



Written Testimony of

Shirley Bailey

On behalf of

The HUBZone Contractors National Council

Before the

House Committee on Small Business

“Serving Small Businesses: Examining the Effectiveness of HUBZone Reforms”

September 13, 2017

Good morning Chair Chabot, Ranking Member Velazquez and Members of the Committee. My name is Shirley Bailey, President and Board Chair of the HUBZone Contractors National Council. I appreciate the opportunity to testify before you today.

The HUBZone Contractors National Council (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. First, we would like to thank the Committee for working with the Council on this important legislation and its commitment to the advancement of small businesses in the federal marketplace.

The HUBZone Council has existed since January 2000, and strives to contribute to the economic development of disadvantaged communities by reducing unemployment and homelessness by strengthening, improving, and promoting the HUBZone Program and by helping HUBZone-certified companies maximize their success in earning federal contracts.

The Council's membership includes HUBZone-certified small businesses, other small businesses, prime contractors, and other organizations interested in the HUBZone Program. In addition, the HUBZone Council is an advocate as it relates to procurement and entrepreneurial policy, and continues to seek needed modernization of the program. To that end, the Council fully supports, H.R. 3294, "The HUBZone Uniformity and Business Stability Act of 2017."

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. Congress, in its creation of the program stated that the creation of new jobs in economically distressed areas presented a challenge to all levels of government. The HUBZone program was designed to incentivize businesses to locate in these areas, creating much needed jobs through wealth creation.

In our testimony provided in March 2017, we addressed several issues and concerns facing the HUBZone Program. It is evident that the Committee put a great deal of thought and consideration in drafting this bill to address these concerns. Ranking Member Velazquez stated, "After carefully studying and listening to small businesses on the ground, I'm confident the reforms we are proposing will strengthen the HUBZone initiative and, ultimately, mean greater economic opportunity for those living in economically distressed regions." The HUBZone Council, fully agrees with Ranking Member Velazquez's assessment of the proposed reforms and believe that the reforms included in H.R. 3294 are crucial to the continued ability of the program to fulfill its mandate of creating jobs and providing economic development in emerging communities.

An overarching concern raised in the March 2017 hearing revolved around the lack of business certainty, constantly changing area designations and lack of performance metrics. To determine HUBZone designations, SBA currently uses data from several sources including the decennial Census and the American Community Survey (ACS). While Census data is updated every 10 years, ACS data is updated annually. Consequently, minor changes in economic data

can lead a community's eligibility for the HUBZone program to change annually. As I stated in my March testimony, our members make significant capital investments to locate their principal office and hire personnel in a HUBZone, only to face substantial losses when the HUBZone is re-designated. The uncertainty resulting from the annual designation updates not only impacts HUBZone companies, it negatively impacts the economic stability of the communities in which the company and employees reside. I am pleased to see that the Committee has taken steps to address this issue and others in H.R 3294.

The first important reform is the transition from the annual designation updates to a 5-year cycle beginning in 2020. Freezing designation changes, with the exception of disaster area and BRAC declarations, H.R. 3294 will provide businesses operating in HUBZones the stability and certainty they need to make the necessary investments in their communities without worrying that they will lose their HUBZone designation the following year.

The second major reform included in Section 3 of the bill, eliminates the qualifier "nonmetropolitan" from state median income when determining area eligibility. Currently, a nonmetropolitan county must have a median income below 80% of the state's nonmetropolitan median income to qualify for HUBZone designation. Only 207 (10.4%) of our nation's nonmetropolitan counties currently qualify for HUBZone designation under this income formula. However, 89% of the 1984 nonmetropolitan counties in the US have median incomes less than 80% of their respective state median incomes. This change, and the use of five (5) year average of available data instead of the most recent data available has a significant impact on the rural/nonmetropolitan areas of our nation. It will provide parity for rural counties with smaller populations that are more susceptible to income fluctuations that do not accurately reflect the economic activities in these counties.

For example, Virginia's state nonmetropolitan median income is 61% of the state median income. This significant income gap impedes our nation's nonmetropolitan counties' abilities to sustain and grow our nation's rural communities. Under the current formula, a nonmetropolitan county in Virginia, has to have a median income below \$32,134 (48.5%) of the state median income to qualify for HUBZone designation. H.R. 3294, a nonmetropolitan county's median income would need to be below 80% of the total state's median income to qualify for HUBZone designation. We believe that this change will go a long way in creating jobs in rural America, and assist in bridging the income gaps by providing opportunities and economic development in our nation's most distressed areas. As detailed in the attached spreadsheet, H.R. 3294 will enable more than a thousand (1000) additional nonmetropolitan areas nationwide to qualify for the program enabling more small businesses to participate in the HUBZone Program.

Summarized below are a few state examples of the number of additional nonmetropolitan areas qualified as HUBZone areas as a result of the calculation reform included in this bill. The numbers below do not include nonmetropolitan counties otherwise qualified by income or unemployment.

- 39 counties in Missouri, including Montgomery County in Missouri's 3<sup>rd</sup> Congressional District
- 34 counties in Illinois
- 24 counties in Virginia
- 18 counties in North Carolina
- 20 counties in Kentucky, including Crittenden, Logan, Metcalfe, Taylor, Adair, Russell, Casey, Monroe, and Cumberland Counties in Kentucky's 1<sup>st</sup> Congressional District
- 28 counties in Kansas, including Chase, Cheyenne, Cloud, Lyon, Osborne, Pawnee, Republic, Rush, Russell, Sherman, Smith, Stanton, and Washington Counties in Kansas' 1<sup>st</sup> Congressional District
- 20 counties in Nebraska
- 6 counties in Mississippi, including Calhoun, Choctaw, and Oktibbeha, in Mississippi's 1<sup>st</sup> Congressional District
- 21 counties in Florida, including Putnam County in Florida's 7<sup>th</sup> Congressional District
- 16 counties in Pennsylvania
- 5 counties in South Carolina, including Cherokee County in South Carolina's 5<sup>th</sup> Congressional District
- 13 counties in New York
- 5 counties in California
- 11 counties in Iowa, including Floyd, Monona, Webster and Wright Counties in Iowa's 4<sup>th</sup> Congressional District
- 6 counties in Ohio
- 4 counties in Maryland

Another critical reform pertains to qualified disaster areas. In light of recent Hurricanes Harvey and Irma, H.R. 3294 includes a timely provision that empowers the SBA Administrator to extend the HUBZone designation of a qualified disaster area that has not fully recovered. As we know from past natural disasters, recovery takes months and sometimes even years before

communities are made whole again. Our hearts go out to the victims of these historic storms, and it will take all of us to help these areas truly recover. We believe the extended HUBZone designation can play an important role in recovery efforts.

I also want to bring up an issue that has been problematic for HUBZones in BRAC areas. Since BRAC areas can take a number of years before redevelopment can begin for a variety of reasons including but not limited to environmental remediation, we have concerns that HUBZone designations for BRAC areas are expiring prior to areas being fully placed in service. We are not sure that the current bill adequately addresses this issue and hope that the Committee will reconsider this issue and possibly provide the Administrator the same latitude for extension of BRAC areas as provided for disaster areas.

This reform bill also includes new performance metrics that requires the Administrator to publish performance metrics measuring the success of the HUBZone program in meeting its objective of promoting economic development in distressed areas within one (1) year after enactment of this Act. It also requires the Administrator to develop processes incentivizing SBA field offices to collect and report on HUBZone data within their respective regions. Chairman Chabot stated that “By collecting data, the SBA and Congress will better be able to determine how well the program is working and what needs to be changed.”

In summary, we support the changes made to the program contained in this bill and Ranking Member Velazquez’s assertion that “Ultimately, we are helping bring greater transparency and stability to the HUBZone Program, “ and that “When HUBZone operates as intended, it can be a powerful tool for stimulating commerce in parts of the country afflicted with economic hardship....”. However, we want to stress the importance of expeditious action.

As I stated above, many areas are going to lose their HUBZone status by the beginning of 2018. Our members need Congress to act this year to avoid a major disruption in the program. As this bill suggests, the HUBZone program cannot succeed with eligibility constantly in flux. Any delay will result in substantial loss of HUBZone firms. Not only is this difficult for small HUBZone companies, it is a setback for HUBZone qualified areas that need the business income and job generation this program encourages.

Thank you for allowing the Council to testify at this very important hearing. I look forward to answering any questions.

Attachments:

Copy of spreadsheet detailing impact of formula change  
Support letters from Garrett County Chamber of Commerce and Mayors