I want to hear how changes are being managed in the size standard program. I know that SBA is required by law to review all of its size standards in the next five years, but I don't want to see changes rushed at the expense of small businesses. I understand that some of the witnesses here today believe they need more time to study the effects of this proposed rule, and I'd like to learn more about that.

I look forward to hearing from our witnesses today. I'm especially pleased to welcome another Illinoisan, Walter Hainsfurther of Kurtz Associates Architects, is testifying on behalf of the American Institute of Architects. I also want to welcome John Woods of Woods Peacock Engineering Consultants, testifying on behalf of the American Council of Engineering Companies and Roger Jordan, the Vice President, Professional Services Council. I am certain you will help us all have a better understanding of these issues.

I now recognize Ranking Member Schrader for his opening statement.