

FEDERAL SMALL AND MINORITY BUSINESS COALITION

AN OPEN LETTER TO PRESIDENT GEORGE W. BUSH

DRAFT

October 15, 2004

RE: Failure to Protect Small Businesses in America

Dear President Bush:

There are over 23.7 million small businesses in the United States and the Small Business Administration (SBA) Office of Advocacy estimates that 600,000 of these American businesses are doing business with the United States Federal Government. In addition, according to the U.S. Census Bureau, over 50% of America's Gross Domestic Product (GDP) is generated by small businesses. The Federal Small and Minority Business Coalition (FSMBC) is an umbrella organization of trade associations that advocate on behalf of Federal Sector small and minority business owners. We advocate for the business interests of these small and minority businesses that are doing business with Federal Government as both Prime Contractors and Subcontractors. In this regard, we were pleased to learn that on September 30, 2004, you issued temporary reauthorization of the Small Disadvantaged price evaluation adjustment and Very Small Business Program and we look forward to the finalization of these authorizations.

We acknowledge that, as President, you have a significant number of important issues to address beyond those of concern to the small businesses doing business with the Federal government; however, as a small business owner yourself and someone we know to be aware of the challenges facing small businesses, you can well appreciate our frustrations and confusion in dealing with the unresponsiveness of your Federal Managers. The small

and minority business community appreciates your efforts to deal with the harmful bundling of contracts through Executive Order to be addressed by Federal agencies. Mr. President, the challenge is that Federal government officials are not only implementing your wishes, but are introducing programs and changing regulations on small business programs which indeed are harmful to the small business community and clearly embarrassing the Bush Administration.

Notwithstanding the tremendous contribution that small businesses add to the U.S. economy, the Federal Government as a buyer of goods and services has implemented policies that have not only hindered the growth of the small business sector, it has established barriers to participation in the Federal Procurement Process that has almost destroyed whole sectors of small business participation – especially for minority owned small businesses. Laws such as the Federal Acquisition Streamlining Act and Federal Acquisition Reform Act passed under the previous administration set the stage for the beginning of the end to competition in the Federal Government. Federal Managers have used the philosophy of acquisition reform to consolidate and bundle work that has historically been performed by small businesses into huge multi-level contracts and awarded those contracts to large corporations in many cases using multiple-award contracts that avoid public competition. They then give “lip service” to opportunities for small business as subcontractors knowing that there is little accountability in the present Federal Government subcontracting program thereby giving large prime contractors little incentive for them to provide opportunities for small businesses.

Below is a list of some of the many issues that are of critical concern to small businesses doing business with the Federal government.

GENERAL SERVICES ADMINISTRATION (GSA) ALLIANT GWAC

The General Services Administration (GSA) recently introduced the ALLIANT government solicitation, an information technology government wide acquisition contract (GWAC) with a \$150 Billion ceiling limit. GSA announced that of the \$150 Billion, there would be 25% small business participation as Prime Contractors. However, in reality, in order to compete for task order opportunities during the life of the ten year contract, small

businesses will be forced to compete against large businesses. Mr. President, the GSA strategy has a contradictory element. How can there be an equitable small business program in the GSA ALLIANT Contract if GSA management clearly requires that small businesses must compete head to head with large corporations? This action by the GSA sends a loud and clear message that the Bush Administration's actions on major programs tend to be detrimental to the small business community that does business with the Federal government. In order for there to be a small business program for the ALLIANT Contract, GSA management needs to implement the approved competitive small business set-aside provisions as enacted in the Small Business Act.

SMALL DISADVANTAGED BUSINESS CERTIFICATION

Both Corporate America and the small and minority business community are frustrated with the government's process of certifying small disadvantaged businesses (SDBs). SBA announced, earlier this year, an RFP which might have gone a long way to address this problem through the outsourcing SDB, 8a and HubZone certifications. Twelve days before the proposals were due, the RFP was withdrawn. We would like for you to consider consulting with organizations that have a successful track record on this issue and fix this for the sake of small businesses and the Corporations and Federal agencies interested in contracting with them. As a part of this strategy, it is imperative we move to an annual minority and women business census so that the trends, impediments and impact of corporate and public sector initiatives on this sector can be determined and addressed to promote and ensure continued expansion in this vital sector of our economy.

JUNE 21, 2004 GSA SCHEDULES FINAL RULE

Mr. President, a conflict regarding your Administration's policies becomes apparent as reported in the September 2004 edition of the *Government Sources Insider* (GSI) concerning the June 21, 2004 Final Rule regarding the GSA Schedules. The GSI reports that "the Federal Acquisition Regulations (FAR) Council rejected a recommendation to explicitly authorize small-business set-asides under the Schedules, finding that such a technique would be inconsistent with the program's basic statutory authority that contracts and orders be open to all sources." Trade associations and small businesses

throughout our nation want to know the action that will be taken to correct this disastrous injustice. Quite frankly, as it stands now, the legacy that the Bush Administration is leaving will lead small businesses into an economic ghetto.

LARGE BUSINESS NO-BID CONTRACTS

In the September 30, 2004 edition of the *Baltimore Sun*, it was reported that “the Pentagon has spent at least \$362 Billion in no-bid contracts since 1998, with the 10 biggest defense contractors getting most of the non-competitive deals.” This article further states that the “10 biggest contractors which earn 38% of all defense contracts got more than half of all the no-bid and cost plus contracts issued by the Defense Department. And thanks to the war in Iraq, Vice President Dick Cheney’s former firm, Halliburton, managed to go from an also-ran 37th on the contract list in 2001 and 2002 to No. 7 in 2003, as the Pentagon’s own procurement statistics show.” Mr. President, if the Sun article is accurate, this means that under your Administration there is a plan to increase market share for large businesses which would result in the dismantling of small business infrastructure of small businesses doing business with the Federal government and force small businesses into an economic ghetto.

CONTRACT BUNDLING

The Bush Administration has developed Anti-Contract Bundling initiatives. However, the GAO recently released a report that indicates that the impact of the Bush Administration’s strategy to mitigate the effects of contract bundling is uncertain. In order to clarify the perceptions that there might not be a “good-faith” effort by the Bush Administration to enforce your Executive Order, and in order for the small business community to appreciate and support your commitment to the Executive order that you approved, the small business community needs your personal leadership to correct the major deficiencies that have been caused by the reduction of the SBA Procurement Center Representatives (PCRs) due to cutbacks made in the SBA budget under your Administration. At one time in 1992, there was a peak level of 68 PCRs. At the present time the SBA claims that there are 72 PCRs; however in fact there are 38 full time PCRs and 18 SBA staffers who work part time doing the PCR function. Mr. President, the

PCRs are very important as they are the soldiers who carry out the Bush Administration's commitment to support the small businesses in the United States doing business with the Federal government because they are the individuals who can, when the rubber hits the road, implement your policy of the Executive Order on Anti-bundling assuring reasonable and fair market share for the small business community and the monitoring of sub-contracting programs that benefit the small business community.

It is also important to note that although SBA, in its June 15, 2004 press release promoted a total of \$65.5 Billion in prime contract awards to small business in the Fiscal Year 2003, members of the small business community doing business with the Federal government find the accuracy of this information doubtful as a result of the May 7, 2003 House Committee on Small Business Hearing, "Reporting of Small Business Contract Awards" does not reflect current business size. In this Republican led congressional hearing it was found that there were many large business Federal contract awards being reported as small business awards. It is necessary, Mr. President for your Administration to inform the small business community what the government has done to correct the wrong reporting of direct contract awards to small businesses. It is important for the small business community to have full confidence that the accomplishments that the SBA is reporting is indeed not seriously suspect because the congressional hearings clearly demonstrate that the reports are not correct.

SMALL BUSINESS ADMINISTRATION (SBA) SIZE STANDARD PROPOSAL

Another critical issue that has created significant level of confusion and mistrust regarding the Small Business Administration's (SBA) understanding and commitment to the small businesses doing business with the Federal government is the recent attempt by SBA to redesign the regulations on how the Federal government determines the criteria of what constitutes a small business. SBA recently fumbled and was forced under pressure to withdraw its proposed rules on restructuring the small business size standards. (A size standard is the means through which a business can be classified as small for procurement purposes.) The SBA failed to do sufficient research and its proposal would have eliminated nearly 34,000 small businesses, if implemented. To many in the small

business community, this mismanagement by the SBA was a major embarrassment to the Bush Administration.

With respect to the Information Technology (IT) industry in this proposal, the SBA proposed a 150 employee size standard which meant that IT companies with employees of 151 or more would be forced to compete against companies with close to or more than 100,000 employees and multi-billion dollar revenue. It is a near impossible feat for a small business to successfully compete against multi-billion dollar large businesses without becoming insolvent. Please see the chart below which provides the revenue and number of employees for the Top 5 Integrators in the U.S.

Top 5 IT Integrators	2003 Revenue	# of Employees
Boeing	\$50.5 Billion	156,000
Lockheed Martin	\$31.8 Billion	130,000
Northrup Grumman	\$26.2 Billion	120,000
CSC	\$11.3 Billion	90,000
SAIC	\$ 6.7 Billion	43,000

Mr. President, the average 2003 revenue for the top five IT Integrators is \$25.1 billion, and the average number of employees is 107,400. Under what business evaluation and assessment would any rational individual, using common sense, project that a small business with 150 employees and \$14 million in revenues would be able to compete with large corporations on a sustaining basis. SBA's size standards have not been effectively designed because there has not been an agreement between Federal agencies as to what are the firm corporate dynamics that make a small business doing business with the Federal government a viable business concern.

CENSUS DRIS SOLICITATION

The Census Bureau at the Department of Commerce will be releasing the 2010 DRIS RFP in the future. Presently, there are no plans for small businesses to be able to compete as Prime Contractors (no set-aside) and the subcontracting mandate was

announced at a meager 15%. The estimated Ceiling for the 2010 DRIS Procurement will be \$750 Million.

SMALL BUSINESS SUMMIT COALITION RECOMMENDATIONS (SOLUTIONS)

Mr. President, your Small Business Agenda must clearly reflect the intent of the Small Business Agenda for small businesses that are doing business with the Federal government, as well as reflect the many regulations and programs that have been established to protect small business market share. You need to instruct your Cabinet Officers to communicate and train Federal Procurement Officers about these laws, regulations and programs so that they may be implemented properly and effectively. Also, by Executive Order, you should convene an annual meeting (similar to the MED Week Conference) of Agency Heads, Contract/Procurement Officials, and OSDBU Directors to share innovative and creative ideas about increasing small business participation. This conference should also focus on small business goal setting and achievements. Awards should be presented at this meeting to Federal employees that are successful in their efforts to increase small business participation.

We also recommend the establishment at the SBA of a senior official who will serve as an ombudsman who focuses on issues of substance and importance to small businesses that do business with the Federal government. This officer should be responsible for answering questions and concerns from the small business community within 90 days. Mr. President, if this ombudsman were already in place, then there would not be a need to send this Open Letter to you.

Finally, and most importantly, we strongly urge that you work with Congress to strengthen the Small Business Act by providing SBA with the authority to assure that Federal Government Managers effectively and efficiently implement the small business laws, regulations and programs that benefit all Americans.

We respectfully request that you respond to the Coalition at the following address at your earliest convenience and within a reasonable timeframe. Thank you for your immediate attention to these important matters and concerns.