



Testimony
of

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On Behalf of the HUBZone Contractors National
Council

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on Contracting and Infrastructure

“Growing the Small Business Supplier Base in
Government Contracting”

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Chair Mfume, Ranking Member Salazar and Members of the Subcommittee, thank you for inviting me to testify before you today. My name is Victor P. Holt, and I am the President of V-Tech Solutions, Incorporated. V-Tech is a HUBZone certified, Veteran and Minority-Owned Information Technology and Professional Services company. We most recently celebrated our 21st anniversary. Incorporated in the District of Columbia in 2000, V-Tech has honored its commitment to give back to the local community since day one by creating new jobs and hiring local workers, donating goods and services to help those in need, and giving our employees time off for volunteer activities. V-Tech continues to focus on creating a collaborative environment for the personal and professional development of our team members, while also driving change and empowerment in the communities where we serve. Most recently, V-Tech received the 2020 HUBZone Small Business of the Year award for creating new jobs in underserved areas of Washington, DC, El Paso, TX and Montgomery, AL.

I am testifying today on behalf of the HUBZone Contractors National Council, of which I am the Vice-Chair. The Council is a non-profit trade association providing information and support for companies and professionals interested in the Small Business Administration's (SBA) HUBZone program. The Council strives to promote economic development in underutilized rural and urban communities, as well as maximize success for companies participating in the HUBZone program. The HUBZone program is designed to provide economic assistance to underserved areas by awarding federal contracts to small businesses that operate and employ workers in those areas.

We would like to thank the Committee for its commitment to support small businesses doing business with the federal government. Thank you for highlighting this important topic – category management. This is a policy that the Council has been concerned about for quite a few years – in 2018, Council Chair Shirley Bailey testified before the Committee on this exact issue. Unfortunately, today we are facing the same bleak outlook on its impact on the supplier base as we were back then. The cause for concern remains simple: small business access to contracts.

It is often stated that small businesses are the engine that drive the American economy. I believe this to be true. Small businesses bring growth, innovation, and employment opportunities while embodying promise, hope and change for our country. We are the entrepreneurs and business owners that fuel economic growth, however substantial challenges and barriers still exist as in the government contracting arena. These barriers are especially prevalent in the HUBZone program. Since the inception of the program, the Federal Government has not met its goal to obligate 3 percent of eligible prime contract dollars to HUBZone small businesses. This represents 23 years of missed opportunities and unawarded dollars that could have gone to companies that operate and employ people in Historically Underutilized Business Zones. Further, to date, the HUBZone program is the only SBA contracting program where the government failed in meeting its established goal.

The Council continues to believe that relying on Best-in-Class (BIC) contracts creates enormous barriers for small businesses. As the government moves away from direct contracts with businesses (Tier Zero), opportunities decrease for smaller businesses. The large buying contracts used in category management require substantial resources to bid and substantial resources to win task orders. Contract requirements have been increasingly structured to keep small businesses out – including stringent past performance or other requirements that are impossible for a small business

to meet, especially those who are new to the federal market. Our concern is obvious – a strong industrial base requires a pipeline of emerging companies with innovative solutions. HUBZones and other small businesses anticipate fewer opportunities to compete, which means companies like mine must align with large and midsize prime contractors to get work. Subcontracting comes with its own challenges – small margins and often alignment with the prime contractor on a cost basis as opposed to value or capability. This effectively weakens small business opportunities to compete for prime awards – a community that represents the valuable marketplace of ideas and innovation. Let us not forget that many of the large prime contractors that we see today are the small businesses from yesterday.

The Office of Management and Budget (OMB) has set an agency goal of 30 percent for utilization of small businesses for each fiscal year, as well as goals for each of their 10 categories of common spending. For FY2017-19, the overall 30 percent category management goal for small business was met or exceeded.¹ According to the Office of Procurement Policy (OFPP), the percentage of BIC spending that went to small businesses in FY18 was 31%, a decrease from 43% in FY17. However, despite meeting these internal goals, the number of small businesses receiving awards under CM declined.² Thus, most dollars in these 10 categories go to a small share of companies. For example, in 2017, just 4.3% of BIC contract holders received 80% of BIC dollars.³ This decline has been underway since 2010 and has accelerated under category management. Awarded dollars do not go to a diverse set of firms, rather the same ones that continue to perform work on the managed contracts. Continuing to implement this buying strategy flies in the face of government procurement objectives that seek to diversify the small business base that performs government contracting, particularly with the current Administration’s focus on increasing contract awards to small businesses.

Category Management, when applied to broad acquisitions, does not consider that innovation provides incredible value. Much like the previous push toward utilizing Lowest Price Technically Acceptable (LPTA), we are concerned the federal government is mistaking lowest cost for best value. As history shows, this is not the case. As the popularity of utilizing BIC contracts increases, HUBZones and other small businesses have fewer opportunities to pursue federal contracts. A 2017 study by Deltek⁴ reported that the number of small businesses winning prime contracts has decreased by 25% since 2010. Although mechanisms such as the SBA procurement scorecard seek to hold federal agencies accountable for meeting small business goals, these percentages are focused on total dollars, not the number of small businesses receiving awards.

As mentioned in our previous testimony, it remains unclear what criteria is used for a contract vehicle to be designated as BIC, and whether there will be consistent criteria across vehicles. We encourage the Committee to look into this process. BIC vehicles also have a crippling effect on small business competitive opportunities. Approximately 25,000 small businesses provide IT services to the government, but for OASIS Small Business Pool 1, only 30 slots are available. That

¹ Government Accountability Office, Federal Buying Power, GAO-21-40, OMB Can Further Advance Category Management Initiative by Focusing on Requirements, Data and Training (Nov 2020).

² *Id.*

³ Office of Federal Procurement Policy, Harmonizing Category Management and Small Business Goals 10 (2018).

⁴ <https://federalnewsnetwork.com/reporters-notebook-jason-miller/2017/10/number-of-small-business-prime-contractors-down-by-25-percent-since-2010/>

means that less than 0.12% of all small IT businesses are allowed to compete for prime opportunities. Additionally, some BIC vehicles do not have on ramps (a way to allow other businesses to populate the contract) which restricts new small business entrants from the competitive pool. The government has indicated it intends to make 40 awards in each OASIS Pool, but many businesses are in multiple pools, and thus eligible for an award in multiple pools. The federal agencies decide when to review the pool of contractors and determine if an on ramp is warranted. This practice shuts out numerous viable small businesses from the high dollar contract opportunities on the BIC vehicles.

Additional Suggestions to Grow the Small Business Supplier Base

Change Reporting Requirements to Accurately Reflect Contract Set-Asides.

At the core of effectively measuring these policies is data. Without accurate, reliable information, it is impossible to understand the full impact category management has on the supplier base. Each year, the SBA issues a procurement scorecard, which indicates how agencies performed in meeting their small business goals. The governmentwide goal of contracting with HUBZones is 3 percent. Despite this small number, the federal government has never met its goal. In FY2020, 2.44% of prime contract dollars were awarded to HUBZone businesses.⁵

Despite these low numbers, we believe that even less contracts have been awarded to HUBZone businesses, due to inaccurate reporting. Agencies often count the same dollar value towards multiple socioeconomic program goals, even though the contract was not explicitly a set-aside for more than one program. For example, if a contract is set-aside for the HUBZone program, if the winning company is also a certified WOSB and SDVOSB, those contract dollars count toward the agency meeting all of those goals. This practice ultimately inflates the government data on small business contracting awards.

According to SAM.gov, there are 6,512 firms with active HUBZone certifications.⁶ In FY2020, the federal government reported it awarded approximately \$13.6 billion to HUBZone-certified businesses.⁷ However, of that \$13.6 billion, only \$2.1 billion was awarded through a HUBZone set-asides and \$67.5 million utilizing the HUBZone program's sole source authority. Additionally, more than half of the \$13.6 billion was awarded to other small business preferences. Therefore, the current data does not paint an accurate picture of dollars flowing directly through the HUBZone program, or other SBA contracting programs.

The Council recommends agencies report progress toward small business goals based on how the contract was solicited, instead being able to double or triple count the same dollar value. In other words, if an agency set a contract aside for the HUBZone program, then the dollars should only count as a HUBZone award. The government policy of counting a company with more than one certification multiple times skews critical reporting data. We suggest Congress look at this policy so that the true number of contracts awarded to small businesses is accurate.

⁵ SBA Government Wide Performance FY2020 Small Business Procurement Scorecard.

⁶ Data as of 10/10/21

⁷ SBA Government Wide Performance FY2020 Small Business Procurement Scorecard.

Apply the HUBZone Price Preference to Task Orders.

The HUBZone price evaluation preference helps to create a more equitable system in full-and-open competition and allows federal agencies greater opportunity to devote federal spending to HUBZone firms. Regrettably, federal agencies have interpreted FAR 19.1304 as prohibiting the price evaluation preference to task orders when, in fact, it only prohibits commodities. Federal agencies should amend this interpretation to follow the law as Congress intended and apply the price preference to task orders. As the federal government increasingly drives its spending through large IDIQ contracts, such as the BIC contracts, a significant opportunity for HUBZone spending is being lost. Applying the price preference to task orders would significantly benefit HUBZone firms and the underserved communities they serve. We are encouraged by the inclusion of an amendment in the House FY2022 National Defense Authorization Act that clarifies utilization of the preference and urge Congress to keep it in the final version of the NDAA.

Ensure Subcontracting Plan Compliance.

Subcontracting is a way for small businesses to enter the federal marketplace and build past performance and as cited above, often the only way to win work. With larger contracts being utilized by the federal government, subcontracting is more important than ever. It is critical that we look for ways to reward prime contractors that adhere to subcontracting plans and penalize those that do not. Presently, there is little to no recourse for prime contractors that fail to meet their small business subcontracting goals. For example, it would be of value to create a structured framework for large primes to provide past performance evaluations when requested. The FY2021 National Defense Authorization Act (NDAA) included language to require large primes with subcontracting plan requirements to provide past performance evaluations when requested. However, many small businesses have faced issues when requesting this information that they are using for proposal submissions for prime contracts. Creating a streamlined framework for large primes to provide this information to small businesses would greatly assist businesses trying to enter the prime contracting arena. The Council encourages the Committee to look at incentives that would spur subcontracting plan compliance.

Recognize HUBZones As Part of the DOT's DBE Program.

The Department of Transportation's (DOT) Disadvantaged Business Enterprise (DBE) program is the second-largest source of potential small business contract dollars. The DOT should allow HUBZone companies to be recognized in the DBE program. This change would provide increased opportunities for HUBZone businesses to hire more employees from underserved communities and contribute to the economic development of the nation's most economically challenged communities. Additionally, the HUBZone Program includes a large portfolio of construction and engineering companies that would become eligible to submit proposals if given equal access to DBE opportunities. As Congress considers injecting billions of dollars in contracts through pending infrastructure legislation, it presents an incredible opportunity for investment in the communities that HUBZone companies serve.

Expand Sole Source Contract Opportunities for HUBZone Companies.

The Council is dedicated to fighting for government acquisition practices that maximize small business ability to compete. However, the governmentwide push to increase the use of category management leaves businesses shut out of opportunities to contract across the government. As government buying continues to trend toward buying through large contracting vehicles and

moving away from direct contracts, the ability for small companies to win sole source awards is more crucial than ever.

Increasing the award amounts for sole source contracts is extremely beneficial to the small business contracting community, however, it is equally as important to streamline and simplify rules for awarding these contracts. Our members have been told repeatedly by the federal workforce that awarding a sole source to a HUBZone certified company is too complicated. The Council believes that creating parity among SBA socioeconomic contracting programs, as it relates to sole source contracts, would incentivize agencies to increase their awards to all programs. A current hinderance to awarding sole source contracts is the requirement that a contracting officer must show that she/he does not have a reasonable expectation that offers would be received from two or more HUBZone small business concerns. There is confusion around the language “reasonable expectation,” which leaves this interpretation up to each contracting officer. This presents a barrier to awarding a sole source contract to a HUBZone company, as this could open the door to a protest – an action contracting officers seek to avoid. Eliminating this requirement for the HUBZone, WOSB/EDWOSB and SDVOSB programs would increase these awards to small businesses.

While it is not parity, the Council applauds the inclusion of an amendment in the FY2022 National Defense Authorization Act to raise the sole source thresholds for SBA’s small business programs. It is a step in the right direction to start to bring acquisition rules in line with current government buying trends.

Conclusion

The underlying principle behind the HUBZone program, established 20 years ago, remains relevant today – to decrease unemployment, and revitalize low-income communities by encouraging businesses to locate in these HUBZone areas. Our member companies are ready to compete on federal contracts to bring jobs, innovation, training, and economic empowerment to HUBZones. As the government prioritizes buying through category management, the contracting programs at SBA are of critical importance for small businesses to access and succeed in the federal marketplace.

No one would disagree with the goals of efficient government buying and saving the taxpayer money. However, we believe category management comes at a cost. Fewer small business awards limit the supply of vendors to the government, as well as restricts the ability of small businesses to grow through federal contracting. Category management rewards a subset of high-performing vendors by prequalifying them for a pool of valuable contract opportunities, while at the same time, barring entry for companies new to the federal market and those that find it too costly to compete for or maintain a spot on those contracts. In our view, category management also does not achieve the law’s stated goal of utilizing small businesses to the “maximum practicable extent possible,” and will make reaching government-wide small business goals even more difficult. The utilization of HUBZone companies already poses a problem for the government – it has never reached the 3% goal. Further limiting contract competition to utilize only multiple award contracts will have a devastating effect on small business participation in federal contracting. The Council

urges this Committee to exercise its authority to ensure the government's procurement policies, specifically category management, utilize small businesses rather than limiting them.

Thank you for the opportunity to speak today and look forward to continued engagement on this matter.