

**ENSURING OPPORTUNITIES: OVERSIGHT OF THE
HUBZONE PROGRAM**

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CONTENTS

OPENING STATEMENTS

	Page
Hon. Steve Chabot	1
Hon. Nydia Velázquez	1

WITNESSES

Mr. William B. Shear, Director, Financial Markets and Community Investment, United States Government Accountability Office, Washington, DC	4
Mr. John Shoraka, Associate Administrator, Office of Government Contracts and Business Development, United States Small Business Administration, Washington, DC	6

APPENDIX

Prepared Statements:

Mr. William B. Shear, Director, Financial Markets and Community Investment, United States Government Accountability Office, Washington, DC	27
Mr. John Shoraka, Associate Administrator, Office of Government Contracts and Business Development, United States Small Business Administration, Washington, DC	42
Questions and Answers for the Record:	
Questions from Hon. Steve Chabot and Answers from Mr. William B. Shear	47
Questions from Hon. Steve Chabot and Answers from Mr. John Shoraka ..	49
Additional Material for the Record:	
Allied Research Technology, Inc.	53
Contemporary Graphic Solution (CGS)	55
Custom Software Systems, Inc. (CSS)	56
Fairfield Technologies Inc. (FTI)	58
Fearless Solutions	60
Ferguson Safety Products, Inc.	61
GCS - GeoControl Systems, Inc.	62
HUBZone Contractors National Council	65
ITC Defense Corp.	75
MINPACK	76
Nyla Technology Solutions, Inc. (Nyla)	77
Set-Aside Alert	79
SBA	82
Storage Strategies, Inc. (SSI)	88
SupplyCore Inc.	90
Summit Technologies & Solutions, Inc. (Summit)	93
Syntelligent Analytic Solutions, LLC (Syntelligent)	96
The Data Entry Company (TDEC)	97
Triangle Electric Corporation	98
TEVET	99
Work Force Now (WfN)	100

ENSURING OPPORTUNITIES: OVERSIGHT OF THE HUBZONE PROGRAM

WEDNESDAY, SEPTEMBER 7, 2016

HOUSE OF REPRESENTATIVES,
COMMITTEE ON SMALL BUSINESS,
Washington, DC.

The Committee met, pursuant to call, at 11:00 a.m., in Room 2360, Rayburn House Office Building. Hon. Steve Chabot [chairman of the Committee] presiding.

Present: Representatives Chabot, Luetkemeyer, Hanna, Gibson, Brat, Knight, Curbelo, Hardy, Kelly, Velázquez, Chu, Hahn, Payne, Meng, Lawrence, Clarke, Adams, and Davidson.

Chairman CHABOT. Good morning. The Committee will come to order.

Before we begin today's hearing, I want to take a moment to remember one of our colleagues. On July 20th, our friend and fellow member of this Committee, Congressman Mark Takai passed away. Mark spent much of the past year undergoing treatment for cancer, but he still managed to serve his constituents with dedication and enthusiasm, and every time we saw him, he had a smile on his face. He was ranking member of the Subcommittee on Contracting and the Workforce where he did a lot of great work for the people and small businesses of Hawaii and for the whole country for that matter. His presence and aloha spirit will be greatly missed by all of us.

And I would now like to yield to our ranking member, Ms. Velázquez.

Ms. VELÁZQUEZ. Thank you, Mr. Chairman, for yielding and affording me a few minutes to remember our friend and colleague, Mark Takai.

Mark was a valued member of this committee. As a subcommittee ranking member, he made numerous, valuable policy contributions in the area of contracting. Because of his tireless efforts, Native Hawaiian organizations are now eligible to participate in the HUBZone program. He was a strong advocate for working families, and he represented Hawaii with distinction. Perhaps most of all he will be remembered as a devoted father and husband and dedicated family member. I, personally, will remember his warmth, kindness, and friendship. I know we are all praying for and thinking of his wife, Sami, and his two children, Matthew and Kaila.

I will now ask for a moment of silence in remembrance of our friend and distinguished member.

Thank you again, Mr. Chairman, for the opportunity to speak. I yield back.

Chairman CHABOT. Thank you very much, Ranking Member.

And Mark Takai will be greatly missed and long remembered by, I think, all the members of this Committee and all of Congress.

Today, our Committee will examine the historically underutilized business zones or HUBZone program. This program run by the SBA seeks to incentivize small business development in economically distressed areas by providing access to government contracting opportunities.

We are pleased to welcome back to the Committee Mr. Bill Shear from the Government Accountability Office, GAO, and Mr. John Shoraka, from the Small Business Administration—the SBA.

Since its inception nearly 20 years ago, the goal of the HUBZone program has been to boost economic growth and business development in the areas of this Nation that are most in need. If this goal is to be achieved, the program must operate in the most efficient and effective way possible.

In the past few years, GAO has performed several reviews of the program to examine how it is working. Through these reviews, GAO had identified several areas where the program needs to improve. One of the chief concerns identified by GAO, a concern that this Committee shares, is making sure that the opportunities provided by the HUBZone program are being utilized by small businesses who actually qualify for the program. The sole-source contract awards and 10 percent evaluation preference provided to HUBZone firms are significant incentives to companies, encouraging them to locate and hire employees in areas of significant need. The HUBZone program cannot fulfill its mission if the opportunities provided by these incentives are being taken by companies that do not actually qualify for the program.

In response to their concerns, GAO has put forward several recommendations. Among those recommendations are increased and improved communications between HUBZone firms and the SBA, as well as steps to make it easier to verify information from HUBZone firms. SBA has accepted some of these recommendations, but others have not been adopted. We are here to look at how the HUBZone program has adapted to those recommendations and to examine other ways the program could improve.

It is crucial, however, that any efforts to alter or expand the program are made by working through Congress and with this Committee. Actions that could change how the program has been run or how effective the program will be must be done in the open with the public debate afforded by the people's branch.

This Committee sees on a daily basis the tremendous impact small businesses can have in providing jobs and lifting the economic outlook of an entire community. The HUBZone program is intended to help these small businesses, but can only succeed if the program is run in a way that actually helps the areas most in need.

We want to thank our witnesses for being with us here today. We are looking forward to their testimony and also asking questions. And I would now like to yield to the ranking member for her opening statement.

Ms. VELAZQUEZ. Thank you, Mr. Chairman, for holding today's hearing.

Each year, the federal government buys over \$400 billion in goods and services from businesses all over the country. Recognizing the benefit these contracts have on local communities in terms of economic development and job creation, Congress created a small business program aimed directly at helping regions with low employment and incomes. The Historically Underutilized Business Zone program provides federal assistance to firms located in economically distressed areas by lowering barriers for entry into the federal marketplace for these firms. Ideally, this will not only provide an incentive for selling goods and services to the government, but also create jobs and bring revenue to these struggling areas.

However, since its implementation, the program has faced countless issues, from ensuring that only 35 businesses enter the program to overseeing that businesses maintain their eligibility, to even being able to present evidence that the program is meeting its mission. The SBA has lagged behind from the beginning admitting these basic tasks. In fact, at one point in time, the certification process was so poorly overseen that the GAO was able to certify fake businesses with principal locations at the Alamo and at a Starbucks down the street from the White House.

While GAO's most recent report shows that there have been improvements in the upfront certification process, I am concerned SBA is not doing more to ensure that businesses are adhering to the program's requirements. The recertification process has, for the most part, become a self-certification with later follow-up from SBA. I am eager to hear from today's witnesses on how the program can be reformed to provide sufficient oversight for both initial certification and recertification.

Unfortunately, the problems facing the HUBZone program do not end with certification. For many years, the program's portfolio consisted of businesses that were eligible only because of a grandfathering clause. Once this expired and other areas lost their HUBZone designation, close to 6,000 businesses were decertified. SBA's outreach efforts have been unsuccessful in getting new businesses to enter the program, and nearly 90 percent of HUBZone areas do not have a business participating in the program. This low participation rate has resulted in the failure to meet the 3 percent prime and 3 percent subcontracting goals. In fact, the dollars in actions awarded through this program have continually decreased since fiscal year 2008, with only 71,000 actions worth \$6.4 billion or 1.82 percent of prime contracting dollars awarded to these firms in fiscal year 2015. Even then, the program was vastly underutilized as only 25 percent of these actions were awarded through a HUBZone set-aside or sole-source contract. It is clear that reforms are needed to get the HUBZone program on track, and today's hearing will provide information needed to guide this Committee as we formulate legislation to address these issues.

Lastly, I would like to add that one of the primary responsibilities of this committee is to oversee the various programs run by the Small Business Administration. While we have evaluated many of the individual lending programs, we have yet to hold individual hearings on the small business contracting programs, and I hope

today is just the first of many hearings held to assess these important programs.

I want to thank the witnesses for being here today, and I look forward to gaining more insight as to how we can make the HUBZone program more effective in meetings its mission.

Thank you, Mr. Chairman, and I yield back.

Chairman CHABOT. Thank you very much. The ranking member yields back. And if members have opening statements, we would ask that they be submitted for the record.

We have got a couple of veterans before us here today, so I do not have to take a long time explaining our rules. We operate by the 5-minute rule, as you both know, and there is a lighting system to assist you. The green light stays on for 4 minutes; the yellow light, 1 minute; and then the red light will come on and we would ask you to wrap it up by then if at all possible. We will give you a little time if you need a little extra. Then we will stick to the 5 minutes ourselves in asking questions, and we will alternate back and forth between Republicans and Democrats.

So I would now like to formally introduce our two witnesses here today just briefly. Our first witness today is Mr. William Shear, who is the Director of Financial Markets and Community Investment Team at the Government Accountability Office, the GAO. In this role, Mr. Shear has appeared before the Committee on a number of occasions, and so we welcome him back today.

And our second witness is another familiar face, Mr. John Shoraka, who serves as the SBA's Associate Administrator for Government Contracts and Business Development Office. And included within this office is the office of the HUBZone program. So he is the person to talk with about this, and so we welcome you back again as well.

And so without further ado, Mr. Shear, you are recognized for 5 minutes.

STATEMENTS OF WILLIAM B. SHEAR, DIRECTOR, FINANCIAL MARKETS AND COMMUNITY INVESTMENT, UNITED STATES GOVERNMENT ACCOUNTABILITY OFFICE; JOHN SHORAKA, ASSOCIATE ADMINISTRATOR, OFFICE OF GOVERNMENT CONTRACTS AND BUSINESS DEVELOPMENT, UNITED STATES SMALL BUSINESS ADMINISTRATION

STATEMENT OF WILLIAM B. SHEAR

Mr. SHEAR. Thank you. Chairman Chabot, Ranking Member Velázquez, and members of the Committee, I am pleased to be here today to discuss our work on SBA's HUBZone program.

Congress established the HUBZone program to stimulate economic development in economically distressed communities. The program provides Federal contracting preferences to small businesses located in HUBZone-designated areas that also employ residents of the areas.

My statement today is based on the key findings in our February 2015 report and SBA's oversight of the HUBZone program in our March 2016 follow-up report and SBA responses to our 2015 recommendations.

We met with SBA in July 2016 at SBA's request to discuss SBA's actions in response to our recommendations and again in August 2016 at our request to further discuss the status of SBA efforts in preparation for this hearing. In addition, we met with SBA officials, including John Shoraka yesterday, and further information was provided to us on some of the agency's recent actions.

Specifically, this testimony discusses, first, how SBA communicates changes and HUBZone designations to firms; second, SBA's certification and recertification processes for firms; and third, how potential changes to designation criteria could affect HUBZones.

First, with respect to how SBA communicates changes and HUBZone designations to firms, in 2015, we found that communications to firms about programmatic changes generally were not specific to affected firms. In response, SBA revised its approval letters to newly certified firms to include information about the consequences of redesignation. But as of August 2016, SBA had not yet implemented changes to help assure all currently certified firms would be notified of changes that could affect their program eligibility. SBA officials recently told us that the agency intended to develop a technology solution by spring of 2017 to help address GAO's recommendation.

Second, with respect to SBA certification and recertification processes for firms, SBA requires all firms seeking certification to provide documentation to show they meet the eligibility requirements, and SBA also conducts site visits at selected firms. However, as we reported in 2015, SBA did not require firms seeking recertification to submit information to verify continued eligibility, and instead, generally relied on firms' attestations of continued eligibility. The SBA has made changes to its recertification processes, but had not fully addressed our recommendation to implement additional controls for recertification, including criteria for requesting and verifying firm information and guidance on using a risk-based approach to requesting and verifying firm information that are subject to recertification.

Finally, in our 2015 report, we presented statistics on economic conditions in HUBZone-qualified, redesignated, and non-HUBZone census tracts, and non-metropolitan areas. We also evaluated potential changes to HUBZone designation criteria that could be designed to provide additional economic benefits to some communities. However, changes that benefit some communities also could, through competitive market processes, reduce activity by HUBZone firms in existing HUBZones.

In my written statement, we have included examples based on adjusting criteria for unemployment rates and the potential impact of removing the limit on the number of areas that could qualify as HUBZones pursuant to the definition of qualified census tracts that was in effect at the time we issued our February 2015 report.

Chairman Chabot and Ranking Member Velázquez, this concludes my prepared statement. I would be happy to answer any questions.

Chairman CHABOT. Thank you very much.

Mr. Shoraka, you are recognized for 5 minutes.

STATEMENT OF JOHN SHORAKA

Mr. SHORAKA. Thank you. Chairman Chabot, Ranking Member Velázquez, and members of the full Committee, I appreciate the opportunity to testify here today.

Before I begin, I would also like to acknowledge your former colleague, Mark Takai, Congressman Mark Takai of Hawaii, who served as ranking member of the Subcommittee on Contracting and the Workforce. Congressman Takai was a great partner with the Small Business Administration and his presence will be truly missed.

Over the past 7 years, the administration, Congress, SBA, and Federal agencies have been successful in expanding Federal small business contracting opportunities through increased advocacy efforts and improved policies and regulations. As a result, the level of accountability has been raised across the Federal Government, allowing small businesses to continue to become more agile, innovative, and affordable providers of goods and services. This increased focus has resulted in over \$640 billion in Federal contracting dollars being awarded to small businesses from fiscal year 2009 to 2015. Of that, \$90.7 billion was awarded in fiscal year 2015, which represents an incredible impact to the American economy and drives job creation and support for over 537,000 jobs.

Through small business contracting, the Federal Government acts as a catalyst for small business growth, while supporting the economic security of the Nation. In 2015, for the third consecutive year, the Federal Government exceeded the 23 percent small business prime contracting procurement goal, awarding 25.75 percent of eligible contracts to small businesses. This is the highest percentage recorded in history.

Additionally, the Federal Government achieved the women-owned small business goal of 5 percent for the first time in history and achieved the highest percentage ever of contracts awarded to small disadvantaged businesses, as well as service-disabled veteran-owned small businesses.

Over the last few years, the SBA's Office of Government Contracting and Business Development began a variety of streamlining efforts to enhance customer service and reduce the administrative burdens on small businesses. These ongoing efforts include significant improvements and reduced timelines in processing 8(a) and HUBZone applications, 8(a) mentor protegee agreements, as well as overhauling the HUBZone, 8(a), and WSB programs' standard operating procedures.

G CBD also invested in IT solutions to improve efficiencies for our interactions with small businesses. To ensure compliance with small business contracting regulations, Administrator Contreras-Sweet authorized the hiring of 10 additional procurement center representatives, who have subsequently been hired. SBA has implemented over 25 provisions from the Small Business Jobs Act of 2010 and the National Defense Authorization Acts of 2013, 2014, 2015, and 2016, and is making great progress towards implementing the remaining provisions.

Of note, the SBA issued a final rule expanding HUBZone eligibility in areas surrounding Base Realignment and Closure, BRAC, areas, qualified disaster areas, as well as allowing Native Hawai-

ian organizations to own HUBZone firms. We are working closely with the FAR Council to incorporate new regulations into the FAR as quickly as possible.

Lastly, SBA issued a final rule implementing the new Small Business Mentor-Protege program, which was followed by Administrator Contreras-Sweet approving the new office structure and processes for the program. With these important steps, the new Small Business Mentor-Protege program is on track to begin accepting applications on the 1st of October.

As we continue to support and improve contracting opportunities for small business, there are always opportunities to build on our strength and improve in certain areas. We are aware of the two open GAO recommendations and two OIG recommendations associated with the HUBZone program that we are actively working to resolve. In particular, we have maintained open communications and engagement with the GAO and believe we are nearing closure of these recommendations.

In general, the HUBZone contracting program serves as an economic development tool that encourages small businesses to locate, invest, and hire employees from economically disadvantaged areas of the United States. As an agency, we work tirelessly to educate the small business and procurement communities about the HUBZone program in order to encourage firms to seek certification, help agency buyers utilize the program, and show economic development entities how the program's benefits can be used to attract small businesses to their areas.

Despite limited resources, the program has been successful in its efforts to ensure its mission is achieved. For example, the HUBZone program has implemented a sustainable plan to process applications within a 90-day period. We have also successfully conducted site visits to 10 percent of the firms in the portfolio with 87 percent of those site visits finding firms that are in compliance. In addition, the program has increased education and outreach through the second year of the designation HUB initiative by visiting 15 cities and encouraging small businesses to seek Federal contracting opportunities.

Moreover, the SBA recently conducted an in-depth analysis of the legislative and regulatory history of the program to determine if it had the authority to remove the 20 percent population cap to positively impact additional areas. Our analysis confirmed that the SBA did have the authority to remove the cap, and subsequently did so, increasing the number of census tracts in the HUBZone program. Due to the removal of the cap, Puerto Rico saw the largest increase of 516 new designated HUBZone areas.

We are committed to continuous improvement in the HUBZone program, along with the SBA's other certification and contracting programs. Our goal is to remove unnecessary burdens placed on the small businesses that have no merit, as our mission is to ensure that responsible small businesses have the maximum practicable opportunity to compete for and win contracts with the Federal Government.

In closing, I would like to recognize this Committee's commitment to small business and for being a partner in advancing positive small business practices across the Federal marketplace. I

would also like to acknowledge the administration and Federal agencies for their dedication to providing meaningful contracting opportunities to the small business community. Led by Administrator Contreras-Sweet, we will continue to fight for small businesses and advocate on their behalf.

Thank you for the opportunity to testify here today. I look forward to your questions.

Chairman CHABOT. Thank you very much.

I now recognize myself for 5 minutes to begin the questions.

Before I ask my first question, I was just looking at our names and it just hit me: Shear, Shoraka, Chabot. It sounds like an impressive law firm or something, does it not? Or a new disease to be avoided or something. But in any event, I will get on to my questions.

Mr. Shear, I will begin with you. Through your reviews, what have you seen as being the specific problems with the current HUBZone certification tracking system, and what would be some of the features of a new system that would correct these problems?

Mr. SHEAR. We—and I will mention especially the 2015 report—have had extensive experience with using the HUBZone certification tracking system itself, and I am very thankful to John and his staff for helping us conduct that analysis. It is this relational dataset that is really inadequate, not just in terms of how hard it was for us to go through these hypothetical scenarios and to look at certain characteristics of firms, but in terms of two things that are part of what SBA is trying to achieve. It is very bad in terms of conducting queries. An analyst can look at one firm at a time. But conducting queries across firms is problematic. One would want to conduct such queries to do things such as establishing a risk-based oversight system for recertification. So it is inadequate because it is so difficult to conduct queries. And in terms of trying to evaluate impacts, looking at characteristics of firms and how much they may be benefitting or not benefitting from participation in the program, it is very difficult because of this data system. So I think that SBA is at least pointed in the direction of developing a new system is something that is a good idea.

Chairman CHABOT. Okay. Thank you very much.

Mr. Shoraka, I will turn to you now. When did discussions begin on the idea of ignoring the 20 percent cap for qualified census tracts?

Mr. SHORAKA. Thank you for that question. As I mentioned in my testimony, sir, we began analyzing the potential impact of removing the cap I would say probably 6 to 9 months ago, and the discussion centered around the fact that the caps are included in the analysis by Housing and Urban Development for the purposes of the IRS. We found no statutory reason why those caps were included for the HUBZone program. Based on our general counsel's review of our statute and analysis that we had authority to move forward in removing the caps, we went ahead and did that because we would expand the program exponentially to deserving communities that could benefit from participating in the program. Specifically, I think the largest impact was in Puerto Rico, and obviously, this is an area that both the administration and the Hill is interested in helping.

Chairman CHABOT. Let me follow up on my question, and you talk about expanding, and I agree. It could potentially dramatically expand the program. But going, blowing past the 20 percent cap could result in potentially thousands of new HUBZones, and arguably perhaps weaken its effectiveness in perhaps some of the existing HUBZones themselves. And what makes you all think that the SBA is able to take this step without congressional action? How can you do that on your own?

Mr. SHORAKA. I would have to defer to our Office of General Counsel, who provided an opinion to my office with that respect and we have shared it with the Hill. And in fact, I think we have shared it with GAO as well. But the analysis that, again, that I have seen with our recommendations from our general counsel is that the statute and the calculation performed by the HUD, when they put that 20 percent cap on it, is specifically for the purposes of the IRS and not for our purposes.

Chairman CHABOT. Okay. Well, if you could get that to us, we would like to take a look at that. Thank you very much.

Let me go back to you, Mr. Shear. Have there been other challenges within the HUBZone program that you have seen but have not had the time or opportunity yet to highlight today? Are there other things that you would want to point out?

Mr. SHEAR. I think I would want to point out—I know this Committee is taking a leadership role in the legislation for Puerto Rico—I will paraphrase this, the Puerto Rico Economic Stabilization Act. The questions you are asking in the first mandate, which we plan to staff in the next month and proceed earnestly with, asks us to look at contracting activity in Puerto Rico. We will be looking at expansion in the HUBZone qualified areas and to try to bring analysis to try to look at what types of shifts are being brought about by expanding. We may also address, what are the impacts of contracting? Because we can look back to 2008 where after an error made in the HUBZone map for Puerto Rico was corrected, we identified it during our 2008 audit, much of Puerto Rico was classified as HUBZone in 2008 due to this error, and once it was corrected, a small part of Puerto Rico was in a HUBZone. So we would look at the opposite, so the opportunity to evaluate the reduction in HUBZone areas may be possible.

And it is not just looking at number of HUBZone firms and HUBZone contracts; it is looking at HUBZones and small businesses and what dynamic is going on in that community in Puerto Rico to try to establish what the impact could be so that the Congress and SBA—I think we all want to make sure that informed choices are being made as far as bringing up the issue you had as far as could expanding cause some of the existing HUBZone areas to suffer. I think those are very important issues to look at. So I am glad that we can start that.

Chairman CHABOT. Okay. Thank you very much. My time is expired. The ranking member is recognized for 5 minutes.

Ms. VELAZQUEZ. Thank you, Mr. Chairman.

Mr. Shear, let us go back again to what provided the path to lift the cap in Puerto Rico. It was an action of Congress. It was by passing PROMESA. So my question to you is has GAO analyzed whether or not SBA exceeded its authority when they removed the

cap without congressional authorization? I think that is the question here.

And then further, how a program that since the first GAO report in 2008, and then 2010, clearly demonstrated there were no oversight mechanisms in place at SBA to prevent the program from being abused. And we have seen the abuse mismanagement of the program and also the fact that there is an issue with the type of communication between SBA and the firms and the information that they provided. Have you analyzed that? I know you provided GAO with information regarding the opinion from your legal counsel. When did this happen? When did it happen?

Mr. SHORAKA. When did we provide—

Ms. VELAZQUEZ. The legal—

Mr. SHORAKA. I think that was just recently, if I am not mistaken.

Ms. VELÁZQUEZ. Have you had any opportunity to analyze it?

Mr. SHEAR. Yes. Can I go through starting with—

Ms. VELAZQUEZ. Sure. Yes.

Mr. SHEAR.—you asked a multi-part question and please help me through this. The first one is the question of the decision to lift the cap.

Ms. VELÁZQUEZ. Yes.

Mr. SHEAR. When we started preparing for this hearing, and also starting to gear up to start our work in response to the first mandate dealing with Puerto Rico, we started looking for information about HUBZone and Puerto Rico, and that was roughly two weeks ago. And we identified the press release that on June 15th, SBA had lifted the cap for Puerto Rico and that was kind of the headline. Then, when we read it, we saw that it was lifted nationwide. And our shock was that we had just had a meeting with SBA where we asked are there any other significant changes to the program? And this was never mentioned.

Ms. VELAZQUEZ. Mr. Shoraka, do you consider that a big change when he asked you whether or not there had been any policy changes?

Mr. SHORAKA. Ma'am, would consider the fact that we issued a press release, completely open discussion. This is nothing that we were—

Ms. VELÁZQUEZ. But you had a meeting. SBA had—

Mr. SHORAKA. I do not know if I was in that particular meeting, but that is nothing that we have intended to hide from anybody, ma'am. We did a press release. We did events around the country. Our director of HUBZone, in fact, was in Puerto Rico, and discussed the impact to Puerto Rico with respect to the removal of the cap. This was all done in June, and quite frankly, it was done to make sure that our HUBZone program impacts the deserving communities that it should be impacting.

Ms. VELAZQUEZ. I understand, and that is the intent of this committee, and this is why we are doing these type of hearings. But since 2008, you know that different investigations have been conducted, and ineligible firms have been participating within the program. And still, the oversight mechanisms and the metrics that are so needed for us to be able to fix the program have not been provided.

Mr. SHORAKA. May I respond to that?

Ms. VELAZQUEZ. Yes.

Mr. SHORAKA. So as you are aware, a full front-end certification was put in place in 2009 and 2010, and because of that full front-end certification, I mean, we get sort of the discussion on both sides. Right? We get the question with respect to firms who oftentimes complain because of the time it takes to have them certified, and, quite frankly, it has to be a balancing act. So we have implemented a full front-end certification process that sometimes is considered overly onerous. And quite frankly, over the last several years, over the last 2 years, we have looked at how do we remove some of those burdens. Because in my opinion, our programs are targeted towards some of the most underserved communities, which a lot of times do not have the resources to be able to put applications together that are 2 pounds of paper. So we are looking for opportunities to reduce the burden on those firms, and it has to be a balancing act. Sometimes we increase risk, but we reduce the burden on our firms.

Ms. VELAZQUEZ. As I mentioned in my opening statement, we are going to be looking at ways to improve the program that might need congressional action. So I just want to be on record asking that you provide the committee with the type of reforms you consider needed to make this program effective so that those deserving communities get the benefit of the HUBZone program.

Thank you, Mr. Chairman. I yield back.

Chairman CHABOT. Thank you. The gentlelady's time is expired.

The gentleman from Missouri, Mr. Luetkemeyer, who is vice chairman of this Committee, is recognized for 5 minutes.

Mr. LUETKEMEYER. Thank you, Mr. Chairman.

I want to follow up on the ranking member's comments about the 20 percent situation here.

Mr. Shoraka, whenever you did this, are you continuing to fall under the same guidelines that HUD had with regards to percent of household incomes and that sort of stuff? You are just taking a community that normally would be restricted to 20 percent but still falls under the guidelines of expanding it to 30 percent or 40 percent. What is the largest that you have expanded to at this point?

Mr. SHORAKA. So just to explain. Housing and Urban Development actually performs this analysis, and for the reasons of other programs, puts a 20 percent population concentration cap. What we have determined is that that cap is not relevant or goes to the intent of this program because it reduces the communities that can participate in this program, so we have actually removed that cap in our calculations. So we are not changing any of the calculations that Housing and Urban Development does and has done and continues to do for us. They put an additional cap for other program purposes, a 20 percent population cap. We take that away because we feel that it does not go to the intent of the HUBZone program.

Mr. LUETKEMEYER. So what percentage of the community then are you allowing to participate in this program?

Mr. SHORAKA. So it has—

Mr. LUETKEMEYER. Originally, the program standard is 20 percent of the community, right?

Mr. SHORAKA. It is a population concentration cap. In other words, if more than 20 percent of the population is below the poverty line, then the cap is in place. And I can certainly get you specifics with response to how this has impacted the communities. What I mentioned in my testimony is that in Puerto Rico, we increased the HUBZone areas from 27 percent of the census tracts to close to 87 percent of the census tracts.

Mr. LUETKEMEYER. Okay.

Mr. SHORAKA. And we have the calculations by State, and I am happy to share that with you.

Mr. LUETKEMEYER. Okay. So instead of taking 20 percent of the community, now you are taking 87 percent of the community in? It is a census tract, right?

Mr. SHORAKA. Correct.

Mr. LUETKEMEYER. Okay. So what is your anticipated amount of extra workload that you are looking at here? Have you thought about that?

Mr. SHORAKA. We, you know, one of the things—that is an excellent question.

Mr. LUETKEMEYER. I am not against the competition here that this would encourage.

Mr. SHORAKA. Right.

Mr. LUETKEMEYER. What I am looking at is your ability to maintain control. Because Mr. Shear is going to come in here 2 years from now and say, hey, these guys expanded the program; have no idea what is going on. They cannot go back and do visits because you are in here, you are limited to 10 percent or whatever, which is way too low in my mind. And then you are not able to control these things and suddenly we have ineligible businesses in this program which defeats the whole purpose of what is going on.

Mr. SHORAKA. Yes. That is an excellent question, sir. Thank you.

We actually have lost over a third of our portfolio because of the census tract redesignations of the 2010 census. So we lost over two-thirds and we are down year about 5,000 firms in the portfolio where we were historically up around 8,000 or 9,000. Since then, we have sort of leveled out at right under 4,000 firms in the portfolio. What we have been attempting to do over the last 2 to 3 years is actually through our Destination Hub Initiative, trying to increase the number of firms. We have the capacity, and as Mr. Shear mentioned, we are developing the technology to be able to make sure that the deserving firms to participate in our program.

Mr. LUETKEMEYER. My time is running out. I want Mr. Shear to comment on this.

Mr. Shear, do you believe that this expansion is going to undermine the program from the standpoint of expanding it beyond what the intent of it was? Does it help businesses in this area to be able to compete? Question number one.

Number two, have they got the controls in place yet or are they putting controls in place that you believe are going to be adequate to monitor this program, this expansion?

Mr. SHEAR. Let me just try to do it real briefly.

Mr. LUETKEMEYER. I have got 10 seconds left.

Mr. SHEAR. Okay. Well, I will take more than 10 seconds if it is okay.

But the first one, in terms of the expansion of the program, I cannot sit here and say that the new communities, whether they be counties or census tracts that comprise a community, in Puerto Rico are not deserving. But what we are looking for is some evaluation, even putting the legal issues aside, as far as what would the impact be here? Because of the things that I can point out from our analysis in our 2015 report and in this testimony, that you do observe that HUBZones have worse economic conditions than in the redesignated areas, and as you expand, you are tending to move up the ladder to areas that might not be as economically depressed.

Mr. LUETKEMEYER. That is the heart of my question. Are we undermining the purpose of HUBZone? I am not against it. I am just saying are we going too far?

Mr. SHEAR. What we are looking for and what we are going to try to address in a mandate from this Committee with Puerto Rico, and we will probably look more broadly than Puerto Rico, but certainly for Puerto Rico as we have been mandated, is to look at the question as what happens on the ground when you expand the program in this fashion? There should be some type of informed analysis that goes behind an informed decision regardless of what the statutory authority is. And to us, an opposite question that we will be looking at in terms of our before and after analysis is what happened in 2008 when there was a sharp contraction in Puerto Rico. We will be looking, what were the impacts of that action? So we think that you really need informed consent here.

As far as the oversight of the program, it expands the pieces but we are not in a position to say what happens as far as SBA's ability to oversee the program. It is clear that if you keep the number of site visits about the same, they will be a smaller percentage of your overall universe. But in addition to that kind of simple point, I do not think I have much to really offer on that point.

Chairman CHABOT. The gentleman's time is expired.

Mr. LUETKEMEYER. I appreciate the chairman's indulgence. Thank you.

Chairman CHABOT. Thank you.

The gentlelady from California, Ms. Chu, who is the ranking member of the Economic Growth, Tax, and Capital Access Subcommittee, is recognized for 5 minutes.

Ms. CHU. Thank you, Mr. Chair.

You know, on one hand, there are instances of these ineligible firms that have been certified for the HUBZone. On the other hand, there are these vast areas that do not have HUBZone certified firms operated within them. In fact, when researching this, I found that while my district has pockets of census tracts that would qualify for HUBZone status, there are only two HUBZone certified firms in the entire area. I understand that across the country there are only 5,600 participants in the HUBZone program and nearly 90 percent of HUBZones do not have a single certified firm. So can you tell me, for the panel, can you tell us why you believe that the program is not being utilized in certain areas?

Yes, please.

Mr. SHORAKA. I think the HUBZone program is unique in many instances, right? So there are certain requirements that sometimes can be complicated for small businesses to maintain. One is their primary office has to be in a HUBZone. That means that most of their employees, the largest percentage of their employees, actually work out of that office. Another is that 35 percent of their staff have to reside in the HUBZone. Maybe not that same HUBZone, but in a HUBZone. So oftentimes, when we have talked to firms, they have talked about the difficulty of being able to maintain those requirements, especially as they get contracts and they begin to grow. So the challenge is, quite frankly, it is a unique and different program. A lot of times firms will fall in and out of compliance with the program. And quite frankly, contracting officers have a hesitancy to use the program sometimes because of these unique differences.

We have in the last several rules that we have promulgated, if that is the right word, I apologize, we have implemented measures to put the HUBZone program at the same level with our other programs. When it comes to—and this is kind of in the weeds—when it comes to nonmanufacturing rule waivers or when it comes to limitations on subcontracting, these were differences in the program that were not the same as the WOSB program or the service-disabled program.

So I think it is twofold. One is, quite frankly, it is a unique and challenging program. So firms are sometimes reluctant to take advantage of it. I think we need more training with contracting officers to encourage them to take the program seriously. And lastly, I think this is a great opportunity to look at the statute to see where we can add some level of continuity or comfort or consistency with firms falling in and out of program requirements.

Ms. CHU. Mr. Shear?

Mr. SHEAR. I think you are asking an excellent question. I think John Shoraka gave a very good answer of the challenges HUBZone firms face and, therefore, what can affect their participation in the program.

One of the things I would like to emphasize, which goes to our first recommendation, is the ability to communicate with firms and to provide firms information that makes it easier for them to navigate how changes in the program can affect their status. I think, we heard and we reached out to the HUBZone community as such, and we just found that it is kind of expecting too much of the firms with the current state there. So that is one thing that I would want to emphasize.

The other thing I would want to emphasize is to be very mindful of a tradeoff when the solution that is offered is to allow firms to stay in the program that may no longer be eligible. We are very sympathetic with the idea that firms can be very challenged if based on short-term swings and economic conditions they are in and they are out and they are in, it is a concern of the program and it might be something that this Committee might want to look at more closely or, have SBA and GAO look at more closely. There is a challenge created. But what I would emphasize from our analysis of characteristics of HUBZone areas compared with those that have lost designation and those that are not HUBZones is that if

you make the window too wide, you are undermining the purpose of the program, which is to serve the most economically depressed areas in our country.

Chairman CHABOT. The gentlelady's time is expired.

The gentleman from California, Mr. Knight, is recognized for 5 minutes.

Mr. KNIGHT. Thank you, Mr. Chair.

Some of the challenges with the HUBZone program were first identified by the GAO years ago and have persisted. From your knowledge of what SBA is now doing to address these challenges, do you believe they will be resolved soon? And can you tell us some of the methods that are being used to resolve these? Mr. Shear?

Mr. SHEAR. Thank you.

As I stated, certainly with the certification process, SBA has improved. When we started our audit in 2008, we concluded at the end that there was just a complete lack of internal control. But we had concluded that very early on, and we were the ones that reached out to our fraud investigators. So the program has definitely improved since that situation that we evaluated in 2008. What remains now I think is challenging. One is how to deal with firms that are dealing with the complexities of a program. It is trying to do something geographically where you are talking about a very dynamic environment. Businesses change over time and the economic conditions of census tracts and counties change over time. So I think that this idea of looking to a technology solution cannot solve these problems by themselves. But the idea is implementing better technology to address concerns about how to notify firms, how to conduct the recertification process, how to have risk-based approach to oversight. These things are very important.

So, I mean, at GAO, we are very good at asking questions. We have observed that SBA has had trouble implementing technology. A number of years ago, we were all talking about One Track, which was going to be the solution for the 8(a) program and the HUBZone program, and it was not a successful investment. So our concerns are coming up with a real specific plan for how to use the technology, then what resources have to be used, have to be available from SBA for a more manual process even after the technology is in place. And I think those are the challenges that are out there.

Mr. KNIGHT. And I understand that. I come from one of the fastest-growing areas in the country. And, in fact, we lead the country when our economy is expanding and we are growing at a good rate. Always reaching out and making sure of the new programs and making sure that we are giving the most information is one of the hardest things for either one of us who represents these areas or one of you who is trying to reach out to the firms or to the businesses. It is always the biggest challenge in making sure they are getting the right information.

Can you tell me, over the last maybe 5 or 10 years, as the advent of new type of innovative ways to reach out, have you found one that has done more than others? Or have you found that just the same kind of walking, doing the site visits, doing all those types of things are still the most important thing?

Mr. SHEAR. Part of it is that certainly using technology and electronic transmission can help, whether it be webinars from a

training standpoint or whether it be sending notifications to firms that are meaningful about what they have to know to make sure they are compliant with a program and can manage it. So there has to be a mix there. But part of this I would say is really a manual process and requires some interaction. And this is where SBA's district offices, I think, would want to be involved in reaching out to the various parts of the country where HUBZones are present.

Mr. KNIGHT. Thank you very much. I yield—

Mr. SHORAKA. If I just may real quick on that—

Mr. KNIGHT. Sure.

Mr. SHORAKA. I think one of the things that we have done, in addition to sort of looking at SBA One and making sure that the new system that should be launched by March of 2017 accounts for this communication, is to ensure that all new HUBZones, HUBZone firms, subscribe to the newsletter, which is put out regularly to inform them of changes in the designation. And it is a requirement, and I think this is absolutely correct. Not only do you have to monitor the HUBZones with respect to your principal office, but you have to monitor HUBZones with respect to your employees and where they reside. And so having an automated system to be able to do that for you and your staff, it would alleviate a lot of the burdens that are now manual.

Chairman CHABOT. The gentleman's time is expired.

The gentlelady from California, Ms. Hahn, is recognized for 5 minutes.

Ms. HAHN. Thank you, Mr. Chairman.

And let me just start by saying thank you to you and the ranking member for taking a moment before we started today to remember our colleague, Mark Takai. I would consider him a friend of mine. He actually lived in my building here in D.C., and actually was on the same floor that I was, so I ran into him and his wife and his kids many times.

One of my fondest memories was during the cherry blossom season. I had been here for 5 years. I never had made it down to the Tidal Basin to actually see the cherry blossoms. He and his wife invited me to join them, so that was just like April, and I spent about an hour and a half with them down at the Tidal Basin. He took these great photos of me and I took great photos of him, and I am really going to miss Mark. In a short period of time here in Congress, he really made his mark and made a lot of friends. And it seemed like he got more done in like 18 months than I think a lot of people have in much longer careers. So we will miss him. But thanks for taking the time to honor him this morning.

So I am going to talk about technology as well, Mr. Shoraka. Apparently, the map of the eligible HUBZones, it seems to have continuous problems. And even back in the Bush administration, GAO noted serious issues with the map and recommended that it be updated regularly to ensure its accuracy. So when my staff, my millennials accessed the map, they noticed it was really extremely difficult to use and not very high tech. When the map is zoomed out, it does not appear to show any eligible zones for Los Angeles County, where my district is located. You have to zoom in a considerable amount to see the zones in my district, and when the map is accessed using a smartphone, it is apparently even more dif-

ficult. So what can you tell me that SBA is doing to make this map more user-friendly, and do we have any plans on making it more of a mobile-friendly app, particularly for smartphone users?

Mr. SHORAKA. Absolutely. Thank you, ma'am.

You are absolutely correct. This is a technology that is outdated and has lived its life. We recently engaged a vendor not only to address the certification module, the HUBZone certification module, but also the mapping module. And they will begin work on it in earnest this month. And as I mentioned earlier, by March of 2017, we should have at least an initial module out on the program.

What we try to do is with respect to changes in the program and changes in the maps, the data that is out there that changes either economic information or unemployment information sometimes is updated monthly, right? We collect that data and issue changes either to the qualified census tract or the nonmetropolitan areas on an annual basis, and we do have a vendor that uploads this data and adjusts the maps. But as you have mentioned, it is an outdated map and it is not as user-friendly as one would hope. And we are trying to address that in the next 6 to 9 months.

Ms. HAHN. What is the timeline on that?

Mr. SHORAKA. We hope to have, as I said, a revised mapping system and HUBZone certification system by March of 2017.

Ms. HAHN. So it is one thing for it to be, you know, not user-friendly. It is another thing to actually cost someone their job, which is what happened to a business in my district. They had to let an employee go because the map showed the employee did not reside within the HUBZone and, therefore, the business was not going to meet their 35 percent residential requirement. Later, the business found this to be an error on the map. However, this was after the employee lost their job. So again, it is one thing for it to not be user-friendly; it is another thing for it to contain errors that actually would cost somebody their job. That was very disturbing when I found that out.

Mr. SHORAKA. Thank you for bringing that to my attention, first off. But one is, you know, we always encourage the firms, as Mr. Shear has mentioned, to work with our local district offices in situations like that so they are absolutely sure what that data is. And the second is, as we update the maps, anytime there are changes, we also upload a much more manual process of spreadsheets that have census tracts and zip codes. So we direct businesses, small businesses to those as well to double-check the accuracy of the map. But I think this is something that we need to work with our district offices to make sure that we are available to the firms when there are questions.

Ms. HAHN. Yeah, let us pay attention to this.

Chairman CHABOT. The gentlelady's time has expired. Thank you.

The gentleman from Mississippi, Mr. Kelly, is recognized for 5 minutes.

Mr. KELLY. Thank you, Mr. Chairman. And thank both of you witnesses for being here.

The whole purpose of the HUBZone is to spread this type of help to small businesses across the entirety. And although I am happy that Puerto Rico is getting a great share of this, I am more con-

cerned with the counties in my Mississippi area that need it the most. But by expanding, you are taking away from the folks who I have that need it. So what it sounds to me like is the whole purpose is to spread the wealth so that not one area gets all the help. But it sounds to me like when you do away with the 20 percent rule, what you have effectively done is decide you get to say who gets help and who does not get help. And that is not the purpose.

I am really concerned when Congress passes a law and they write in what they mean, that people interpret it that they do not think that is what Congress meant. And so you said that you have the numbers for other States and other areas that are affected, so Mr. Shoraka, I ask you, what is the effect in Mississippi in all four of my congressional districts, my first district and the other three districts in my State that need it the most?

Mr. SHORAKA. Thank you, sir.

Two points. One is I do not have the numbers for your district in front of me, but I certainly will share that with you after the hearing. There are an additional 2,015 census tracts that were qualified as HUBZones across the country. Every State saw an impact. It was not a pick or choose decision. The QCTs, which are by statute what we have to use, is what we continue to use. We are not stopping using the QCTs as put out by HUD. What we did was not include the additional step that they take to put the 20 percent cap on. There were significant impacts on all of the States, the most significant being Puerto Rico, but certainly, I know off the top of my head that there was an impact in Mississippi, but I do not know the exact numbers and we would be happy to share those with you, sir.

Mr. KELLY. I wanted to say that Mark Takai, when I first got here—Mr. Chairman, thank you for having that moment of silence—when I first got here, he was a guy on the other side of the aisle from me, but we both have a common bond of serving in the National Guard; he in Hawaii and I in Mississippi. And one of the first things when I first got here as a new guy, he walked up to me and said aloha, and set up an office visit to take care of me, to make sure as a fellow battle buddy and guardsman and soldier that he took care of me. And what a gentleman. And I thank you for having that moment of silence, Mr. Chairman.

The statutory definition of qualified census tract is no more than 20 percent of a single metro area can be designated as a HUBZone. My concern is, like I said earlier, is that it is going to take away from the areas with the most need. There is only X-amount of resources that are allocated. So if you allow more than 20 percent, if you expand that area and you put more resources into one area and there is only X-amount of resources, that, by definition, means that you have to take it away.

And one of the other things that I heard you say is that you did not think it was a big thing when Mr. Shear said you asked were there any other big things. And obviously, it is a big thing if you have a press conference. As a former DA, I did not hold a press conference when it was something that was small. I held press conferences for something that I deemed to be big. So the fact that you have a press conference, to me, by definition, says that it was big. And right after he asked you were there any other big changes, it

was not responded to. I think we have to be very careful that we allow the Congress to pass things and not usurp Article 1 authority or any other article authority. And I think we are doing that right now to delegate.

Mr. Shoraka, do you not think that that is what you are doing, is designating these assets and resources that are limited to the areas that you think are most important?

Mr. SHORAKA. Sir, again, we would be happy to share with you the legal analysis that we received from our Office of General Counsel. Their opinion was that we did have the authority to not use the additional steps performed by HUB for other program purposes. It was not a picking or choosing of where the impact would be made. It had an impact on every State.

And the other thing that I will point out is that we have had a situation where we have been trying to recruit additional firms into the program. Where we were at a portfolio of 8,000 or 9,000, we are—

Mr. KELLY. I am sorry, I have got 15 seconds and I want to get this thing in. Just the one thing I will caution you on, it is easier to serve urban areas because they are closer together, but the whole purpose of this is to serve rural areas, and it is harder and more expensive. So when you focus on one large urban area with a larger population, you leave out the people who need it the most, which are the rural areas.

Thank you, Mr. Chairman. I yield back.

Chairman CHABOT. Thank you. The gentleman's time is expired.

The gentlelady from New York, Ms. Clarke, is recognized for 5 minutes.

I have been misinformed by my crack staff, so let me get the right one here.

We will go to the gentlelady from North Carolina, Ms. Adams.

Ms. ADAMS. Thank you, Mr. Chair. Thank you, Ranking Member Velázquez. I thank my colleague, Ms. Clarke, for making that notation.

Gentlemen, thank you for being here, and I certainly want to add my words of commendation to the late Mark Takai. I lived in the same building as well and met him regularly in the mornings downstairs in the lobby as he was waiting to be picked up, and we had many conversations along the way. We are certainly going to miss him and his bright smile. But certainly, a tribute to all of the work that he did for the people that he served, and I just wanted to add my words of thanks and appreciation to him.

The HUBZone program is critically important in encouraging small businesses to build and operate in economically disadvantaged communities across our country. I do have a few questions, and I want to start with Administrator Shoraka.

If you could just walk us through the certification process for small businesses looking to become part of the HUBZone program, I would appreciate that.

Mr. SHORAKA. As I mentioned before, there are a number of requirements to become HUBZone certified. And as a result, quite frankly, of the findings in 2008 and 2009 of GAO, the program did become a full front-end certification program. So the primary office

for the HUBZone firm needs to be in a HUBZone area. And by that, that means that the largest percentage of staff work in that office. And then 35 percent of your employees need to also reside in a HUBZone area. Again, not the same HUBZone area, but in a designated HUBZone area.

Ms.ADAMS. Okay. So what about the recertification process? If you could identify some of the inefficiencies that exist within the process.

Mr. SHORAKA. Thank you. Thank you for that question.

One of the things that we have identified, both in the 8(a) program and the HUBZone program, quite frankly, in making sure that we are customer-friendly, is the overly burdensome requirements in some of our recertification or annual review processes. So we did put a team together to look at how we are recertifying both 8(a) and HUBZone companies, and how can we reduce the burden on some of the smallest firms, some of the most deserving firms in the country.

So one of the things that we did, and this is a discussion we have had with GAO, is to streamline the recertification process for the HUBZone and, quite frankly, for both, but for the HUBZone companies, so that they do not drop out of the program just because it is an overly burdensome process.

Now, they recertify that they continue to meet the requirements of the program with the risk or at risk of perjuring themselves. So when they recertify, they sign at risk of perjuring themselves. When we find a bad actor, and we have done this a number of times, we have had more suspensions, debarments, and proposed suspensions and debarments in the last 4 years than in the previous decade, when we find a bad actor, we move quickly to get them out of Federal contracting. But our intent is to make our programs as user-friendly as possible. When we talk about risk-based analysis, when we do our site visits, the 10 percent, we look at not just any firm in the HUBZone program; we look at who is receiving contracts. That is where the risks exist, right? They are receiving benefits. Benefits are flowing to a recipient. And as I am sure you would agree, we would want the benefits to flow to the intended recipients. Our site visits oftentimes are determined on where contracts are going. And again, those site visits have documented 87 percent of the firms meeting the requirements of the program.

And lastly, I do not want to take too long, but lastly, we have the entire protest function. So if either a contracting officer or the SBA or an interested party, like the second runner-up in a contract, feels that that winner did not meet the requirements of being a HUBZone, they can file a protest, and that is when we will review all of the documentation to make sure that indeed they meet the requirements of the program.

Ms.ADAMS. Thank you. And maybe, Mr. Shear, can someone speak to how the program services businesses in rural versus the urban areas and the challenges that exist there?

Mr. SHEAR. It is a great question. And so for us, part of the concern, I agree with John Shoraka that the biggest element of risk in a program in certification/recertification are those that are getting contracts. But nonetheless, when you start talking about the inability to really provide specific information about designations

that affect firms, it is not like we focused in on rural areas, but it was one place where we would just presume that in rural areas it is more difficult to deal with that situation.

In terms of our work, looking at hypothetical changes, and part of this was concern from rural areas where unemployment areas are used to determine whether the area is eligible or not in these large counties is that we went through a scenario that said, well, what would happen if instead of using a 1-year unemployment rate for the 1 year, if we said let us look at the average unemployment rate over longer periods of time, that very much has a rural focus to it. So it is something that in rural areas it can be more problematic when you cannot give specific advice about whether your county is in is going to remain in the program.

Ms. ADAMS. All right. Thank you, sir. I am out of time. I apologize, Mr. Chair.

Chairman CHABOT. Thank you. Thank you, the gentlelady's time is expired.

The gentleman from Ohio, Mr. Davidson, is recognized for 5 minutes.

Mr. DAVIDSON. Thank you, Mr. Chairman. Thank you all for being here. I have a couple basic questions on metrics.

So how, Mr. Shoraka, how do you measure the success of the program?

Mr. SHORAKA. I think for us right now, one of the—obviously, the base metric is the percentage that we are held accountable to as the Federal Government, the 3 percent goal, which is the statutory goal on prime and subcontracts. And when you look at that, quite frankly, because of the firms that we lost, because of the re-designation of the census change in 2010, we lost a third of the portfolio. And so when we came close to meeting that number in 2009, it has, quite frankly, been a challenge. We hit 1.82 percent last year, so that is an area that the Federal Government can improve on, and that is an area where we have done—

Mr. DAVIDSON. So participation, I mean, simply participating in the program's success, what are the economic benefits of the program? I mean, clearly there are benefits to the firm that get the contracts, but are there costs to the firm? I mean, they are basically getting a 10 percent cost preference in contracting, so does that really result in the government paying 10 percent more for the things they buy from that 3 percent of firms? Or is there a cost or savings? Have you measured that?

Mr. SHORAKA. That is an area that we, as an agency, have not looked at, quite frankly. And when Congresswoman Velázquez also talked about the impact to the communities, that is an area where we have had difficulty in being able to analyze are there a good number of firms, HUBZone firms, in this community? And what is the impact or the economic impact?

Now, obviously, if an area was a HUBZone and then because of economic data no longer is a HUBZone, one would assume that good economic things have occurred, unemployment went down. But can we really correlate that to the HUBZone firms or the fact that that area was a HUBZone? That has been a difficult challenge for us to be able to determine.

Mr. DAVIDSON. Thanks for that. And then how much does the HUBZone program cost to administer? Do you allocate cost in your budget in terms of what it costs?

Mr. SHORAKA. If I am not mistaken, there is a \$3 million or \$2.8 million line item for the HUBZone program annually.

Mr. DAVIDSON. And how many people are employed doing that?

Mr. SHORAKA. Eighteen. Now, that is 18 that do the certification and the recertification. We obviously have district offices. We have 68 district offices around the country that help support and educate and, you know, do our outreach and recruiting, et cetera. So a portion of their time is dedicated to the HUBZone program. And that does not include, you know, our sister agencies and all their small business specialists, et cetera, that help to promote the HUBZone program.

Mr. DAVIDSON. Mr. Shear, would you agree with those conclusions on metrics?

Mr. SHEAR. It is a challenge to look at it. And so from our standpoint, how do you create benchmarks for what would happen with the absence of HUBZone activity? But nonetheless, after our 2008 report, somebody was hired at SBA. We provided a lot of our time just giving technical support as far as how you could evaluate the program. So it is trying to look at what are the characteristics of different communities that are both HUBZones and not HUBZones and trying to make some comparisons to try to benchmark and to see what is the economic impact of the HUBZone program and how might that be affected by how many HUBZones? Again, this basic question.

Every community would like to be a HUBZone, but every time you add communities the question is what happens to the existing communities? So there are ways that we think that could be used to try to benchmark, and that is what we are going to be attempting to do with our Puerto Rico mandate. But it is a real challenge.

Mr. DAVIDSON. Setting aside Puerto Rico, do you have a mandate to do this anywhere, Mr. Shoraka, to actually create—because here is the concern, right? I disagree. Not every community would want to be a HUBZone. They want a good economy. They want good jobs and they want the opportunities that, by definition, make you not qualified as a HUBZone. So it is success to not be a HUBZone, frankly. But we are spending money because we want fewer HUBZones. You have found a way to increase more HUBZones or more places which flies in the eyes. So if we are spending the money, what are we getting in return? That is the thing that I think the American people want to know. And certainly, in our district where we do not have HUBZones, we want to know, hey, what are we getting? We are donating this for a good cause, right?

Mr. SHORAKA. I think for our part this is a question, quite frankly, that we have around the 8(a) program as well. What is the impact of being in the program and how do we track your success or failure, quite frankly, through that program? The 8(a) program is a 9-year business development program where we have requirements and, quite frankly, statutory requirements to be able to track certain metrics with respect to income and employment, et cetera.

With the HUBZone program, as we move into SBA One, one of the things that we could be discussing on the Hill, quite frankly, is statutory authority to collect some of the metrics around number of employees, revenues, growth, et cetera, that then we can track a firm through their years in the program and be able to report back, much like we do or should do.

Mr. DAVIDSON. Thank you. My time is expired. Thank you.

Chairman CHABOT. Thank you. The gentleman's time has expired.

The gentlelady from New York is recognized, Ms. Clarke.

Ms. CLARKE. Thank you very much, Mr. Chairman. And I thank our ranking member.

Before I begin, I would like to also thank you for the memoriam to our departed colleague, Mark Takai, and I would like to offer my condolences to his family, friends, and staff of Mr. Takai. He was a great man who I enjoyed working with. As Congresswoman Tulsi Gabbard stated in her remarks on the House floor yesterday, Mark Takai embodied the spirit of aloha, and I think we all were beneficiaries of that. And he will certainly be missed.

But turning to the matter at hand, HUBZones are an important tool for revitalizing struggling communities. They incentivize investment in economically disadvantaged communities and provide residents of these communities with the means to support their families. In my district alone, more than 50 census tracts qualify as HUBZones in places like Flatbush and Marcus Garvey Village in Brownsville, Brooklyn. However, the program only works and is effective if firms are aware of their eligibility to participate and are recertified in a timely manner.

So my question, Mr. Shoraka, is this. SBA has indicated that a lack of resources is a main obstacle for getting rid of the backlogs and allowing the agency to conduct a more in-depth recertification process. Can you give us an idea of how many new hires your department would need to run the HUBZone program efficiently and effectively and at the proper level for internal controls?

Mr. SHORAKA. Thank you, ma'am. I appreciate the question.

I think when we talk about obviously the number of resources or how many resources the HUBZone or, quite frankly, the SBA or my office, Government Contracting and Business Development, has, I think we always have—any Federal manager would argue that I may need more people to be able to get my job done. I think one of the things we have attempted to do is do our job smarter with systems and with technology. And so that is the direction we have moved forward in with respect to SBA One.

And with respect to making sure firms are aware of the program and take advantage of the program, I think that is where, or at least in my opinion, that is where we need to double down on our outreach and education. So we have the Destination HUB then, that we have done over 15 events across the country. And one of the unique pieces of Destination HUB—and if we have not done one in New York, we need to do one—is that we actually sit down with local economic development folks and encourage them to use the HUBZone program as an economic development tool, another tool in their toolkit or tool belt. And so I think it is the question of obviously I think every agency has a requirement in this envi-

ronment to find ways to tighten their belt, but it is how do we leverage our resource partners, our Small Business Development Centers, our Women's Business Centers? How do we leverage our stakeholders, like the HUBZone Council and other partners, in making sure that the word gets out and training is done efficiently and effectively? With respect to number of employees that may or may not require, I think there would have to be a much more significant analysis with respect to what that number would be.

Ms. CLARKE. I want to encourage you to make that analysis, simply because the program is a program that holds great promise. And to the extent that we can be targeted and effective in terms of identifying potential businesses that should be accessing it and making sure that there is no abuse on the other side because someone who is far more sophisticated knows how to work the system, that makes all the difference in the world. And if you do not have the wherewithal to do sort of that balancing act, then we miss the point of the HUBZone program completely. So I want to encourage you to do that analysis.

Mr. Shear, there have been concerns raised regarding data used to determine HUBZone eligibility, and some have called for using different criteria to designate HUBZones. Has GAO looked at how changing the unemployment rate and median household income required to determine HUBZones may affect the success of the program?

Mr. SHEAR. Yes. And thank you for the question.

In our 2015 report, this was very much, brought forward by requesters for that work really wanting a focus on what types of changes could be made and what would be the effect on a number of HUBZones. So this is one where I referred earlier. I really appreciate John and his staff really helping us work with their data system, but we went through a number of scenarios. So the 2015 report that provides part of the basis for my statement and it can certainly provide the report for the record, it is GAO-15-234. In appendix 3, we go through a number of scenarios. What would happen, based on at that time if you had changed some of these provisions? So it is meant to—not to say there is a right way of doing it, but it gets into some of the concerns, like I just stated with respect to rural areas. What would happen if you went to a longer term unemployment rate to determine eligibility? Things like what would happen?

One of the scenarios we went to at the time was lifting this 20 percent cap that is so much the focus, of this hearing and just other scenarios. What would be the impact of doing that on the number of HUBZones and just some of the consequences of that? And we are very mindful that when you shift around which areas get HUBZone status, that when you bring in new areas, it has implications for the existing areas, even those that remain in the program.

Chairman CHABOT. The gentlelady's time is expired. Thank you.

The gentleman from New Jersey, Mr. Payne, is recognized for 5 minutes.

Mr. PAYNE. Thank you, Mr. Chairman, and to our ranking member. I apologize for being delayed and I was not here for the

commemoration of our colleague, and I would just like to add my sentiments as well.

Mark Takai was a true gentleman and epitomized what a member of Congress should be and he will be sorely missed. And I just knew that he was ill and was going through treatment, but just still been shocked by the rapid demise of our colleague and still shocked by it. But he was a good man and I think that is one of the best things you could say about a person.

Mr. Shoraka, we know the HUBZone programs have had issues around fraud. As we have seen, part of the issue may be the certification process. And, you know, since the certification process depends on documentation submitted by the participant businesses, what does the SBA use to verify the information and documentation they are receiving is indeed authentic? And how can the system be improved to curtail the fraud?

Mr. SHORAKA. So we use various obviously third-party sources of data to ensure ownership, residency, et cetera. And there is various documentation that can be used to document principal office residence, like leases or ownership documents, et cetera, as well as corporate structures, ownership, and control. I think, again, one of the challenges that we want to make sure we balance is if we wanted to eliminate all risk in the program, we could turn off the spigot and accept no applications and we would not have any risk at all, but that is not what we want. We want to make sure that the program serves the intended recipients. And quite frankly, 99.9 percent of the program applicants are good actors. Unfortunately, we have .01 percent of people who are bad actors and will always continue to be bad actors. But one of the things that I think is critical is that we manage towards the good actors with risk-based analysis, as Mr. Shear has pointed to, to make sure that we do have backup to analyze the risk to the Federal Government with respect, again, to where the risks exist. The risk exists when the Federal Government is giving contracts to these small businesses.

One last thing that I will point to is that with respect to the program and casting a broader net, we have done analysis that documents using the current formulas. That net is significantly smaller than the net was when the program was established. So I think that is another discussion that we have to have jointly with respect to what the intent of the program is. If we look at the analysis of when the program was put in place, the net that was cast is significantly broader than those formulas cast today.

Mr. PAYNE. Okay. So you feel that the issue is .01?

Mr. SHORAKA. With bad actors. I think there are always going to be bad actors.

Mr. PAYNE. Oh, sure. I agree. I thought the issue was a little more, a little higher.

Mr. SHORAKA. I think when you talk about, right, but when you talk about \$96 billion into the hands of small businesses every year, and I am not sure what the GAO report, the exact numbers, but I know the numbers sound big, and obviously we want to address fraud when it is waste and abuse, but when you talk about \$10 million as opposed to \$96 billion into the hands of small businesses, that is a very small fraction.

Mr. PAYNE. Okay, thank you.

Mr. Shear, very quickly, you have been looking at this program for a number of years now. Why has the program remained to be susceptible to fraud?

Mr. SHEAR. It is a very good question. I will first start out by something in my statement as far as, when we do our program audit and we are looking at what we call internal controls, that there has been improvement, particularly in the certification process. So the idea that when we looked in 2008, from the start we said this looks like a self-certification program. You know, from soup to nuts, it looks that way. So there has been improvement.

Our concern, we have not found evidence of fraud, and we have not seen the susceptibility to fraud that we have reached out like we did in 2008 and said, you know, we have to have a fraud investigation here, but we do have concerns about the recertification process because there is a lot of moving parts: the characteristics of the businesses and the characteristics of the counties and census tracts that are defined as HUBZones. And so that is where our concern is.

And when you have a lack of internal control, that is where our antennae tends to go up in terms of saying we are concerned about fraud. And it is hard to forget about fraud when we think of the experience we had, even though it was 8 years ago, the experience we had evaluating and conducting fraud investigations of this program. So we are always mindful of that.

Mr. PAYNE. Okay, thank you. My time is expired. But the reason I asked the question is because the Committee has nothing but goodwill towards small businesses. It is our mission. But there are other members that always look for an issue around fraud to curtail the type of work that we are trying to do for small businesses. And with that I yield back.

Chairman CHABOT. Thank you. The gentleman yields back. The gentleman's time is expired.

We would like to thank both of our witnesses for being here with us today. I think the importance of the HUBZone program and the concerns that some members had are reflected by the heavy attendance that we saw really on both sides of the aisle here today with, I thought, a lot of good questions.

The SBA's HUBZone program began with a goal of promoting economic growth by incentivizing small businesses to locate in areas most in need. This cannot be achieved, however, unless the program is properly managed and the benefits are not being taken up by nonqualified firms. The work GAO has done to identify specific ways in which the program should be improved has been invaluable. I thank this Committee and I would urge the SBA to take immediate steps to fully adopt all of the recommendations of the GAO. And we owe it to America's small businesses and America's taxpayers to ensure that the opportunities provided by the HUBZone program are utilized in the most efficient way possible.

I would ask unanimous consent that members have 5 legislative days to submit statements and supporting materials for the record.

Without objection, so ordered.

And if there is no further business to come before the Committee, we are adjourned. Thank you very much.

[Whereupon, at 12:33 p.m., the Committee was adjourned.]

A P P E N D I X

United States Government Accountability Office



Testimony
Before the Committee on Small
Business, House of Representatives

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**HUBZONE
PROGRAM**

**Opportunities Exist to
Further Improve
Oversight**

Statement of William B. Shear,
Director, Financial Markets and Community
Investment



Highlights of GAO-16-866T, a testimony before the Committee on Small Business, House of Representatives

Why GAO Did This Study

The purpose of the HUBZone program is to stimulate economic development in economically distressed areas. SBA certified HUBZone firms are eligible for federal contracting benefits, including limited competition awards such as sole-source and set-aside contracts. Small firms in SBA's HUBZone program had almost \$6.6 billion in obligations on active federal contracts for calendar year 2015.

This testimony includes a discussion of (1) how SBA communicates changes in HUBZone designations to firms, including how SBA addressed GAO's 2015 recommendation to improve this process, and (2) SBA's certification and recertification processes for firms, including how SBA addressed GAO's 2015 recommendation to improve recertification.

GAO relied on the work supporting its February 2015 report on SBA's oversight of the program (GAO-15-234) and its March 2016 report on actions taken in response to GAO recommendations (GAO-16-4232R), as well as July and August 2016 interviews with SBA officials on efforts the agency had undertaken to implement GAO's recommendations.

View GAO-16-866T. For more information, contact William B. Shear at (202) 512-8678 or shearw@gao.gov.

September 7, 2016

HUBZONE PROGRAM

Opportunities Exist to Further Improve Oversight

What GAO Found

As of August 2016, the Small Business Administration (SBA) had taken steps to better inform firms about changes in the designations of Historically Underutilized Business Zones (HUBZones) but had not yet fully implemented GAO's February 2015 recommendation to improve this process.

- SBA primarily designates economically distressed areas as HUBZones, based on demographic data such as unemployment and poverty rates. The designations include certain census tracts and counties and are subject to periodic changes as economic conditions change. HUBZones that lose qualifying status due to changes in economic conditions become "redesignated" and undergo a 3-year transition period. After the 3-year period, HUBZone certified firms in these areas can no longer apply to and participate in the program and receive contracting preferences.
- GAO found in February 2015 that SBA's communications to firms about programmatic changes (including redesignation) generally were not specific to affected firms and thus some firms might not have been informed they would lose eligibility. GAO recommended SBA better ensure firms were notified of changes that might affect program participation.

In response, SBA revised its approval letters to newly certified firms to include information about the consequences of redesignation (if applicable). But as of August 2016, SBA had not yet implemented changes to help ensure all currently certified firms would be notified of changes that could affect their program eligibility. SBA officials recently told GAO the agency intended to develop a technology solution by spring 2017 to help address GAO's recommendations.

While SBA made changes to its certification and recertification processes, SBA had not fully addressed GAO's recommendation on recertification of firms. To receive initial certification, SBA requires all firms to provide documentation to show they meet the eligibility requirements. SBA also conducts site visits at selected firms (for example, based on the amount of federal contracts received). According to HUBZone regulations, firms wishing to remain in the program without any interruption must recertify their continued eligibility to SBA within 30 days after the third anniversary of their certification date and each subsequent 3-year period. But in 2015, GAO found SBA did not require firms seeking recertification to submit any information to verify continued eligibility and instead relied on firms' attestations of continued eligibility. GAO also found SBA had a backlog for recertifying firms. GAO recommended in February 2015 that SBA implement additional controls for recertification, including criteria for requesting and verifying firm information, and ensuring sufficient staffing for the process so that significant backlogs would not recur. As of August 2016, SBA had plans to eliminate the backlog, but had not issued guidance on requesting supporting documents. SBA officials stated that any potential risk of fraud during recertification would be mitigated by SBA's site visits of firms. But as GAO stated in 2015 and reiterated in 2016, SBA only conducts site visits to about 10 percent of certified firms on an annual basis and characteristics of firms often can change, therefore relying on site visits is not adequate to mitigate this risk.

Chairman Chabot, Ranking Member Velázquez, and Members of the Committee:

Thank you for the opportunity to discuss our work on the Historically Underutilized Business Zone (HUBZone) program of the Small Business Administration (SBA). As of December 31, 2015, there were about 16,500 designated HUBZones and 4,600 certified firms in the program. For calendar year 2015, firms in the program had almost \$6.6 billion in obligations on active federal contracts directly awarded to bidders.

Congress established the HUBZone program to stimulate economic development in economically distressed communities. The program provides federal contracting preferences to small businesses located in HUBZone-designated areas that also employ residents of the areas.¹ The contracting preferences that a certified HUBZone firm (one that meets program eligibility requirements) can receive include limited-competition contracting awards such as sole-source and set-aside contracts. A HUBZone-certified firm also can receive an award through full and open competition if its price does not exceed the otherwise lowest responsive and responsible offeror's price by more than 10 percent.² Federal agencies are responsible for trying to meet an annual statutory goal for awarding contracts to HUBZone firms (3 percent of all prime contracts and subcontracts that are subject to the goaling process). During fiscal year 2015, federal agencies collectively obligated 1.8 percent of eligible contracts to HUBZone-certified firms.

My statement today is based on the key findings in our February 2015 report on SBA's oversight of the HUBZone program and our March 2016 follow-up report on SBA responses to our 2015 recommendations.³ Specifically, this testimony discusses (1) how SBA communicates changes in HUBZone designations to firms, including how SBA

¹HUBZone Act of 1997, Pub. L. No. 105-135, Title VI, 111 Stat. 2592, 2627-36 (1997).

²In this case, if the other offerer is a small business concern, the 10 percent price preference does not apply.

³GAO, *Small Business Contracting: Opportunities Exist to Further Improve HUBZone Oversight*, GAO-15-234 (Washington, D.C.: Feb. 12, 2015); and *HUBZone Program: Actions Taken on February 2015 GAO Recommendations*, GAO-16-423R (Washington, D.C.: Mar. 24, 2016).

addressed our recommendation to improve this process; (2) SBA's certification and recertification processes for firms, including how SBA addressed our recommendations to improve these processes; and (3) how potential changes to designation criteria could affect HUBZones. In preparing this statement, we relied on the work supporting our February 2015 and March 2016 reports, as well as July and August 2016 interviews with SBA officials on efforts they had undertaken to implement our recommendations. More detailed information on our scope and methodology can be found in our February 2015 and March 2016 reports.⁴

The work on which this testimony is based was performed in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

The HUBZone Act of 1997 (which established the HUBZone program) identified HUBZones as (1) qualified census tracts, which are determined by area poverty rate or household income; (2) qualified nonmetropolitan counties, which are determined by area unemployment rate or median household income; and (3) lands meeting certain criteria within the boundaries of an Indian reservation.⁵ Congress subsequently expanded

⁴GAO-15-234 and GAO-16-423R.

⁵Small Business Reauthorization Act of 1997, tit.VI, Pub. L. No. 105-135, 111 Stat. 2592, 2827-2836 (codified in several sections, as amended, in title 15, United States Code). Qualified census tracts are generally those the Secretary of the Department of Housing and Urban Development designates for the Low-Income Housing Tax Credit (LIHTC) program.

the criteria for HUBZones to add former military bases and counties in difficult development areas outside the continental United States.⁶

To be certified to participate in the HUBZone program, a firm must meet the following criteria:⁷

- when combined with its affiliates, be small by SBA size standards;⁸
- be at least 51 percent owned and controlled by U.S. citizens;⁹
- have its principal office—the location where the greatest number of employees perform their work—in a HUBZone;¹⁰ and
- have at least 35 percent of its employees reside in a HUBZone.¹¹

SBA recertifies firms (that is, determines that firms continue to meet HUBZone eligibility requirements to participate in the program) every 3 years.

⁶Difficult development areas have high construction, land, and utility costs relative to area median income, and are designated annually. Consolidated Appropriations Act, 2005 Pub. L. No. 108-447, Div. K, § 152, 118 Stat. 3456-58 (2004), and Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users, Pub. L. No. 109-59, § 10203, 119 Stat. 1933-34 (2005). In addition, Section 866 of the National Defense Authorization Act for Fiscal Year 2016 authorized Native Hawaiian Organizations to own HUBZone small business concerns; expanded the definition of “base closure area”; and authorized the inclusion of “qualified disaster areas” under the program. In August 2016, SBA issued a final rule to implement these changes.

⁷Different rules apply for Indian Tribal governments, Alaska Native Corporations, Community Development Corporations, and small agricultural cooperatives. See 13 CFR Part 126.

⁸The firm, with its affiliates, must meet the size standard corresponding to its primary industry classification as defined in 13 CFR Part 121. SBA’s size standards vary by industry and are almost always stated as the average number of employees or average annual receipts of a business.

⁹Qualified HUBZone firms also can be owned and controlled by Alaska Native Corporations, Indian Tribal governments, community development corporations, and agricultural cooperatives.

¹⁰While a certified HUBZone business must have its principal office in a HUBZone area, HUBZone contracts are not limited to performance in HUBZone areas.

¹¹SBA defines an employee as an individual employed on a full-time, part-time, or other basis, and working a minimum of 40 hours per month. This includes employees obtained from a temporary employee agency, leasing concern, or through a union agreement or co-employed pursuant to a professional employer organization agreement.

SBA Improved Communications to Firms about Changes to HUBZone Designations but Had Not Fully Implemented GAO's Recommendation

As of August 2016, SBA had taken some actions to address but had not yet fully implemented our recommendation on better informing firms about programmatic changes that could affect their eligibility. In our February 2015 report, we described how HUBZone designations can change with some frequency.¹² SBA generally updates HUBZone designations at least twice a year based on whether they meet statutory criteria (such as having certain income levels or poverty or unemployment rates). SBA generally uses data from other federal agencies to determine if areas still qualify for the HUBZone program. As a result of the updates, additional areas are designated for inclusion while other areas lose their designation. Areas that lose their designation begin a 3-year "redesignation" period during which firms in those areas can continue to apply to and participate in the program and receive contracting preferences. After the 3 years, firms in these areas lose their HUBZone certified firm status and the associated federal contracting award preferences. In 2015, we reported that 17 percent (871) of firms certified at the time were located in a redesignated area.

However, we found that SBA's communications to firms about programmatic changes (including redesignation) generally had not been targeted or specific to firms that would be affected by the changes. In 2015, we found that SBA used a broadcast e-mail (which simultaneously sends the same message to multiple recipients) to distribute program information. According to SBA officials, the e-mail list initially included all certified firms, but firms certified since the list was created in 2013 and up to the time period covered by our 2015 report had not been automatically added to the list. Firms had to sign up through SBA's website to receive the e-mails. As a result, not all certified firms may have done so.

Consequently, we recommended that SBA establish a mechanism to better ensure that firms are notified of changes to HUBZone designations that may affect their participation in the program. This recommendation was intended to address communications to all certified firms, whether newly certified or in the program for years.

In response to the recommendation, SBA has improved notifications to newly certified firms. As we reported in March 2016, SBA revised its

¹²GAO-15-234.

certification letters to firms. If SBA identifies during an application review that a firm's principal office is in a redesignated area, it indicates in the certification letter that the firm is in a redesignated area, explains the implications of the designation, and notes when the redesignated status will expire. However, we found in March 2016 that SBA had not yet implemented changes to ensure that all currently certified firms are notified of changes that could affect their program eligibility.¹³ It is important that all certified firms potentially affected by such changes receive information about the changes or are made aware in a timely fashion of any effects on their program eligibility.

As of August 2016, SBA had plans to improve its notifications to all firms. SBA recently hired an employee whose responsibilities include helping SBA update its e-mail distribution list. As part of this effort, according to SBA officials, SBA plans to collect all the e-mail addresses for certified firms from its Dynamic Small Business Search database to create a new distribution list.¹⁴ SBA plans to begin adding newly certified firms to the list quarterly. Additionally, SBA officials told us that the agency intends to develop a technology solution similar to SBA One—a database now used to process loan applications—to include the HUBZone program to help collect information and documents from existing firms and address this recommendation. SBA expects to implement this solution by spring 2017.

¹³GAO-16-423R.

¹⁴The Dynamic Small Business Search database offers a search engine for contracting officers and serves as a marketing tool for small businesses that register with the system. It contains the profiles of thousands of small firms.

SBA Has Taken Some Steps to Address GAO's Recommendation to Strengthen the Recertification Process

We found in February 2015 that SBA had addressed weaknesses in its certification process that we previously identified. However, as of August 2016, SBA had not yet taken steps to fully address our recommendation related to the HUBZone firm recertification process. In February 2015, we reported that SBA had changed its certification process to require all applicant firms to provide documentation supporting their eligibility and to require agency staff to perform a full document review to determine firms' eligibility for the program.¹⁵ Additionally, SBA had conducted site visits on 10 percent of its portfolio of certified firms every year in response to a prior GAO June 2008 recommendation.¹⁶ However, we also found deficiencies relating to the recertification process.

- First, in 2008 and again in 2015, we found that the recertification process had become backlogged—that is, firms were not being recertified within the 3-year time frame.¹⁷ As of September 2014, SBA was recertifying firms that had been first certified 4 years previously. While SBA initially eliminated the backlog following our 2008 report, according to SBA officials the backlog recurred due to limitations with the program's computer system and resource constraints.
- Second, in 2015 we found that SBA relied on firms' attestations of continued eligibility and generally did not request supporting documentation.¹⁸ SBA only required firms to submit a notarized

¹⁵In June 2008, we found that SBA relied on data that firms entered in the online application system and performed limited verification of the self-reported information. As a result, the mechanisms that SBA used to certify and monitor firms provided limited assurance that only eligible firms participated in the program. We recommended that SBA develop and implement guidance to more routinely and consistently obtain supporting documentation upon application and conduct more frequent site visits, as appropriate, to ensure that firms applying for certification were eligible. See GAO, *Small Business Administration: Additional Actions Are Needed to Certify and Monitor HUBZone Businesses and Assess Program Results*, GAO-08-643 (Washington, D.C.: June 17, 2008).

¹⁶In June 2008, we reported that SBA rarely conducted site visits during program examinations to verify a firm's information and recommended that the agency conduct more frequent site visits. GAO-08-643.

¹⁷According to HUBZone regulations, firms wishing to remain in the program without interruption must recertify their continued eligibility to SBA within 30 calendar days after the third anniversary of their date of certification and for each subsequent 3-year period. 13 CFR §126.500. GAO-08-643 and GAO-15-234.

¹⁸GAO-15-234.

recertification form stating that their eligibility information was accurate. SBA officials did not believe they needed to request supporting documentation from recertifying firms because all firms in the program had undergone a full document review, either at initial application or during SBA's review of its legacy portfolio in fiscal years 2010–2012.¹⁹

As a result, we concluded in 2015 that SBA lacked reasonable assurance that only qualified firms were allowed to continue in the HUBZone program and receive preferential contracting treatment.

Consequently, we recommended that SBA reassess the recertification process and implement additional controls, such as developing criteria and guidance on using a risk-based approach to requesting and verifying firm information, allowing firms to initiate the recertification process, and ensuring that sufficient staff would be dedicated to the effort so that significant backlogs would not recur.

In response to the recommendation, SBA made some changes to its recertification process. For example, instead of manually identifying firms for recertification twice a year, SBA automated the notification process, enabling notices to be sent daily for firms to respond to and attest that they continued to meet the eligibility requirements for the program. According to SBA officials, this change should ultimately help eliminate the backlog by September 30, 2016.

However, as we discussed in our March 2016 report, SBA had not implemented additional controls (such as guidance for when to request supporting documents) for the recertification process because SBA officials believe that any potential risk of fraud would be mitigated by site visits to firms.²⁰ The officials also cited resource limitations. Based on data that SBA provided, the agency visited about 10 percent of certified firms each year during fiscal years 2013–2015.²¹ SBA's reliance on site

¹⁹According to agency officials, SBA conducted the portfolio review to verify that firms certified before SBA implemented the full document review complied with the program's eligibility requirements.

²⁰GAO-16-423R.

²¹According to SBA officials, SBA anticipates conducting site visits to 12 percent of its portfolio in fiscal year 2016.

visits alone would not mitigate the recertification weaknesses that were the basis for our recommendation. In recognition of SBA's resource constraints, we said in our 2015 report and reiterated in 2016 that SBA could apply a risk-based approach to its recertification process to review and verify information from firms that appear to pose the most risk to the program. A lack of risk-based criteria and guidance for staff to request and verify firm information during the recertification process increases the risk that ineligible firms obtain HUBZone contracts. And as we stated in 2015 and reiterated in 2016, the characteristics of firms and the status of HUBZone areas—the bases for program eligibility—often can change, and need to be monitored.

SBA officials told us that the agency intends to implement a technology-based solution similar to SBA One to address some of the ongoing challenges with the recertification process by spring 2017. The officials expect that the new solution will help them better assess firms and implement risk-based controls.

Potential Changes to HUBZone Designation Criteria Could Affect Program Benefits Realized by Specific Communities

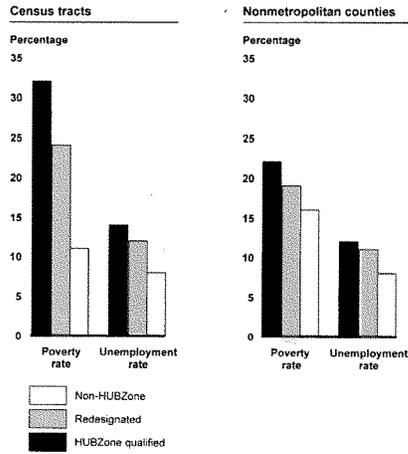
As we reported in February 2015, potential changes to HUBZone designation criteria could be designed to provide additional economic benefits to some communities.²² However, changes that benefit some communities also could, through competitive market processes, reduce activity by HUBZone firms in existing HUBZones. Likewise, if the potential changes significantly increased the number of HUBZones, new areas could realize economic benefits. However, such changes also could result in diffusion—decreased targeting of areas of greatest economic distress—by lessening the competitive advantage on which small businesses may rely to thrive in economically distressed communities.

An analysis we performed for our February 2015 report offers examples of the scope of the differences in economic conditions among HUBZone areas (qualified areas), redesignated areas, and non-HUBZone areas (nonqualified tracts or areas). We analyzed the economic conditions of such areas as of 2012 and found that indicators for redesignated areas on average fell between those of qualified and non-qualified areas. For example, as shown in figure 1, qualified census tracts had poverty and

²²GAO-15-234

unemployment rates of 32 percent and 14 percent, respectively; redesignated tracts had rates of 24 percent and 12 percent, respectively; and nonqualified tracts had rates of 11 and 8 percent, respectively. A similar pattern existed for nonmetropolitan counties. Therefore, while allowing redesignated areas with certified firms to remain eligible can generate economic benefits for such areas, such inclusion could limit the benefits realized by qualified areas with more depressed economic conditions.

Figure 1: Comparison of Unemployment and Poverty Rates by Census Tract and Nonmetropolitan County HUBZone Eligibility Status, as of 2012



Source: GAO analysis of Bureau of Labor Statistics and American Community Survey data. | GAO-16-866T

In our 2015 report, we explored the potential impact of altering some of the criteria used to designate HUBZones.²³ We examined changes to thresholds for unemployment rate and for the number of census tracts that could qualify for the program in a given metropolitan area. For example, one way a nonmetropolitan county can qualify as a HUBZone is based on its unemployment rate. More specifically, the unemployment rate must be 140 percent or more of the average unemployment rate for the United States or for the state in which the county is located, whichever is less. Under the current definition, two counties in different states with the same unemployment rate would not necessarily both qualify as HUBZones, depending on the unemployment rate of the state in which they are located. In general, every county in a state with an unemployment rate less than the U.S. average would qualify as a HUBZone if its unemployment rate was at least 140 percent of the state's (even if it was less than the U.S. average). In contrast, counties in states with unemployment rates higher than the U.S. average must have an unemployment rate at least equal to 140 percent of the U.S. average to qualify as a HUBZone.

Our application of hypothetical changes to the unemployment rate generally resulted in approximately the same number of areas qualifying compared to the current definition with two exceptions —applying the lowest unemployment rate to all states resulted in approximately four times as many counties qualifying, while applying the highest unemployment rate resulted in approximately eight times fewer counties qualifying (see table 1).

Table 1: Total Number of Nonmetropolitan Counties by State That Would Qualify If Different Unemployment Rates Were Used, as of 2013

	Current definition (1-year rate)	Lowest state rate applied to all states	Highest state rate applied to all states	U.S. average	Average state rate	5-year average	10-year average
Total number of qualifying counties	424	1,692	54	301	451	345	377

Source: GAO analysis of Bureau of Labor Statistics data. | GAO-16-866T

²³GAO-15-234.

Similarly, we analyzed the potential impact of removing the limit on the number of areas that could qualify as HUBZones pursuant to the definition of "qualified census tract" that was in effect at the time we issued our February 2015 report.²⁴ We found that about 2,400 more census tracts would qualify as HUBZones if the 20 percent cap were not in place, an increase of 15 percent from the number of qualified tracts as of June 2014.

Chairman Chabot and Ranking Member Velázquez, this concludes my statement. I would be pleased to respond to any questions you or other Members of the Committee may have.

GAO Contact and Staff Acknowledgments

If you or your staff have any questions about this testimony, please contact William B. Shear, Director, Financial Markets and Community Investment, at (202) 512-8678 or shearw@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this statement. GAO staff who made key contributions to this testimony are Harry Medina (Assistant Director), Daniel Newman (Analyst-in-Charge), Pamela Davidson, John McGrail, and Barbara Roesmann.

²⁴At the time we issued our report, the term "qualified census tract" for the HUBZone program had the same meaning as that term was used in the LIHTC program. See 15 U.S.C. § 632(p)(4)(A)(i). The Department of Housing and Urban Development designates qualified census tracts for the LIHTC program. Statutory provisions for LIHTC limit the amount of qualified tracts in any metropolitan statistical area or primary metropolitan statistical area to no more than 20 percent of the total population of the statistical area. For purposes of the rule, all nonmetropolitan areas in a state are treated as if they constituted a single metropolitan area. See 26 U.S.C. § 42(d)(5)(B)(ii)(III). Consequently, some tracts that qualified as HUBZones based on the area's median household income or poverty rate were not designated as qualified census tracts because of the population cap, and were therefore not included in the HUBZone program. Since the issuance of our report, the term "qualified census tract" for the HUBZone program was amended to provide that the 20 percent population cap does not apply, for a limited time, to census tracts in any metropolitan statistical area in Puerto Rico that otherwise meet the definition's criteria for household income or poverty rate. Pub. L. No. 114-187, § 412(a)(1), Stat. (2016), codified at 15 U.S.C. § 632(p)(4)(A)(ii).

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**U.S. Small Business Administration
Washington D.C. 20416**

Wednesday, September 7, 2016

Written Testimony of

**A. John Shoraka, Associate Administrator
Office of Government Contracting and Business Development**

Before The

**United States House of Representatives
Small Business Committee**

Hearing Entitled

"Ensuring Opportunities: Oversight of the HUBZone Program"

To Chairman Chabot, Ranking Member Velázquez, and members of the full committee, I appreciate the opportunity to testify. Before I begin, I would like to take a moment to acknowledge your former colleague, Congressman Mark Takai of Hawaii, who served as Ranking Member of the Subcommittee on Contracting and Workforce. Congressman Takai was a true advocate and leader for small businesses in Hawaii and across the nation. His presence will truly be missed.

Over the past seven years, the Administration, Congress, SBA, and federal agencies have been successful in expanding federal small business contracting opportunities. As a result of increased advocacy efforts, and improved policies and regulations, the level of accountability has been raised across the federal government and its executive leadership teams, allowing small businesses to continue to become more agile, innovative, and affordable providers of goods and services. This increased focus has resulted in over \$640 billion in federal contracting dollars being awarded to small businesses from Fiscal Years (FY) 2009 to 2015. Of that, \$90.7 billion was awarded in FY 2015, which represents an incredible impact to the American economy and drove job creation and support for over 537,000 jobs. Through small business contracting, the federal government acts as a catalyst for small business growth, while supporting the economic security of the nation.

For the third consecutive year, the federal government exceeded the 23 percent small business prime contracting procurement goal, awarding 25.75 percent of eligible contracts to small businesses in FY 2015. This is the highest percentage recorded in history. Additionally, the federal government achieved the Women-Owned Small Business (WOSB) goal of five percent for the first time in history, doubled the Small Disadvantaged Business (SDB) goal, and achieved the highest percentage ever of contracts awarded to Service-Disabled Veteran Owned Small Businesses (SDVOSBs) at 3.93 percent.

We have been able to achieve these goals through a commitment to small businesses participation and growth by federal agencies. During FY 2015, the federal government as a

whole received an “A” on its Small Business Scorecard, with three the 24 agencies receiving an “A+,” and 18 agencies receiving an “A.” These achievements are the result of the dedicated and focused efforts by the SBA and federal agencies to support small businesses, as they play a critical role in building and sustaining the nation’s industrial base and strengthening the economy.

Over the last few years, the SBA Office of Government Contracting and Business Development (GCBD) began a variety of programmatic streamlining and process improvements efforts to enhance customer service and reduce the administrative burdens on small business firms. These ongoing efforts include, but are not limited to, significant improvements and reduced timelines in processing 8(a) and HUBZone Program applications, including 8(a) Mentor Protégée agreements, while overhauling the HUBZone, 8(a), and WOSB programs’ Standard Operating Procedures, which are nearing final agency approval. GCBD also initiated efforts to invest in technological solutions to provide efficiencies for our interactions with small businesses. To ensure compliance with small business contracting regulations, Administrator Contreras-Sweet authorized the hiring of 10 additional Procurement Center Representatives (PCRs), who were subsequently hired. They are currently supporting oversight of federal buying center activities and have fulfilled a long-term need of providing additional oversight and support.

SBA has also implemented over 25 provisions from the Small Business Jobs Act of 2010 and the National Defense Authorization Acts (NDAAs) of 2013, 2014, 2015, and 2016, and is making great progress towards implementing the remaining provisions. Provisions implemented to date include completion of the WOSB Industry study, finalization of the WOSB sole source rule, accountability of senior executives, total and partial set-asides and reserves under multiple award contracts, revisions to the reporting structure of Office of Small Disadvantaged Business Utilization (OSDBU), inclusion of overseas contracting in the FY16 goaling base, and increased training and certification for staff. Additionally, the SBA issued a final rule expanding HUBZone eligibility in areas surrounding Based Realignment and Closure (BRAC) areas, qualified disaster areas, and allowing Native Hawaiian Organizations to own HUBZone firms. SBA also issued a

final rule on teaming allowing small business concerns to utilize similarly situated entities to perform set-aside contracts. We are working closely with the FAR Council to incorporate new regulations into the FAR as expeditiously as possible. Lastly, SBA issued a final rule implementing the new "All Small" Mentor Protégée Program (MPP), which was followed by Administrator Contreras-Sweet approving the new office structure and processes for the program last month. With these important steps, the new "All Small" MPP is on track to begin accepting applications on October 1, 2016.

As we continue to support and improve contracting opportunities for small businesses, there are always opportunities to build upon our strengths and improve in certain areas. We are aware of recommendations from the Government Accountability Office (GAO) and the Inspector General (IG) that remain open and need to be closed with urgency. Closure of these open recommendations is a high priority and we are actively working with the IG and GAO to come to meaningful resolutions that will benefit small businesses through improved SBA policies and practices. In particular, the HUBZone program has two open GAO recommendations and two open IG recommendations that we are actively working to resolve. Through continued engagement and open communication, we believe we are nearing closure of these recommendations.

In general, the HUBZone Contracting Program serves as an economic development tool that encourages small businesses to locate, invest, and hire employees from economically disadvantaged areas of the United States. As an agency, we work tirelessly to educate the small business and procurement communities about the HUBZone Program, in order to encourage firms to seek certification, help agency buyers utilize the program, and show economic development entities how the program's benefits can be used as a tool to attract small businesses to certain areas. Despite limited resources, the program has seen success in its efforts to ensure its mission is achieved. For example, the HUBZone Program has implemented a sustainable plan to process applications within a 90 day period and successfully conducted site visits to 10 percent of firms in its portfolio with 87 percent of those site visits finding firms

in compliance. The program office has also increased education and outreach efforts through the second year of the DestinationHUB initiative, visiting 15 cities and encouraging small businesses to seek federal contracting opportunities. Moreover, the SBA recently conducted an in-depth analysis of the legislative and regulatory history of the program to determine if it had authority to remove the 20 percent population cap to positively impact additional areas. Our analysis confirmed that SBA did have the authority to remove the cap and subsequently did so increasing the number of census tracts becoming HUBZones. Due to the removal of the cap, Puerto Rico saw the largest increase of 516 new designated HUBZones.

We are highly committed to continuous improvements in the HUBZone program, along with SBA's other certification and contracting programs. Our goal is to remove unnecessary burdens placed on small businesses that have no merit. We are working intently to incorporate the remaining, yet unimplemented provisions from recent Defense authorization bills into official agency policies and regulations intended to allow an even playing field for small businesses. Furthermore, we remain committed to updating our Standard Operating Procedures as well as resolving open recommendations from the GAO and IG.

Our mission at the SBA is always to ensure that responsible small businesses have the maximum practicable opportunity to compete for and do business with the federal government. Every day, we work diligently to fulfill that mission. I would like to recognize this committee's commitment to small businesses and for being a partner in advancing positive small business practices across the federal marketplace. I would also like to acknowledge the Administration and federal agencies for their dedication to providing meaningful contracting opportunities to the small business community. Led by Administrator Contreras-Sweet, we will continue to fight for small businesses, improve participation, and support firms as they compete and successfully win federal contracting opportunities.

Thank you for the opportunity to testify here today. I look forward to your questions.

Questions for the Record
Committee on Small Business
Hearing: “Ensuring Opportunities: Oversight of the HUBZone Program”
September 7, 2016
GAO Responses

1. Has GAO examined whether SBA exceeded its authority in removing the 20% cap for qualified census tracts in the HUBZone program without Congressional authorization?

GAO has not examined this legal issue to date. As detailed in our September 7 statement, however, we have recently examined and reported on several other significant HUBZone matters: (1) how SBA communicates changes in HUBZone designations to firms, including how SBA addressed GAO’s prior recommendation to improve this process; (2) SBA’s certification and recertification processes for firms, including how SBA addressed GAO’s prior recommendations to improve these processes; and (3) how potential changes to designation criteria could affect HUBZones.

2. Has GAO examined what the effect of removing the 20% cap for qualified census tracts would have on the HUBZone program?

As discussed in my statement, in our 2015 report we analyzed the potential impact of removing the 20 percent cap for qualified census tracts on the number of HUBZones.¹ Our analysis found that about 2,400 additional census tracts would qualify, an increase of 15 percent from the number of qualified tracts as of June 2014.

3. Has GAO commenced planning for the report mandated by the PROMESA legislation, and does it anticipate that the results of that report will tell us anything about the potential effects of expanding the program nationwide?

GAO has begun planning for the work mandated by the PROMESA legislation and we expect to formally begin working on it in October 2016. As with all engagements, we will begin our work by designing an appropriate scope and methodological approach for addressing the mandate. While our primary focus would be the impact of expanding the program on Puerto Rico, we anticipate that our analysis would also provide information on the effect a nationwide expansion could have on the program in general.

4. In addition to the information technology challenges facing the HUBZone program, what are some of the other concerns that need to be addressed to ensure the program runs effectively?

In addition to its information technology improvements, SBA also would need to review and possibly update its Standard Operating Procedures. For example, if the improved technology allows SBA to collect documentation related to a firm’s ongoing eligibility, SBA would have to require firms submit additional information as part of its recertification process. Additionally, SBA would need to develop a risk-based approach for selecting firms for review by SBA staff to determine whether the firm remains in compliance with the eligibility requirements. We also previously recommended that SBA ensure that firms are notified of changes that may affect their participation in the program. While the new system should allow SBA to maintain more current contact information for certified firms, SBA would have to establish a process to ensure that certified firms are regularly added to its email distribution list upon which it relies to keep firms informed about programmatic changes, such as updates to the HUBZone maps. Similarly, SBA would be able to use these additional capacities to inform currently certified firms

¹GAO, *Small Business Contracting: Opportunities Exist to Further Improve HUBZone Oversight*, GAO-15-234, (Washington, D.C.: Feb. 12, 2015).

that they are located in a redesignated area (SBA's recent efforts have been targeted towards newly certified firms).

5. Could you explain in more detail how site visits alone don't mitigate the recertification weaknesses you have identified?

While site visits can be an important tool to monitor a program, as we noted in our February 2015 and March 2016 reports, they are insufficient to mitigate all of the weaknesses we found in the HUBZone program because they occur so infrequently.² According to data supplied by SBA, the agency conducted site visits to about 10 percent of certified firms during fiscal years 2013-2015. Therefore, a certified firm may go several years after its initial certification without any checks on its eligibility status beyond its own attestations, despite regular changes to the HUBZone map that could make the firm ineligible for the program (either because the firm's principal office was no longer located in a HUBZone or it no longer met the requirement that 35 percent of the firm's employees reside in a HUBZone). As an illustration, SBA's site visits have resulted in more than 10 percent of those firms that received a site visit failing and receiving a notice of proposed decertification. As we recommended in our 2015 report, because of the infrequent nature of the site visits and the lack of supporting documentation firms provide, SBA needs to supplement its use of site visits, such as by reviewing documents using a risk-based approach as part of its recertification process. This would enable SBA to better ensure that only qualified firms are allowed to continue in the HUBZone program and receive preferential contracting treatment.

²See GAO-15-234 and GAO, *HUBZone Program: Actions Taken on February 2015 GAO Recommendations*, GAO-16-423R (Washington, D.C.: Mar. 24, 2016).

Questions for the Record
Committee on Small Business
Hearing: "Ensuring Opportunities: Oversight of the HUBZone Program"
September 7, 2016

1. *In SBA's response to GAO's findings, the agency mentions that it is developing a "technology-based solution" to the HUBZone recertification process. Please provide specific elements of this solution, as well as a timeline for when it will be implemented.*

SBA has undertaken an ambitious project to modernize, consolidate, and replace the digital systems that support the Office of Government Contracting and Business Development. The new online platform features step-by-step logic guidance for small business owners to complete SBA forms directly online. Users will also be able to upload and manage documents across multiple programs and receive email notifications such as expirations and renewal notices. Currently, this website is available for the Women-Owned Small Business (WOSB) Program only and new programs will be incorporated onto the online platform following Agile project management methods. The new HUBZone solution will encompass a new geospatial information tool (the maps), an application program interface from the maps to communicate with the certification application, and a new certification application. The new application will be built in a modern, cloud based infrastructure using a modern technology stack (e.g. Jenkins, Ruby on Rails, and Chef) and adhering to open technology standards (e.g. US Web Design Standards as developed by the U.S. Digital Service). Features to support the HUBZone program are expected to be delivered starting in mid-2017, with additional features released throughout development of the project.

2. *Previously SBA had indicated that it was limiting site visits to businesses within 50 miles of a district office. Is this practice currently in place? If not, how does SBA determine which businesses to visit?*

SBA does not definitively limit HUBZone site visits to business within 50 miles of a district office. For Fiscal Year (FY) 2017, SBA is integrating its annual site visit and recertification models to mitigate risk in its recertification process.

Regarding annual site visits, we will now run a report for firms by servicing district office (SDO) and highest contract revenue over the most recent two years (07/01/2014-06/30/2016). We will select firms for site visits which are in the top 10% of revenue within each SDO.

Regarding re-certification, because our reliance on site visits does not fully mitigate the risk that ineligible firms are being re-certified into the program - for the firms that are scheduled for annual re-certification that are in the top 10% of revenues; we will do both a site visit and ask for corroborating information supporting recertification (occupancy, residency, payroll, and documents, etc.) to be maintained.

Selection of HUBZone firms for site visits will be based on the level of risk that they represent to the government. Therefore, site visits of HUBZone firms will be given priority (i.e. conducted first) according to the following criteria in descending order of precedence:

Questions for the Record
Committee on Small Business
Hearing: "Ensuring Opportunities: Oversight of the HUBZone Program"
September 7, 2016

1. Firms that are recertifying in the current FY and have received a recent contract award(s) over the past two years, regardless of whether such award(s) were made under HUBZone program.
2. Firms for which HUBZone status protests were dismissed during the previous FY for untimeliness or lack of specificity.
3. Firms, other than those included in items 1. and 2. above, that have received a recent contract award(s), regardless of whether such awards were made under HUBZone program.
4. Other firms, as necessary.

As documented in current procedural notices, currently in clearance, SBA travel to site visits for firms located more than 50 miles from the servicing District Office will be based on the following:

1. Site visits will be scheduled by District Offices to coincide with other work-related activities in close proximity to firms' locations.
 2. If a District Office lacks sufficient travel resources to conduct a particular site visit, it must justify in writing the rationale for not conducting a site visit and discuss how it proposes to mitigate risk to the government.
 3. If the District Office cannot otherwise mitigate risk to the government, subject to the availability of funds, the Office of Government Contracting and Business Development, HUBZone Program, will consider providing travel resources to the District Office.
 4. If travel resources are not available in the Office of Government Contracting and Business Development, HUBZone Program, the Office of HUBZone Program will collaborate with the District Office to conduct a desk audit of the firm, which is a limited scope examination of documents and records, away from the firm's location.
3. *Please specify what resources (new employees, funding, co-sponsorships, etc.) have been used as a part of the Destination HUB initiative, as well as what the effects of this initiative have been, particularly how many new businesses have joined the HUBZone program as a result.*

Destination HUB is an outreach initiative that engages, informs, and educates small businesses located in urban and rural communities about the benefits of utilizing the HUBZone Program to gain access to federal procurement opportunities. Outreach for the program is done through a variety of education methods including individual speakers, panels, breakout sessions, matchmaking sessions with buyers, and roundtable discussions with local economic development partners regarding how the HUBZone program can be used as a tool for economic growth in a community.

Questions for the Record
Committee on Small Business
Hearing: "Ensuring Opportunities: Oversight of the HUBZone Program"
September 7, 2016

Destination HUB is in its 2nd year and through this initiative, SBA has visited a total of 14 cities. Primary support for the program has been done by the Director of the HUBZone Program, in addition to her daily workload, along with limited support from local district offices, as needed. We are currently in the process of reviewing what additional resources could be dedicated to the initiative, as it has the potential to be an even greater asset to the HUBZone program. The initiative has the opportunity to increase the number of firms that are aware of the program and subsequently apply to the program, match HUBZone firms with buyers to help agencies achieve their HUBZone goals, and bring together economic development organizations to benefit local communities.

In support of the Destination HUB initiative, SBA entered into two co-sponsorship agreements:

- Detroit, MI (Aug 2015) – Sprint Corporation
- Baltimore, MD (Nov 2016) – John Hopkins University and John Hopkins Health System

SBA has conducted a total of 14 Destination HUB events:

- FY15: Charles Town, WV; Nashville, TN; Tulsa, OK; Fresno, CA; Detroit, MI;
- FY16: Baltimore, MD; Roosevelt Roads Navy Base, PR; Dayton, OH; Flint, MI; Fort Hood, TX; Killeen, TX; Dallas, TX; Newark, NJ; and NY, NY.

4. *What is the current recertification backlog (which includes businesses which have commenced but not yet completed the recertification process) for the HUBZone program?*

There currently is not a backlog. The total number of firms due to be re-certified in 2016 is 2,516. The current status of re-certifications is presented below:

Re-certification Actions Completed	10/1/2015 - 9/19/2016
Continue Certification	1280
HQ Decertification	266
Voluntary Decertification	63
HQ Withdrawn	21
Total	1630

Re-certification Work in Process	As of 9/19/2016
Notification Sent	144
Proposed Decertification	735
Other	7
Total	886

Questions for the Record
Committee on Small Business
Hearing: "Ensuring Opportunities: Oversight of the HUBZone Program"
September 7, 2016

5. *What steps has SBA taken in anticipation for the increase in HUBZone applicants in response to lifting of the 20% cap?*

The SBA has begun a variety of streamlining and process improvement efforts to enhance the HUBZone Program's customer service. The improvement efforts are helping to reduce the burden on applicants to the program and resulting in applications being processed within a 90 day period. Additionally, we are in the process of finalizing our HUBZone Program's Standard Operating Procedures, which are nearing final agency clearance.

- a. *Does SBA anticipate a backlog in certifications?*

SBA does not anticipate a backlog in certifications. The HUBZone Program is continually working to improve our processes and procedures to ensure that reviews of applications and certification are conducted in a timely manner.

- b. *What effect will this have on transition HUBZone certification to the new website, certify.sba.gov?*

Removal of the cap will not impact transition of HUBZone certification to certify.sba.gov. We expect utilization of certify.sba.gov to result in improved processing times and application through-put.

- c. *To correspond with the increased number of applications, does SBA plan on increasing the number of site visits to businesses? What is SBA's target percentage for businesses visited in the next fiscal year?*

HUBZone site visits will be determined by a risk-based approach of approximately 10 percent of the firms in the portfolio. Selection of HUBZone firms for site visits will be based on the level of risk that they represent to the government.

Allied Research Technology, Inc.
Veteran Owned Qualified HUBZone Small Business Concern

Tel (757) 464-3144
FAX (757) 464-1018

September 12th, 2016

US House of Representatives Small Business Committee
Rayburn HOB, Room 2360
Washington, DC 20515

Good day Committee Members of the Small Business Committee

This letter is submitted upon request of the HUBZone Committee for a call to action. Allied Research Technology provides labor to Hampton Roads area shipyards for over twenty-three (23) years and has obtained our HUBZone certification in January 2014. Currently, our labor force numbers one-hundred and fifteen (115), employees with our average annual sales at five million. Approximately forty percent (40%), of our work force resides within a HUBZone community.

The goal of Allied Research Technology is to be the best labor provider, maintain our HUBZone certification in good standing and give back to our community to make a difference. We have in place a formal training program where we train Prospective Safety Professionals (PSPs), for the maritime industry. We pride ourselves on providing our employees with the proper training to do the work quoted to the customer and when necessary, providing additional training as our customer base expands.

Our partnership with the HUBZone program fits rather well. We take unskilled persons and train them to work for the maritime industry. Over the years, our employees have been picked up by other firms as skilled tradesmen as well as branching into other industry areas. We have a full range of success stories from past employees and we run into our former employees in just about every shipyard serving the Hampton Roads area.

Our clients look upon us in a favorable light as they are also able to gain the benefits of the HUBZone program when they contract our firm. Becoming a HUBZone firm has increased our value to our clients and our employees. To our clients, they gain the benefit of contracting a HUBZone company and our employees gain the benefit of job training and steady employment.

Allied Research Technology, Inc.
Veteran Owned Qualified HUBZone Small Business Concern

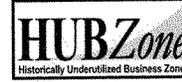
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We are a major donor of the Southside Boys and Girls Club at Berkley Avenue and Diggs Town sites, both sites support the HUBZone community. We donate to the fishing and golf tournaments they hold annually. In addition to these sporting events, we are the sole sponsor a public speakers club, for kids 18 and under. It is called a Gavel Club and it is a part of the worldwide organization of Toastmasters International, known all over the world for building leadership and communication skills for all its many millions of members. The new club is gaining popularity with the kids and is making a difference in the lives of its members. We hope these kids will change their world and the world beyond Hampton Roads in ways we cannot even see at this moment. Allied Research Technology feels that contributing to our HUBZone community is the corner stone of the whole HUBZone program. In short, the HUBZone program fits an organization such as Allied Research like a glove.

We know that supporting our local community is a good way for Allied Research to continue to prosper in this very diverse workplace. Our inclusion in the HUBZone will continue to make that a reality.

Respectfully Submitted,

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 Committee Clerk, Delia Barr - delia.barr@mail.house.gov
 US House of Representatives Small Business Committee
 (Rayburn HOB, Room 2360, Washington, DC 20515)

Subject: Testimony for the Record - Ensuring Opportunities: Oversight of the HUBZone Program

Contemporary Graphic Solution (CGS) is unique Print and Packaging supplier located in Camden, NJ. We supply sophisticated packaging solutions and quick-turn marketing materials throughout every facet of our customers supply chains in the Pharmaceutical, Medical Device, and Consumer Good industries.

The HUBZone Program has been an important factor in both business growth as well as our community. CGS has been a certified HUBZone supplier for more than 8 years. As a Tier 1 supplier, a large amount of our clients in the Pharmaceutical industry utilize our services and submit their spend through the Federal program. As a dedicated partner with the HUBZone program, we have woven community values into our business plan and continually look to hire qualified employees who reside in the Historically Underutilized Business Zone.

When CGS was rezoned out the HUBZone In 2015, CGS we made the committed decision to move our operation into Camden to continue our support of the HUBZone mission because of the continued benefits this program has provided. We advocate for the HUBZone Program from both the community and corporate levels, bringing new jobs into our district and providing spending benefits to our corporate customers.

CGS has partnered with Camden's Mayor's Office and Cooper's Ferry, a non-profit organization promoting the growth of Camden by bringing new business and job opportunities into the area. Our partnerships with both organizations allow us to be part of community activities as well as provide assistance to vital areas in support of revitalizing the Camden area.

- Working with the Mayor's Office of the City of Camden, CGS has developed an employee action plan to commit to providing opportunities for Camden residents
 - Hired 43 new employees in 2016 of which 27 are Camden residents.
 - 41% of our total full-time employees are Camden Residents
 - Continue to participate in Camden Job Fairs when seeking to fill new opportunities
 - Continue to provide training programs to enhance and enrich long-term employment
- CGS employees have participated in a playground build, three park clean-up activities, and multiple job fairs in Camden. We look forward to participating in other events in support of city efforts while helping to shine a positive light on Camden.

Because the HUBZone is so beneficial not only to our business, but also our community, we ask for your support to increase the HUBZone re-designation period from 3 to 7 years and your help to modernize the HUBZone program.

Sincerely,

Tim Moreton - CEO, Contemporary Graphic Solutions
 TMoreton@ContemporaryGS.com





September 9, 2016

U.S. House of Representatives Small Business Committee
 Rayburn HOB
 Room 2360
 Washington, DC 20515

RE: HUBZone Program

Dear U.S. House of Representatives Small Business Committee:

Custom Software Systems, Inc. (CSS) is a small business located in Leesburg, Virginia. CSS has been in the business of providing information technology (IT) services to State and Local Government agencies for over 25 years. We knew absolutely nothing about Historically Underutilized Business Zones (HUBZones) until the Spring of 2012, when we found out that our office was located in a newly designated HUBZone in the Town of Leesburg. We were surprised as Loudoun County is a pretty affluent county – one of the most affluent in the Nation in fact. We decided to drive around the area designated as a HUBZone. We discovered apartment complexes and rental properties, low income housing, homeless individuals and families, and pockets of economically depressed areas. We applied for our HUBZone Certification and received it in 2014. We truly believe that this program is a worthwhile one. Income received by us from ALL contracts (even non-HUBZone set-a-sides) is put into the Leesburg HUBZone through providing jobs in the community, leasing office space, and supporting local businesses. We currently employ 7 people from within the Leesburg HUBZone and a few more from other HUBZones in the United States. Per the program regulations, a minimum of 35% of our employees have to live in any HUBZone in the US; however, our goal is to hire from within our Leesburg HUBZone.

We have been fortunate in that we were awarded a HUBZone set-aside prime contract within a year after certification; however, HUBZone opportunities seem to be few and far between. Our experience has been that agencies seem to continue using 8(a) vehicles because, as one agency flat out told us, they are much easier to use and easier to keep extending. Very few agencies actually meet the HUBZone set-a-side goal of 3%. After speaking with many contracting officers and agency officials there seems to be an overall lack of knowledge of what the HUBZone Program is and how it works, and how it supports economically disadvantaged areas.

We have noted a big difference between the HUBZone set-a-side program and other set-a-side programs in that the HUBZone program is the only one really designed to specifically help the economy of designated areas. We take this very seriously both personally and as a company. We work with local food banks and charitable organizations to help support their needs. We also work closely with the Loudoun Workforce Resource Center and the Town of Leesburg and Loudoun County Economic Development Centers to find local talent within the Leesburg

Custom Software Systems, Inc. • 17 Loudoun Street SE • Leesburg, VA 20175 • 703-771-9757
www.CustomSoftwareSystems.com





HUBZone to hire. In this way, we maintain our HUBZone percentage by providing jobs in our community, thereby putting money back in it to build it up.

One issue that we have found with the current HUBZone program has to do with the fact that a HUBZone employee only has to work 40 hours a month to meet the requirements of the program and be counted as a HUBZone employee. Small businesses engaged in government contracting need to fill the positions required by their contracts with specific skills, in many cases highly technical. Most of the time, individuals with these skillsets cannot be found in designated HUBZone areas. Therefore, mostly administrative type individuals are hired from the HUBZone for 40 hours a month to meet or exceed the 35% requirement. As a certified HUBZone company grows, the number of 40-hour-a-month administrative-type employees also grows. We believe that having the ability to provide full time jobs with benefits would help build up the individuals, their families and the area more effectively. Instead of counting individuals, we feel the program should count work hours. In this way, for each 40 hours a HUBZone employee works in a month, the company would receive 1 "credit" toward their HUBZone percentage. Therefore, instead of hiring four (4) 40-hour-a-month employees (160 hours total) to maintain/exceed their 35%, a HUBZone company would be allowed to hire a single (1) full-time employee (40 hours/week, 160 hours/month), provide that person benefits, and count that person as four (4) HUBZone "credits" toward the required HUBZone percentage. We believe this is a starting point for truly providing a better quality of life for those individuals and families living in a HUBZone.

Overall, it has been an amazing personal and corporate journey for us. We have met many wonderful people and learned a tremendous amount about our community along the way. Our goal as a HUBZone company is to serve our community and its residents as we add value to the government agencies we support.

Sincerely,

A handwritten signature in black ink, appearing to read 'R. Cusack'.

Robert J. Cusack
COO and Founder
RCusack@CustomSoftwareSystems.com

Custom Software Systems, Inc. • 17 Loudoun Street SE • Leesburg, VA 20175 • 703-771-9757
www.CustomSoftwareSystems.com





Information Technology and
Management Consulting

A CMMI Level 3 Company
and SBA-Certified HUBZone Firm

September 13, 2016

U.S. House of Representatives
Small Business Committee
Rayburn HOB, Room 2360
Washington, DC 20515
Attn: Committee Clerk, Delia Barr

Testimony for the Record - Ensuring Opportunities: Oversight of the HUBZone Program

For 25 years, Fairfield Technologies Inc. (FTI), an award-winning, SBA-certified HUBZone firm, has provided leading-edge technology, software development, cybersecurity, program management, and acquisition support to our Federal and commercial customers. Fairfield's Federal customers have included the Departments of Defense, Justice, Homeland Security, Commerce, Agriculture, Interior, Health and Human Services, NASA, and other agencies. A high-performance company, Fairfield Technologies received the 2015 DHS Small Business Achievement Award from the U.S. Department of Homeland Security, an award given to companies that have provided "outstanding work in support of the DHS mission." Fairfield Technologies is also a corporate member of the HUBZone National Contractors Council and appeared on a recent INC. 500|5000 List of Fastest Growing Companies.

The SBA's HUBZone program provides significant benefits to Fairfield Technologies at virtually no cost to the Government. We have never even seen a HUBZone sole-source procurement or used the 10% HUBZone price preference. However, when the Federal government just sets a 3% HUBZone prime and subcontracting goal, this symbolic action gives HUBZone firms such as Fairfield Technologies more procurement visibility, and thus a better chance to compete and earn the opportunity to deliver leading edge technology services to our Federal customers and to large systems integrators. When small HUBZone companies such as Fairfield have the chance, we can deliver exceptional results for Federal agencies at highly-competitive prices, due to our lower overhead and the cost advantages of our hiring in economically-depressed areas. Our performance excellence is confirmed by our customers. We currently have projects that started out as 2 week assignments; 20 years later, we are still at the same agencies. Many of our contracts are of 5 and 10 year duration, with excellent performance reviews. However, Fairfield Technologies is not just in business to be a HUBZone firm. We are a high-end engineering firm focused on delivering critical mission support to our Federal customers. We are just doing so as a certified HUBZone firm.

The HUBZone program is extremely focused on delivering jobs to communities with higher unemployment and lower wages. As a HUBZone company, Fairfield has delivered significant benefits financial and non-financial benefits to the communities that we are part of.

- **Good Jobs and Training in Areas of High Unemployment and Lower Income - During the last 3 years, Fairfield Technologies has hired 60+ HUBZone residents as entry-level Research Assistants for our Research Center in Fredericksburg,**

Virginia. For most of our employees, this is their first professional job. Fairfield provides extensive training for our employees in basic business skills and also in corporate functions such as HR administration, marketing, and computer technology. Fairfield personnel get "real world" experience, providing professional HR, recruiting, marketing and technology support both inside Fairfield and to our customers. Fairfield alumni graduating our program have gone on to professional jobs at various government agencies, and also with high-tech firms in the private sector.

- **Ongoing Partnerships With Universities and Community Colleges Nationwide** - Fairfield Technologies has been recognized by the University of Mary Washington as a Featured Employer, for our partnership with the university in hiring, training, and providing opportunities to all UMW students, regardless of major, academic background or area of interest. We have also worked with educational institutions in Arizona, Kentucky, Alabama, Montana, Texas, Oregon, North Carolina and Florida, to hire their students and alumni as Fairfield employees, as well.
- **Local Leadership and Commitment to Local Charitable Giving** - Fairfield sponsored a breakfast fundraiser for Walter Reed Army Medical Center in Washington, DC, to benefit Operation Helping Hands, a support and assistance organization for families of active duty wounded and injured military personnel. Over \$1,000 was raised for the families of veterans returning from theaters in Iraq and Afghanistan for medical treatment. Fairfield Technologies has sponsored raffles supporting the Fredericksburg and Farmville (VA) Food Banks, and has provided corporate support for the Fairfax County (VA) Animal Shelter and to the Wildlife Rescue League.

We strongly believe that the HUBZone program benefits not only our communities, but our nation, and strongly urge Congress to continue to support and expand this program.

Sincerely,
Kenneth Fried
President, Fairfield Technologies Inc.
An SBA-Certified HUZone Firm

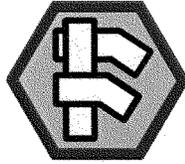


Testimony for the Record - Ensuring Opportunities: Oversight of the HUBZone Program

Fearless Solutions is an agile software presentation company that specializes in creating applications that process complex data while maintaining efficiency, user-friendliness and visual appeal. We are passionate about the work we do, and we are passionate about making choices that allow us stand out from the crowd. We're not just a software shop: we are committed to being a company that invests in its people and its greater community. And the HUBZone program helps us do that.

Through the HUBZone Program, Fearless has been afforded opportunities to grow that may have otherwise been out of reach. The HUBZone Program has allowed us to bid on contracts that are specifically set aside for HUBZone companies, and we have often been given an advantage in teaming with primes. Access to these resources has been key to our development and growth. But these are not the only ways in which the HUBZone program has supported us as a company. Through this program, Fearless has been invited to speak on panels on topics such as HUBZone best practices in growing a company, and these discussions allow us to market our brand and network with audiences of likeminded organizations. The benefits that Fearless has reaped as a result of the HUBZone Program cannot be understated, and we encourage you to consider the wide-ranging and diverse opportunities that have been created as a result of this Program.

Supporting our community is an integral part of Fearless's mission. We continuously strive to improve and invest in not only the field of technology, but also our community as a whole, and the HUBZone Program has kept us on track with both of these goals. By design, the Program encourages us to commit and tangibly invest in Baltimore City, where we have built our business and hired employees in historically low-income areas and regions of high unemployment. We also work closely with Baltimore's own Digital Harbor foundation, and through this organization, Fearless is able to provide STEM-based internships to Baltimore City youth. While the HUBZone Program has inarguably helped our small business to grow, it has also helped us help our community by allowing us to invest our time and resources in areas that have so often been overlooked.



Ferguson Safety Products

Safety First -- Ferguson Safety

Founded 1989

September 8, 2016

Committee Clerk, Delia Barr
US House of Representatives
Small Business Committee
(Rayburn HOB, Room 2360
Washington, DC 20515

RE: HUBZone Program Benefits for Businesses and Their Communities

Dear Clerk Barr,

Ferguson Safety Products, Inc is a micro-business that created the niche market of Suicide Prevention clothing and bedding for self-destructive inmates of jails and prisons and locked psychiatric wards. Our founder invented the Safety Smock and followed up with blankets, sleeping bags, mattresses and other products identified as needed by Mental Health Directors of Federal, State and County detention centers. Having been asked by our customers to expand our offerings we now offer LEED point, energy efficient, eco-friendly construction products and are also a certified Green Business.

Through our HUBZone classification we are solicited daily to bid on infrastructure projects we had not even heard of. The coaching and support we have received at six regional gatherings of Prime contractors seeking out HUBZone small business partners has allowed us to grow. Our government customers appreciate that we are a HUBZone business as some of their funding comes with target dollar amounts and we are one of the few businesses that can help them hit their goals.

As our certification has benefited us, so it benefits our community. We have been able to provide long term stable employment for a Native American that was a single mother, a 70 year old homeless veteran, an individual with disabilities since their youth, a woman needing serious accommodations due to medical issues, and a young woman from Foster care that came from an abusive home.

We share our successes with our community by helping fund educational programs bringing current events to the classroom, donate to the Salvation Army as well as The Charlotte Maxwell House that cares for indigent women cancer patients. We have sponsored a Safe House for our local battered women's shelter and provide 50% of the funds needed for the Holiday Dinner for the Walnut Avenue Women's Center each year. Ferguson Safety has donated mattresses and blankets to the local Scout Reservation Campground that serves over 10,000 Girl and Boy Scouts per year.

Yours truly,

Dennis Speer
Vice President

303 Potrero Street, #2, Santa Cruz, California 95060
831-458-0223 800-515-0223 www.PreventSuicide.com
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GeoControl Systems, Inc.

September 12, 2016
16-012-GCS

U.S. House of Representatives Small Business Committee
Rayburn HOB, Room 2360,
Washington, DC 20515

Attention: Committee Clerk, Delia Barr (delia.barr@mail.house.gov)

Reference: Testimony for the Record – Ensuring Opportunities: Oversight of the HUBZone Program

To Whom It May Concern,

We understand that the U.S. House of Representatives, Small Business Committee, recently held a hearing about the U.S. Small Business Administration, HUBZone Program. As a HUBZone certified firm, we wish to offer comments to the Congressional Record about our experience with the program.

The name of my employer is GeoControl Systems, Inc. While we perform engineering and facility support services for the National Aeronautics and Space Administration (NASA) in several states, we are established and headquartered in Houston Texas. Also, we have been HUBZone certified since 2002, and have grown roughly fourteen fold since that time. Our growth is mainly attributable to the contracting preferences that are made part of the program and to our ability to recruit qualified applicants residing in HUBZone designated areas for work opportunities on our projects. Today, we actively participate in eight separate contracting activities and support several NASA programs including the International Space Station and Commercial Crew programs. Additionally, we hold strong business relationships with several large aerospace companies supporting NASA programs.

The contracting preferences mentioned above not only help small businesses to grow, they also help individuals and communities grow and develop. This is done by establishing employment opportunities for folks residing in HUBZone designated areas. For certain jobs in our company, we target in our recruiting efforts applicants from HUBZone populations. The resulting employment of these applicants contributes to employment and income security, which benefits household stability and, by connection, community development.

Not only are our recruiting efforts targeting HUBZone communities, but our investment in personnel development is similarly targeting residents of these geographic areas. One such

Ms. Delia Barr
16-012-GCS
Page 2

investment targets students at the Booker T. Washington High School for Engineering Professions, a magnet school within the Houston Independent School District. Our after school projects-based program, which we call the Launch Program, supplements the math and science curriculum with hands-on design and development activities in the rocketry, robotics, and energy fields. We submit that these additional educational and employment experiences help prepare students for application to engineering programs at colleges and universities.

Testimony from our Human Resources Manager, Robert Hudspeth:

As a Human Resources Manager in the aerospace industry, I have had the opportunity to review 100's of resumes of candidates applying for jobs in Science, Engineering, Drafting, and a number of other jobs. One distinction in resumes submitted by HUBZone residents is that they are often people who have done the right things but may not have been given the opportunity to use their talents in an industry in which previous experience is a general requirement. Through the HUBZone program applicants are given the chance to enter into industries in lower level jobs to train and eventually become fully vested members of a professional culture. This process has not only worked well for those employed but it has opened the eyes of many in our industry as to the hidden jewels in these communities. A second group of people who have benefited from these programs are those who have been displaced through layoffs and thus whose economic conditions have confined them in areas which are deemed HUBZone. The opportunity for these persons who may not have worked in our industry in years to get a second chance because of the light shed upon them by this economic program has done wonders for the morale of older applicants who find themselves back in industry after years of struggle.

Perhaps most important is that companies in this program must become creative in order to maintain the 35% residency requirement. In our case, we have reached out to the community to create jobs even beyond those afforded us through our contracts to assure that we are making the full economic impact to the community the program was meant to provide. In doing so, we have created pools of candidates that can train and work in community projects until they are able to attain employment on our contracts. This means employing high school students who work on small projects with great impacts, like the work of the Launch Program which received a Certificate of Congressional Recognition and created a prosthetic arm for a young girl, a gift she could never have afforded otherwise. It means providing training programs to residents with no job skills and/or those freshly out of college who eventually are able to attain full time employment on our contracts. While these strategies increase the employment of folks residing in HUBZone communities, they are more than illustrations of employment. These are stories of empowerment.

How is the community affected? Every time a HUBZone employee drives home from project work with NASA into a community with economic challenges which also includes educational challenges, they are a beacon of light and by their success renew the faith of their neighbors in the American dream. We are flooded with applications from friends and family of our employees who want to know how they can become part of what we do. As a company these stories endear us to our customers because our hires are a story of hope and what's good about our federal

Ms. Delia Barr
16-012-GCS
Page 3

government. Our employees give back to their communities, donating to the very churches, community centers, and programs where we recruited them. We have seen them open small businesses, place their children in dynamic afterschool programs, and volunteer to support the development of others in their local communities. Our HUBZone employees have spoken on school campuses about the opportunities afforded young people in their community by pursuing academics in mathematics and science, this we call a "Generational Recruitment Strategy". The program needs to be larger in scope, as large as the ambitions and hearts of those who reside in these areas who have taken portions of their paycheck and created healthy meal programs and exercise circles to maintain the health of residents. Every HUBZone employee is a story, and each of these stories builds confidence that the American dream can be a modern reality, which is something that we can all agree on.

Our ownership, management, and employees would like to submit the testimony above to the U.S. House of Representatives in enthusiastic support of the HUBZone program.

Sincerely,



Michael Zarcaro
Business Manager and Vice-President



Written Testimony of

The HUBZone Contractors National Council

Before the

House Committee on Small Business

“Ensuring Opportunities: Oversight of the HUBZone Program”

September 7, 2016

Chairman Chabot, Ranking Member Velazquez, and Members of the Committee, we appreciate the opportunity to submit testimony about the Historically Underutilized Business Zones (HUBZone) program. The HUBZone Contractors National Council (Council) is a non-profit trade association providing information and support for companies and professionals interested in Small Business Administration's (SBA) HUBZone program. We would like to thank the Committee for their commitment to small businesses and for advancing 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 Contracting 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 from the Congress and SBA. The details of which are included.

This goal of this testimony is to add to the Congressional Record the considerations of thousands of firms nationwide seeking to advance the program. Additional testimony from the SBA and the Government Accountability Office (GAO) deal in greater details with the compliance and application requirement of the Program. As their testimonies were provided in advance, this testimony includes a response to their conclusions and recommendations.

History of the HUBZone Program

In 1996, President Clinton issued an Executive Order calling for "empowerment contracting", which sought to give price evaluation credit to small business contract activities by firms in areas of great distress. The goal of the order was, "Fostering growth of Federal contractors in economically distressed communities and ensuring that those contractors become viable businesses for the long term which will promote economy and efficiency in Federal procurement and help to empower those communities"¹.

While job training in distressed areas serves an important purpose, it is inadequate unless sustainable jobs come to those communities. Based on this need for jobs, Senator Kit Bond (R-MO) and a bipartisan coalition including the Chairman and Ranking Member of the House Small Business Committee, Rep. Jim Talent (R-MO) and Rep. John LaFalace (D-NY), and Senators John Kerry (D-MA), Olympia Snowe (R-ME), sponsored the legislation which created the Historically Underutilized Business Zone federal contracting program. The goal was to provide real economic opportunity in our nation's most blighted areas by "creat[ing] realistic opportunities for moving people off of welfare and into meaningful jobs" in "inner cities and rural counties that have low household incomes, high unemployment, and whose communities

¹ William J. Clinton: Executive Order 13005 - Empowerment Contracting 21 May 1996
<http://www.presidency.ucsb.edu/ws/?pid=52845>

HUBZone Contractors National Council

PO Box 4041 - Falls Church, VA 22044

Phone 703-237-3674 Fax 703-229-6425 www.hubzonecouncil.org

have suffered from a lack of investment.”² The program was also established to assist in replacing lost jobs from our nation’s declining manufacturing and industrial sectors.

Economic development in distressed areas is particularly challenging due to the lack of an established customer base. While assistance -including tax abatement, regulatory relief, and other incentives to attract small businesses are helpful – they are not enough. A business needs customers to succeed. Incentives for the federal government to be the customer, while HUBZone firms establish revenue, is a sustainable option for firms located in the nation’s poorest communities. In fiscal year 2014, HUBZone firms reinvested \$3.5 billion back into distressed communities nationwide³.

Like other SBA set-aside programs for economically disadvantaged, service-disabled veteran-owned, and women-owned firms, there is a socio-economic utilization goal for HUBZone firms. As such, the HUBZone authorization bill, the Small Business Reauthorization Act of 1997, included a 3% prime contract goal for HUBZone firms, and increased the overall government-wide contracting goal to 23%. The HUBZone goal serves as a benchmark to determine whether agencies are appropriately utilizing the program, and is a floor, not a ceiling.

SBA finalized the regulations to implement the HUBZone program in the summer of 1998 and began accepting program applications in March 1999⁴. Early on, however, it became apparent the program needed an off-ramp. Going from federal assistance in creating jobs to losing that ability shortly thereafter did not serve the purpose of the program. Therefore, Congress passed the Small Business Reauthorization Act of 2000, to provide for a 3-year grandfathering period, or to extend participation for 3 years after an area is no longer eligible. Congress understood that many HUBZone areas rely on the designation to improve employment, and that immediate removal of the designation could hurt an area economically in such a way that it would become eligible for the program once again.

In 2005, Congress expanded the HUBZone program to incorporate areas that have undergone Base Realignment and Closure (BRAC) through the Department of Defense. Large military installations are often a community’s largest and most important employer. The loss of a base can hurt an area for decades afterwards. The incentive the HUBZone program creates for new businesses to revitalize an area is just what a BRAC area needs.

Improvements made by Congress throughout the early 2000s enabled the HUBZone program to reach a participatory high of over 14,000 firms⁵, and in fiscal year 2009 the government awarded a record 2.81% of federal contracts to HUBZone firms.

² U.S. Congress, Senate Committee on Small Business, Small Business Reauthorization Act of 1997, report to accompany S. 1139, 105th Cong., 1st sess., August 19, 1997, S.Rept. 105-62 (Washington: GPO, 1997), p. 25.

³ American Express, *The Crucial Role Small Businesses Play in Their Communities*, October 28, 2014 (reporting that small businesses returned, on average, 52% of their revenues to the local economy).

⁴ Congressional Research Service, Small Business Administration HUBZone Program, R41268, August 4, 2016

⁵ U.S. Congress, House Committee on Small Business, Status of Efforts to Address Previous Recommendations on the HUBZone program, Statement delivered by William B. Shear available at <http://www.gao.gov/assets/130/122/122102.html>

However, data from the 2010 census showed that a large number of areas had improved enough to be removed from the program. These areas contained approximately one-third, or 2,400 HUBZone businesses⁶. While exiting the program should indicate economic revitalization, our nation was experiencing the worst recession in decades. Removing thousands of small businesses from the program designed to provide economic development, during the worst recession since the great depression indicated the program was not working to satisfy the program's goals.

The removal of so many HUBZones businesses led government spending to decline for a number of years. In FY2015, the government only awarded 1.82% of contracts to HUBZone firms; almost a full percentage point below where the program was six years prior. As of August 2016, there are only 5,500 certified firms, which represents a loss of over one-third of HUBZone firms since the 2010 census⁷. The program has not fully recovered because Congress has not addressed challenges in program eligibility.

In fiscal year 2014, HUBZone firms reinvested \$3.5 billion back into distressed communities nationwide⁸. The continued analysis of HUBZone data since 2010 as well as the ongoing failure to meet the goal has increased attention of the program. As detailed below, legislation to revise the program was introduced in 2016.

The National Defense Authorization Act for Fiscal Year 2016 expanded the use of HUBZones in BRAC areas by extending both the area and the length of time an area qualifies. The Act also granted eligibility to Native Hawaiian Organizations, and included qualified Presidentially declared disaster areas that were previously in the HUBZone program.

In June 2016, the Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA) expanded the HUBZone program in Puerto Rico, and required SBA to provide a "risk based approach" to application certification and recertification⁹.

Background on the Program

Benefits of the HUBZone Program

The HUBZone program has similar authorities to SBAs other set-aside programs by allowing contracting officers to utilize set-asides and sole source for HUBZone firms. Also, for full and open competition, "the price offered by a qualified HUBZone business shall be deemed as being lower than the price of another offeror if the HUBZone business price offer is not more than 10% higher than the other offer¹⁰." The Price Evaluation Preference (PEP) is an important tool, but it is often misunderstood or misapplied by contracting officers of federal agencies. Simply put, in full and open competition, a HUBZone bid can be up to 10 percent higher than another offer, and

⁶ SBA, FY2014 Congressional Budget Justification and FY2012 Annual Performance Report, p. 43, at <https://www.sba.gov/sites/default/files/files/1-FY%202014%20CBI%20FY%202012%20APR.PDF>.

⁷ *ibid.*

⁸ American Express, *The Crucial Role Small Businesses Play in Their Communities*, October 28, 2014 (reporting that small businesses returned, on average, 52% of their revenues to the local economy).

⁹ Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA) P.L. 114-187 (June 2016)

¹⁰ Small Business Reauthorization Act of 1997, S. 1139, 105th Cong., 1st sess., August 19, 1997 (Washington: GPO, 1997),

the HUBZone offer should nevertheless be accepted. As discussed later, price-evaluation preferences accounted for only 2 percent, or \$36 million of HUBZone program contract dollars in FY2015 and its use is widely regarded as a rarity¹¹.

HUBZone Program Eligibility

To qualify for the program, companies must have a “principal office” in a HUBZone. SBA defines principal office to be the location where the greatest number of employees at any one location perform their work¹².

HUBZone areas can qualify under one of six criteria including qualified census tracts (QCTs), qualified non-metropolitan counties, difficult development areas, qualified Indian lands, military property closed under the Base Realignment and Closure (BRAC), and qualified disaster areas.

Qualified Census Tracts

Qualified census tracts are defined based on current eligibility from the U.S. Department of Housing and Urban Development (HUD) for the Low Income Housing Tax Credit (LIHTC) for the most recent year census data is available. To qualify, at least 50 % of households must have income “below 60% of the median gross income of the metropolitan statistical area (in metropolitan census tracts) or the median gross income for all nonmetropolitan areas of the state (in nonmetropolitan census tracts) or a poverty rate of at least 25%¹³.

Non-Metropolitan Counties (NMC)

Qualified non-metropolitan counties can become HUBZone eligible by having median household income less than 80% of the non-metropolitan state median household income, based on Census data, or an unemployment rate not less than 140% of the average unemployment rate for the state or for the U.S., whichever is lower¹⁴. Unlike QCTs, qualified NMC designations are annually determined by SBA.

The qualified nonmetropolitan county designation is the only type of HUBZone that is determined by the SBA. The formula is set in law and the data are derived from other agencies, but the designation is made by SBA.

Additional HUBZone eligible areas are Indian Country, HUD-designated difficult development areas (DDA) which are areas with high construction, land, and utility costs relative to area median gross income, Department of Defense property that has undergone BRAC, and areas that were previously HUBZones, and experienced a Presidentially declared disaster.

Employee Requirements

An additional program requirement is that a least 35% of employees must live in a HUBZone. While other SBA socio-economic programs focus on the characteristics of the owner, the

¹¹ Congressional Research Service, Small Business Administration HUBZone Program, R41268, August 4, 2016

¹² SBA has an exception for construction and service industries, which have exemptions based on their occasional need to assign employees at the contract location.

¹³ 13 C.F.R. §126.103 and 26 U.S.C. §42(d)(5)(B)(ii)(I).

¹⁴ 13 C.F.R. §126.103.

HUBZone program is focused on firm employees. This requirement ensures that jobs are not just located in distressed areas, but HUBZone firms are creating jobs for those living in distressed areas, as well. This allows HUBZone firms to empower communities through sustainable jobs and an economic multiplier effect. This requirement is often the most challenging for firms to comply.

Redesignation

To improve the program, Congress passed the Small Business Reauthorization Act of 2000, to provide for a 3-year grandfathering period or to extend participation for 3 years after an area is no longer eligible. Congress believed that many HUBZone areas rely on the designation to improve employment, and that immediate removal of the designation could hurt an area economically in such a way that it would become eligible for the program once again.

HUBZone Program Impact

While there are currently only 5,500 HUBZone firms, these businesses have had substantial impact on their communities. Federal contracts awarded to HUBZone companies directly support 40,000 jobs every year¹⁵ and the average HUBZone company is awarded over \$1 million in federal contracts, a critical revenue threshold in business sustainability¹⁶.

If each HUBZone qualified area had a single HUBZone business, it would generate an additional \$17 billion in economic activity and support over 100,000 jobs. This is such a large number because almost 90% of HUBZone areas do not have a single HUBZone certified company. Largely due to this underutilization, the government has never met the goal of awarding 3% of federal contracts to HUBZone firms¹⁷. Failure to meet the 3% goal resulted in over \$4 billion left on the table that economically stressed communities would have benefitted from, just last year.

Program Challenges

Program Integrity & Funding

The HUBZone program has suffered from chronic underfunding since it was first authorized in 1997. When the program was first established, it was authorized between \$5 and \$10 million to set up the program office, conduct outreach to both federal agencies and small businesses, and ensure program integrity¹⁸. However, the program has rarely received more than \$2-\$3 million in a given fiscal year though it currently costs SBA more than \$15 million to operate the program annually¹⁹. In FY2016, the program received received an appropriation of \$3 million²⁰.

¹⁵ Maria Contreras-Sweet, *SBA Fiscal Year 2015 in Review*, October 2, 2015 (Stating that small businesses received \$91.7 billion dollars, supporting 550,000 jobs in the economy).

¹⁶ Small Business Dashboard, available at <http://smallbusiness.data.gov/> (Reporting that in FY 2014, HUBZone contracts totaled \$6.7 billion. The average firm received approximately \$1.3 million).

¹⁷ Government Accountability Office, *Small Business Contracting: Opportunities Exist to Further Improve HUBZone Oversight*, at 37, February 2015. Available at <http://www.gao.gov/assets/670/668468.pdf>.

¹⁸ <http://www.sbc.senate.gov/repblican/HTML/agencies/hubzones/hubzone24.pdf>

¹⁹ Congressional Research Service, *Small Business Administration HUBZone Program*, R41268, August 4, 2016

²⁰ SBA, FY2017 Congressional Budget Justification and FY2015 Annual Performance Report, p. 26, at https://www.sba.gov/sites/default/files/FY17-CBJ_FY15-APR.pdf.

While SBA has supplemented program costs through the appropriations provided for general administrative expenses, it is a challenge to improve the program without the necessary support. After years of underfunding the program, SBA has experienced difficulties in building mechanisms to support audit controls that reduce waste, fraud, and abuse. While these changes will help the program, it is imperative that Congress further assist SBA with program administration.

Program Utilization

Throughout the early 2000s both SBA and federal agencies improved their utilization of HUBZone firms. Data from the 2010 census showed that approximately one-third, or 2,400 HUBZone businesses should be removed from the program²¹. While exiting the program should indicate economic revitalization, our nation was experiencing the worst recession in decades when the 2010 Census was conducted – yet thousands of small businesses were removed from the program designed to provide economic development.

By removing so many HUBZones businesses, government spending in the program has declined steadily since 2011, to 1.82% in FY2015. During the great recession, almost 2,400 firms were removed from the program²². As of August 2016, there are only 5,500 certified firms, which represented a loss of over one-third of HUBZone firms in a five-year period²³.

Streamline HUBZone Program Data

Previously, economic data to determine HUBZone eligibility was primarily available through the decennial census. As a result, QCTs most often changed as new economic data became available every ten years. However, the Commerce Department is increasingly utilizing the American Community Survey (ACS) to produce housing and population data annually. In response to annual ACS data, HUD announced it would update eligible census tracts every five years. However, when comparing ACS data from the 2006-2010, the 2007-2011, and 2008-2012 surveys, they found some statistical anomalies.

In response, and to avoid making QCT designations on a single, possibly inaccurate data point, HUD announced QCT designations would be made using all three surveys (2006-2010, 2007-2011, and 2008-2012). Now to qualify for HUBZone, census tracts are required to meet the thresholds in at least two ACS surveys. Additionally, HUD is now updating eligible areas with the release of new ACS data annually.

The burden to qualify a specific HUBZone has increased substantially since the program was created. What used to be a potential change in eligibility that would most likely occur every ten years, is now an annual test. Furthermore, requiring areas to qualify under two different ACS surveys means areas that may be close the margins of eligibility are likely to be left behind.

²¹ SBA, FY2014 Congressional Budget Justification and FY2012 Annual Performance Report, p. 43, at <https://www.sba.gov/sites/default/files/files/1-FY%202014%20CBJ%20FY%202012%20APR.PDF>

²² *ibid.*

²³ *ibid.*

Proposed Legislation

The Council is interested in advancing legislation seeking to make structural improvements to the HUBZone program. H.R. 5250, introduced by Representative Delaney, addresses that need for providing participating companies program certainty by lengthening the redesignation period from three to seven years. Increased time in the program will build the lasting economic benefit for communities that the HUBZone program provides.

S. 2838, the Small Business Transforming America's Regions Act of 2016, introduced by Senator Vitter, and passed by the Senate Small Business Committee, will also lengthen the redesignation period from three to seven years. The legislation authorizes governors to annually petition SBA to designate one or more NMCs in the governor's state as a HUBZone. The legislation seeks to empower governors to further invest in state economic development by seeking to make NMCs HUBZones.

Responding To Testimony of SBA and GAO

Both the Small Business Administration and the Government Accountability Office prepared testimony for this hearing. Their accounts tell a similar story of a program with enormous potential suffering from systemic and administrative constraints.

The Council agrees with much of GAO's findings as it relates to the need for increased oversight and the addition of technology to ensure firms are both compliant and have open communication with SBA.

Both testimonies highlighted the concern of limited resources for the program, to which the Council wholeheartedly agrees. The onerous nature of application and re-certification were discussed and align with the need to streamline the certification process.

Finally, and most importantly, the GAO included in its testimony the impact modifying certain eligibility criteria would have on program users. Of most consequence – and this testimony will not digest all of the conclusions – is that many businesses in census tracts and non-metropolitan counties facing severe poverty and unemployment are shut out of the program. Critically, SBA also noted that current program criteria in place serve far fewer firms in 2016 than when the program was designed almost twenty years ago.

HUBZone Council Recommendations to Congress

The Council appreciates Congressional interest in making improvements to the program and would like to offer the following suggestions.

Program Certainty

HUBZone Application Improvements

To ensure compliance, SBA certifies all HUBZone companies. While Congress recently changed some of the elements of certification, SBA's timeline to process applications is far too long. This summer, SBA updated HUBZone program regulations to increase the application review period from 30 to 120 days²⁴. Requiring over four months to process and application is far too long.

Increase the Redesignation Period.

To determine program eligibility, SBA 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. For certain areas, this means minor changes in economic data can lead a community's eligibility to change annually.

To create better program certainty, increasing the current three-year redesignation period to seven years will allow firms to make more substantial, long-term investments without the fear of losing their status before the business has had an opportunity to succeed.

Support Capital Investment of Principal Office

Many firms make significant capital investments to locate their principal office in a HUBZone, only to face substantial losses when the HUBZone is re-designated. To resolve this issue, the principal office requirement will remain fulfilled, regardless of redesignation, until the firm relocates or no longer meets other requirements of the program (like the employee residency requirement). This will encourage long-term investment by providing business with certainty.

Simplify Employee Residency Requirement for Smallest Businesses

By changing the current 35% threshold to 33%, one in three employees would be required to reside in a HUBZone. In addition to simplifying the calculation for employers, this also helps small firms to ensure they meet their requirements after the unforeseen departure of one employee.

Program Modernization

Encourage Investment Throughout Entire Metropolitan Areas

HUD's Low-income Housing Tax Credit (LIHTC) program limits the amount of qualified census tracts in any Metropolitan Statistical Areas (MSA) to no more than 20 percent of the total population of the MSA. Because of this restriction, many disadvantaged communities have not received a HUBZone designation, because they are better off – relatively – than the surrounding area.

²⁴U.S. Small Business Administration, HUBZone and National Defense Authorization Act for Fiscal Year 2016 Amendments, Direct Final Rule, August 4, 2016. Available at <https://www.federalregister.gov/articles/2016/08/04/2016-18251/hubzone-and-national-defense-authorization-act-for-fiscal-year-2016-amendments>

Limiting the number of HUBZones only serves to inhibit program growth. In Spring 2016, SBA Administratively removed the 20 percent limitation on all HUBZones and announced that an additional 2,015 census tracts now qualify for the program. SBA's removal of this unnecessary barrier will assist countless small businesses who are interested in participating.

Increase Participation in Non-Metropolitan Counties (NMC)

Fewer than expected NMCs qualify for the HUBZone program due to having more burdensome requirements for median income and unemployment than MSAs in metropolitan areas. While rural areas tend to have lower median income and higher unemployment, non-metropolitan counties are not homogenous. Certain county areas may be better off due to the presence of a single employer, like a college, and could cause the county to be ineligible. Therefore, the NMC qualification levels should be lessened to account for the diversity in rural areas.

Conclusion

The HUBZone program was created with the intent of moving individuals into meaningful jobs in communities that have suffered from a lack of investment. It is unlike other SBA programs in that the focus is not on the company, but the community. It is an economic development program.

Since its inception, the program has underperformed. While Congress has addressed expansions of the program to certain places, it has been more than fifteen years since changes were made to the primary program structure. In order for the HUBZone program to reach its full potential as outlined in 1997, the program needs to be modernized. The Council listed a number of proposals in this testimony and is open to working with the Committee on other ideas.

The removal of the 20 percent limitation on HUBZones in a specific area, in order to broaden the reach of the program, should be applauded as a good initial step. But more is needed – and will require Congressional efforts.

The HUBZone Council strives to contribute to the economic development of disadvantaged communities by reducing unemployment and homelessness and by strengthening, improving, and promoting the HUBZone Program. We would like to thank the committee for their support of our efforts and the efforts of all small businesses seeking to do work for the federal government.



12 September 2016

US House of Representatives
Small Business Committee
Rayburn HOB, Room 2360
Washington, DC 20515

RE: Testimony for the Record - Ensuring Opportunities: Oversight of the HUBZone Program

Committee Members:

ITC Defense Corp. is a Historically Underutilized Business Zone (HUBZone)-certified defense firm, specializing in software engineering, modeling and simulation, cybersecurity, and missile defense. Our work has transnational implications, supporting DOD efforts to ensure the security of our nation through the Ballistic Missile Defense System, as well as helping our nation's allies establish missile defense bases in Romania and Poland.

ITC's HUBZone status has been critical to the company's ability to compete as a small business. The 3% contract award target set aside for HUBZone businesses has helped us establish connections with larger firms, including Parsons Corporation, Northrop Grumman, General Dynamics IT and others. Furthermore, HUBZone employees have been some of our most dynamic workers, bringing a diverse and out-of-the-box perspective to our support of the Warfighter.

Even though our contracts sometimes bring us halfway around the globe, it is always at home where our work begins. ITC's decision to locate in Gainesville, FL, a HUBZone area, was not made flippantly. We have a personal attachment to the city, having seen the potential of the students at the University of Florida. ITC is proud to have employed numerous students, giving them unique opportunities and insight into an industry critical to our nation's future. In our two years as a HUBZone small business, we have introduced 11 students to the inner workings of government contracting (an often nebulous process) and the defense industry. Former student employees have then gone on to the Department of Energy, Department of State, and prestigious law schools to further pursue a career in GovCon. Furthermore, ITC has always maintained diversity as a core value; over a third of our HUBZone employees are minorities.

ITC and the Gainesville community at large have benefited immensely from the HUBZone program. The modernization legislation is essential to the continued success of the HUBZone program and we hope our input has helped illustrate its necessity.

Thank you,

A handwritten signature in black ink, appearing to read 'Noelle A. Shema', written over a faint, illegible background.

Noelle A. Shema
Vice President, Operations
ITC Defense Corp.

MINPACK

400 2nd St. SE
Pine City, MN 55063

September 8, 2016

US House of Representatives Small Business Committee
Rayburn HOB, Room 2360
Washington, DC 20515

Re: Testimony for the Record - Ensuring Opportunities: Oversight of the HUBZone Program

Dear US House of Representatives Small Business Committee:

MINPACK is a contract manufacturing company providing converting, assembly, packaging and printing services to a broad range of customers. The plant began operations in 1968 as a 3M manufacturing plant. In 2005, Bob Thompson (retired 3M Plant Manager) acquired the plant to diversify the business and preserve jobs in the community. When MINPACK acquired the plant there were 18 employees. Today MINPACK has 37 employees.

MINPACK became HubZone Certified in 2016. The certification has created many new business contacts and opportunities for growth. MINPACK was recently awarded new printing business as a result of the HubZone Certification. This new business created three new positions in the print department and is supporting significant capital investment in new technology.

Minpack is the largest private employer in the community. We believe a diverse workforce is good for our community and it makes MINPACK a more attractive place of employment. Programs like the HubZone Certification do make a difference in a small community.

I encourage you to continue to support for this program.

Sincerely,



MINPACK

www.minpack.com

P: 320-629-8223

F: 320-629-8201

email: rtompson@minpack.com



12 September 2016

U.S. House of Representatives Small Business Committee
Attn: Ms. Delia Barr, Committee Clerk (delia.barr@mail.house.gov)
Rayburn HOB, Room 2360
Washington, DC 20515

RE: Testimony for the Record – Ensuring Opportunities:
Oversight of the HUBZone Program

Dear Representatives,

Founded in 2013, Nyla Technology Solutions, Inc. (Nyla) is a woman-owned, HUBZone-certified small business located in the thriving city of Baltimore, Maryland, focusing on providing superb software systems development services to the federal government. Nyla's core competencies cover a wide array of disciplines, including software engineering, electrical engineering, cyber defense, systems engineering, optical and computer network protocols and architecture, and technology leadership. Nyla's employees have over 20 years of combined experience completing missions for the U.S. Government.

The Historically Underutilized Business Zones (HUBZone) program helps small businesses in urban and rural communities gain preferential access to federal procurement opportunities. Eligible HUBZone firms can qualify for higher Small Business Administration guaranteed surety bonds on construction and service contract bids, and those in Empowerment Zones and Enterprise Communities (EZ/EC) can also benefit from employer tax credits, tax-free facility bonds, and investment tax deductions. The federal government has a goal of awarding three percent (3%) of all dollars for federal prime contracts to HUBZone-certified small business concerns and HUBZone-certified small businesses receive a ten percent (10%) price evaluation preference in full and open contract competitions, as well as subcontracting opportunities. As a result of its HUBZone classification, Nyla has been awarded a federal government prime contract and has submitted a bid for another prime contract, all within 3 years of its inception.

Nyla provides full and part-time employment to 12 people, with a 50:50 split in male and female employees from diverse backgrounds, races, and ethnicities. Nyla's fast growth is attributed to its ethos and corporate culture. At Nyla, philanthropy is at the heart of our corporate culture and one of the motivating factors driving our shared philosophy. We recognize the essential bonds that weave together both our local communities and country as a whole. It is vital, for this reason, to not only engage with, but also support organizations who work hard to strengthen neighborhoods, promote education, and help those who have bravely served our nation. In addition to volunteering our time to such events like the Baltimore Running Festival, the charities which Nyla supports include the Maryland Food Bank, Girls Who Code, K9s for Warriors, Wikipedia, Second Chance, the American Cancer Society, the American Heart

1125 South Hanover Street, Baltimore, MD 21230
nylatechnologysolutions.com



Association, the Downtown Baltimore Family Alliance, Meals on Wheels, NPR, the American Red Cross, and Ronald McDonald House Charities of Baltimore.

Nyla's HUBZone certification has aided it in its success, growth, and community contributions. As such, it is imperative for the Small Business Committee to increase funds for the HUBZone program and support modernization of the program to keep up with growing small business concerns and competition. A federal investment in the HUBZone program is an investment in small business, diverse hiring practices, and underrepresented and underserved communities. More than any other time in our nation's history, supporting small business and the HUBZone program means keeping jobs in the U.S., fostering community well-being, building local character and prosperity, increasing jobs and wages, growing the economy, and encouraging American entrepreneurship and competition. Thank you for your consideration and please feel free to contact me if you would like to further discuss Nyla's benefits from the HUBZone program, as well as Nyla's support for the program.

Sincerely,

/s/ Michelle R. Daley

Michelle R. Daley
Operations Manager

cc: John P. Sarbanes, 3rd Congressional District, Maryland
john.sarbanes@mail.house.gov



September 9, 2016

Small Business Committee
US House of Representatives
Rayburn House Office Building, Rm 2360
Washington DC 20515

Dear Members:

Subj: Testimony for the Record – Ensuring Opportunities: Oversight of the HUBZone Program

In 2013, I wrote a white paper for our clients and Set-Aside Alert subscribers. The problems I identified at that time are still in place. It is time to re-engineer this important program. Since writing the paper in 2013, the percentage of HUBZone contracts has further declined, from 2.01% in FY12 to 1.23% for FY16 as of today.

I have been a contractor and consultant focused solely on the Federal contracting market since 1978. Over the years, I worked with many large, mid-sized and small firms. I have seen many programs come and go, get revised over and over, and often miss the mark as to what they were intended to accomplish. The HUBZone program may be one of the biggest failures – why? Regulations designed, written and implemented without any consideration of the real world environment in which they must exist.

Historical

The program is intended to revitalize geographic areas that have historically faced elevated unemployment, yet the area designation criteria can result in continual revisions of which areas qualify. Small business owners take on many risks in establishing and managing a small business. It takes a number of months to apply for and become certified as a HUBZone business. An interested firm faces the risk that his geographic area could be decertified a year or two after qualifying, or even while she is in the process of being certified.

One would think that an area of historically high unemployment and/or low income would require a number of years to recover. If the firms that come into that area to help it improve are successful, they should be rewarded with stability in that location for a reasonable period of time, especially if they have made a significant capital investment in permanent facilities such as factories and warehouses. After all, they took on the task that the government wanted accomplished, and succeeded. Further, if those firms pull up stakes

and move their headquarters to another HUBZone, unemployment may return to the place they left

Too Many Cooks

Decisions as to whether an area is designated as a HUBZone are distributed across HUD, Labor, Census, Interior, DoD and IRS. SBA's role is to meld all these stovepipes into a comprehensive mapping tool. Yet each agency does its work and establishes its qualified areas on varying schedules. The HUBZone map tomorrow might look quite different than it did today. One would think that since the census is done every ten years, that at least that component would be stable, but no.

Excessive Granularity

The prior government program, Labor Surplus Areas, used common, well-defined geographic boundaries, namely counties, parishes and independent cities. You could see the lines on most any map. But in today's HUBZone program, most urban area designations are based on census tracts. You won't find those lines in your local Rand McNally or Mapquest or local street atlases. My own census tract is eight blocks of residential Washington DC. Why on earth must we use this micro-granular approach to area designations?

Worse yet, this granular approach leads to HUBZone-designated situations such as K Street NW, a popular location for all the lobbying firms and law offices of Washington. Or the Southern Towers apartment complex in Alexandria VA, sitting as a HUBZone across the street from DoD's new Mark Center headquarters. Look for your nearest college campus and chances are that it may be a designated HUBZone.

PO Boxes and Rural Routes

Despite the granularity noted above, when it comes to rural areas, you may have great difficulty getting qualified. The mapping tool accepts traditional addresses containing house number, street, city and state. I grew up in a rural area of Northern Illinois. Half my friends lived on farms and nearby small villages, and they had rural route addresses. Indian reservations are a key target of the HUBZone program, and yet companies are thwarted when their headquarters and their employees' homes are served by rural routes. There is a provision on the mapping tool for entering latitude-longitude designations, but we are aware of companies well qualified and highly suited for the HUBZone program, even companies that have previously been certified, being denied certification. These companies are deterred from providing good jobs to residents in areas of high unemployment.

Call to Action

It's time to set this program right so that it can provide the benefits intended and refocus jobs on high-unemployment targets. Let's mount a call for:

1. A return to designations at the county/independent city level – designations that are easy to understand, assess and evaluate.

2. Certification that would last at least five and perhaps ten years, so that a firm is encouraged to apply and get certified, and is rewarded for sticking with the program long enough to establish the benefits in the designated community.
3. Fixing the rural route/PO box conundrum by designation at the county/independent city level.
4. Establishing a fixed schedule of when areas are added/removed so that the map remains stable and reliable for a reasonable period.

I would be pleased to work with the Committee to develop solutions to make this program productive.

Sincerely yours,

/signed/

Thomas D. Johnson, President

TDJ/me



U.S. SMALL BUSINESS ADMINISTRATION
WASHINGTON, DC 20416

OFFICE OF GENERAL COUNSEL
OFFICE OF PROCUREMENT LAW

DATE: June 10, 2016

TO: Mariana Pardo
Director, HUBZone Program

FROM: John W. Klein
Associate General Counsel for Procurement Law

SUBJECT: HUBZone Designations

This memo is in response to your request for guidance as to how the Small Business Administration (SBA) should use data from the Internal Revenue Service (IRS) and the Department of Housing and Urban Development (HUD) for purposes of determining HUBZone areas, in light of significant changes to the data that is available today as compared to when the HUBZone program was first established. Specifically, you ask whether or not the general definition of the term "qualified census tract" necessarily includes the addition of "population caps" when applied to the HUBZone program. In order to properly answer your question, we looked at the Small Business Act, its legislative history, the Internal Revenue Service Code (IRSC) and sections of HUD's rules, including recent Federal Register notices, regarding the determination of qualified census tracts (QCTs). For the reasons set forth below, we believe that it is appropriate for SBA to use the QCT data without the population caps as it is consistent with the Small Business Act and the IRS definition of QCTs, 15 U.S.C. § 632(p)(4)(A). Although SBA relies on the QCT analysis by HUD, the additional steps HUD takes in its application of the data is not consistent with our statute and the spirit and intent of the HUBZone program.

The purpose of the HUBZone program is to "increase employment opportunities, investment, and economic development in" distressed areas by providing access to more federal contracting opportunities. 13 C.F.R. § 126.100; 15 U.S.C. § 657a. Specifically, the HUBZone program provides federal contracting preferences to qualified small businesses located in "Historically Underutilized Business Zones" (HUBZones). Pursuant to the Small Business Act, the term "Historically Underutilized Business Zone" means any area located within one or more:

- (A) qualified census tracts;
- (B) qualified nonmetropolitan counties;
- (C) lands within the external boundaries of an Indian reservation;
- (D) redesignated areas;
- (E) base closure areas; or
- (F) qualified disaster areas.

15 U.S.C. § 632(p)(1).

In addition, the Small Business Act provides: “The term ‘qualified census tract’ has the meaning given that term in section 42(d)(5)(C)(ii) of title 26.” *Id.* § 632(p)(4)(A). Title 26 is the Internal Revenue Code. Section 42 of title 26 addresses the Low-Income Housing Credit. Section 42(d)(5)(C)(ii) does not exist in title 26. We have traced the origins of this incorrect reference through legislative history, which is described below.

When the HUBZone Program was first established by the HUBZone Act of 1997, the Small Business Act provided the following definition for Qualified Census Tract: “The term ‘qualified census tract’ has the meaning given that term in section 42(d)(5)(C)(ii)(I) of the Internal Revenue Code of 1986.” 15 U.S.C. § 632(p)(4)(A) (1997).¹

At that time, section 42(d)(5)(C)(ii)(I) provided:

(I) In general. The term “qualified census tract” means any census tract which is designated by the Secretary of Housing and Urban Development and, for the most recent year for which census data are available on household income in such tract, in which 50 percent or more of the households have an income which is less than 60 percent of the area median gross income for such year or which has a poverty rate of at least 25 percent. If the Secretary of Housing and Urban Development determines that sufficient data for any period are not available to apply this clause on the basis of census tracts, such Secretary shall apply this clause for such period on the basis of enumeration districts.

26 U.S.C. § 42(d)(5)(C)(ii)(I) (1997).

In 2000, Congress amended the definition of “qualified census tract” contained in section 42(d) of the Internal Revenue Code, as well as the definition contained in section 632(p)(4)(A) of the Small Business Act.² Amended 26 U.S.C. § 42(d)(5)(C)(ii) provided:

(ii) Qualified census tract
 (I) In general. The term “qualified census tract” means any census tract which is designated by the Secretary of Housing and Urban Development and, for the most recent year for which census data are available on household income in such tract, either in which 50 percent or more of the households have an income which is less than 60 percent of the area median gross income for such year or which has a poverty rate of at least 25 percent. If the Secretary of Housing and Urban Development determines that sufficient data for any period are not available to apply this clause on the basis of census tracts, such Secretary shall apply this clause for such period on the basis of enumeration districts.
 (II) Limit on MSA’s designated. The portion of a metropolitan statistical area which may be designated for purposes of this subparagraph shall not exceed an area having 20 percent of the population of such metropolitan statistical area.

¹ <https://www.gpo.gov/fdsys/pkg/PLAW-105publ135.html/PLAW-105publ135.htm>

² Both of which were enacted through the Consolidated Appropriations Act of 2000.

(III) Determination of areas. For purposes of this clause, each metropolitan statistical area shall be treated as a separate area and all nonmetropolitan areas in a State shall be treated as 1 area.

Congress amended section 632(p)(4)(A) of the Small Business Act by substituting "section 42(d)(5)(C)(ii)" for "section 42(d)(5)(C)(i)(I)." Pub. L. 106-554 § 1(a)(9). In the Senate Report for the Small Business Reauthorization Act of 2000, the change to the Small Business Act definition was described as only a technical amendment. The report provided: "The Committee's bill includes a technical correction to the definition of 'qualified census tract.' It also makes two major substantive changes to the definition of 'qualified nonmetropolitan county.'..."³ Notably, the report provided a detailed description of and explanation for the substantive changes to the definition of "qualified nonmetropolitan county." The only elaboration of the change to the definition of "qualified census tract" was the following, which appeared in the section-by-section analysis of the bill: "[this section] corrects the reference in the definition of 'qualified census tract,' to refer to Internal Revenue Code section 42(d)(5)(C)(ii)." *Id.* Given this report language, it does not appear that Congress intended to substantively change the definition of "qualified census tract" as SBA had been using it for purposes of the HUBZone Program. As such, it is our view that SBA should be able to continue to apply the general definition of "qualified census tract" contained in section 42(d) of the Internal Revenue Code in making HUBZone designations.⁴

HUD's use of the census data is to establish "Difficult Development Areas" (DDAs) and QCTs. The QCTs are then subject to additional calculations for purposes of the Low-Income Housing Tax Credit (LIHTC) under IRC Section 42 (26 U.S.C. 42).⁵

The term "qualified census tract" means any census tract which is designated by the Secretary of HUD and, for the most recent year for which census data are available on household income in such tract, either in which 50 percent or more of the households

³ <http://thomas.loc.gov/cgi-bin/vpquery?T?&report=sr422&dbname=106&>

⁴ In 2008, Congress redesignated section 42(d)(5)(C) as section 42(d)(5)(B). Pub. L. 110-289 § 3003(g)(3). Since that time, the Small Business Act has not been amended to reflect the redesignation.

⁵ The LIHTC is a *tax incentive intended to increase the availability of low income housing*. Section 42 provides an income tax credit to owners of newly constructed or substantially rehabilitated low-income rental housing projects. The dollar amount of the LIHTC available for allocation by each state (the "credit ceiling") is limited by population. Each state is allocated credit based on \$1.25 per resident. States may carry forward unused or returned credit derived from the credit ceiling for one year; if not used by then, credit goes into a national pool to be allocated to states as additional credit. State and local housing agencies allocate the state's credit ceiling among low-income housing buildings whose owners have applied for the credit. Besides Section 42 credits derived from the credit ceiling, States may also provide Section 42 credits to owners of buildings based upon the percentage of certain building costs financed by tax-exempt bond proceeds. Credits provided under the tax-exempt bond "volume cap" do not reduce the credit available from the credit ceiling. The LIHTC reduces income tax liability dollar for dollar. It is taken annually for a term of ten years and is intended to yield a present value of either (1) 70 percent of the "qualified basis" for new construction or substantial rehabilitation expenditures that are not federally subsidized (i.e., financed with tax-exempt bonds or below-market federal loans), or (2) 30 percent of the qualified basis for the cost of acquiring certain existing projects or projects that are federally subsidized. The actual credit rates are adjusted monthly for projects placed in service after 1987 under procedures specified in section 42. Individuals can use the credit up to a deduction equivalent of \$25,000. <https://www.huduser.gov/portal/datasets/qct/dda2000.html> (emphasis added).

have an income which is less than 60 percent of the area median gross income for such year or which has a poverty rate of at least 25 percent. If the Secretary of HUD determines that sufficient data for any period are not available to apply this clause on the basis of census tracts, such Secretary shall apply this clause for such period on the basis of enumeration districts.

26 USC § 42(d)(5)(C)(ii)⁶

Data from the 2010 Census on total population of census tracts, metropolitan areas, and the nonmetropolitan parts of states are used in the designation of QCTs. In its most recent analysis to determine tract eligibility, HUD announced the methodology it employs. (80 FR 73205, Nov. 24, 2015). The analysis begins with developing the list of QCTs. In order to do this, HUD looks at: 2010 Census 100-percent count data on total population, total households, and population in households; the median household income; and poverty rate. HUD then designates areas for purposes of the LIHTC. (80 FR 73205, Nov. 24, 2015). HUD's methodology of extracting data is applied specifically for the use of low-income tax credits, which includes DDAs, metropolitan statistical area (MSA) data and population caps.⁷ In addition, HUD recognizes a clear distinction of the named areas. In other words, HUD determines qualified census tracts and then adds the population caps for LIHTC purposes.

In November of 2015, HUD published *Statutorily Mandated Designation of Difficult Development Areas and Qualified Census Tracts for 2016* (80 FR 73201). In that Notice, HUD provided.

The United States Department of Housing and Urban Development (HUD) makes new DDA and QCT designations annually. As previously announced, the 2016 metropolitan DDA designations use for the first time Small Area Fair Market Rents (SAFMRs), rather than metropolitan-area Fair Market Rents (FMRs), for designating metropolitan DDAs. Compared to previous designations, this notice: (1) Describes a strengthening of the data quality standard HUD uses in designating the 2016 QCTs, (2) extends from 365 days to 730 days the period for which the 2016 lists of QCTs and DDAs are effective for projects located in areas not on a subsequent list of DDAs or QCTs but having submitted applications while the area was a 2016 QCT or DDA, and (3) establishes the effective date of the new QCTs and DDAs as Jul 1, 2016 rather than January 1.

⁶ In the Tax Reform Act of 1986 (the "1986 Act"), Congress reorganized §§ 103 and 103A of the Internal Revenue Code of 1954 (the "1954 Code") regarding tax exempt bonds into §§ 103 and 141 through 150 of the Internal Revenue Code of 1986. Congress intended that to the extent not amended by the 1986 Act, all principles of pre-1986 Act law would continue to apply to the reorganized provisions. See H.R. Conf. Rep. No. 841, 99th Cong., 2d Sess. H-686 (1986), 1986-3 (Vol. 4) C.B. 686.

⁷ In areas where more than 20% of the population qualifies, census tracts are ordered from the highest percentage of eligible households to the lowest. Starting with the highest percentage, census tracts are included until the 20% limit is exceeded. If a census tract is excluded because it raises the percentage above 20%, then subsequent census tracts are considered to determine if one or more census tract(s) with smaller population(s) could be included without exceeding the 20% limit. <https://www.huduser.gov/portal/datasets/qct/dda2000.html>.

80 FR 73201.

According to HUD's Office of Policy Development and Research (PD&R),

LIHTC is the most important resource for *creating affordable housing in the United States today*. The LIHTC database, created by HUD and available to the public since 1997, contains information on 40,502 projects and 2.6 million housing units placed in service between 1987 and 2013. Created by the Tax Reform Act of 1986, the LIHTC program gives...the... budget authority to issue *tax credits* for the acquisition, rehabilitation, or new construction of rental housing targeted to lower-income households. HUD's database is the only complete national source of information on the size, unit mix, and location of individual projects.

<https://www.huduser.gov/portal/datasets/qct/dda2000.html> (emphasis added).

Like HUD, SBA's HUBZone designations also require stronger applications of the volume of available data. When the Small Business Act established the HUBZone program, the main, and in some categories only, source of data was from the decennial census. At the time the program was enacted, eligibility for the HUBZone program was based upon census results. 15 U.S.C. §632(p). However, over time additional eligibility criteria for other firms are not tied to the census because these firms are located in "base closure areas," or lands within the external boundaries of a military installation that was closed through the authority of various Base Realignment and Closure (BRAC) or similar laws. See 15 U.S.C. §632(p)(4)(D), NDAA 2013. The common factor is that all these areas are deemed "economically distressed." In all cases, the HUBZones were expected to maintain their identity for a period of years, not months.

As stated in the legislative process conference report, the program was described as "a place-based contracting assistance program whose primary objective is job creation and increasing capital investment in distressed communities." It provides participating small businesses located in areas with low income, high poverty rates, or high unemployment rates with contracting opportunities in the form of "set-asides," sole-source awards, and price-evaluation preferences. SBA Office of Advocacy, May 2008, <http://www.sba.gov/advo/research/rs325tot.pdf>.

Unlike HUD, SBA is tasked with using QCT data for determining distressed areas, not affordable housing tax credits. Arguably, the data is the same; however, the Small Business Act specifically references the data and gives the SBA Administrator discretion on its use in implementing the HUBZone program. "Upon the request of the Administrator, the Secretary of Labor, the Secretary of Housing and Urban Development, and the Secretary of the Interior (or the Assistant Secretary for Indian Affairs), shall promptly provide to the Administrator such information as the Administrator determines to be necessary to carry out enforcement of the program." 15 U.S.C. § 657(c). Clearly, Congress was intent on keeping a uniformed source of data for the program, thus the reference to the IRSC, and SBA continues to rely on the data provided by HUD for establishing qualified HUBZone areas, specifically the QCTs. However,

the additional steps for MSAs creates caps on participation within a QCT. The definition upon which SBA relies is for QCTs generally, not variations or specific categories.

Conclusion

Based on the foregoing it is appropriate for SBA to use the QCT data as proposed without the population caps as it is consistent with the Small Business Act and IRS definition of QCTs. 15 U.S.C. § 632(p)(4)(A). Although SBA relies on the QCT analysis by HUD, the additional steps HUD takes in the LIHTC analysis, including DDAs and MSAs is not consistent with our statute and the spirit and intent of the HUBZone program.

If you have any further questions, please contact Lara Hudson at 202-619-0564.



Storage Strategies, Inc.

September 12, 2016

U.S. House of Representatives
Small Business Committee
Rayburn HOB, Room 2360
Washington, DC 20515

Subj: Testimony for the Record - Ensuring Opportunities: Oversight of the HUBZone Program

Dear Small Business Committee:

I had the distinct pleasure of attending the hearing on Wednesday, September 7, 2016 in which you received testimony regarding oversight of the HUBZone program. It was a privilege and honor to witness our Government in action. As the owner of a small business that participates in the HUBZone program, I was grateful to hear the Committee's interest in ensuring the Small Business Administration (SBA) has the resources and support necessary to ensure effective operation of this vital program. I am also pleased to offer this testimony to the Committee.

Storage Strategies, Inc. (dba: SSI) is contracting firm which has supported the DoD and Federal civilian agencies with enterprise information technology engineering and operations support since our founding in 2007. Our customers include the Defense Logistics Agency, U.S. Navy, Department of Veterans Affairs (VA), Department of State, and National Geospatial Intelligence Agency. SSI is a VA verified Service Disabled Veteran Owned Small Business and SBA certified HUBZone Small Business. SSI moved to a HUBZone in Manassas Park, Virginia in 2014 to establish ourselves as a HUBZone Small Business. As a high tech firm, SSI took a different approach toward the HUBZone program by setting up a community service project to obtain and maintain our HUBZone certification. In March of 2014 SSI hired seven local HUBZone residents and established the SSI Career Resource Center in our new principal office in Manassas Park. In July of 2014 SSI was certified as a HUBZone Small Business.

SSI recruits tech savvy students from the local high school, trains and certifies them as Microsoft Office Specialists, and employs them in our Career Resource Center (CRC) to provide free IT basic skills coaching to local adults. SSI has partnered with the Manassas Park High School to enroll students hired in the school's work study program which provides class credit for students enrolled. SSI's CRC is also staffed with receptionists, administrative assistants, and an office manager - all from local HUBZones. The CRC provides free use of an IT training lab, English language training, and free resume development assistance to local residents. To date, SSI has hired 20 local HUBZone residents and maintained an average HUBZone employee percentage of 40 percent. In 2015, SSI paid over \$147,000 in wages to local HUBZone residents and provided over \$63,000 of free IT coaching and job search services to local residents.

The HUBZone program has benefited SSI from a business and revenue perspective, attributing to approximately half of our \$3 million in annual revenue from subcontracts from prime contractors. SSI's current prime contract was won as a competitive award as a Service Disabled Veteran Owned Small

Subj: Testimony for the Record - Ensuring Opportunities: Oversight of the HUBZone Program

Business set aside. We have neither been awarded any HUBZone set aside contracts, nor competed on any contracts as a prime which included the 10 percent price preference.

In May of 2016, SSI was informed by the SBA that the census tract where our principal office resides, and most of our HUBZone employees reside, was re-designated as a Previously Qualified Tract. SSI has until March of 2019 to relocate our business and hire at least 12 new employees from other HUBZones or lose our HUBZone status. While we are grateful for the policy for continued HUBZone status in a Previously Qualified Tract for three years, for small businesses like us who recently established a HUBZone location, three years is a very challenging time line to recoup investments made in moving into a HUBZone. SSI invested over \$100,000 in initial labor and buildout of our principal office in Manassas Park, and renovated an abandoned building into a modern IT training facility. SSI would deeply appreciate the extension of the three-year grace period to seven years to ensure small businesses like us have adequate time to find a new office locations and gracefully transition their work forces.

SSI also strongly supports the SBA's efforts to lift the 20 percent population cap on the HUD Qualified Census Tract (QCT) list. The HUBZone program is a job creating program which directly impacts local communities providing employment opportunities to many in economically stressed areas. Limitation of HUBZone census tracts to the HUD QCT list, which is intentionally constrained to limit Low Income Housing Tax Credit liabilities, is at crossed purposes with the intent of the HUBZone program. An expansion of the HUBZone census tract list to include all Qualified Census Tracts in any metropolitan statistical area (MSA) will not result in a sudden flight of HUBZone Small Businesses from existing HUBZones to new HUBZone qualified tracts. Any census tract which qualifies is, by definition, economically stressed due to poverty or low median income. Established HUBZone Businesses will have no economic incentive to move to newly designated tracts.

Lastly, I urge the Committee to consider this figure: if only half of the current 5,600 HUBZone qualified firms provided half of the amount of wages to HUBZone residents that SSI provided last year, that would equate to over \$205 million in wages to HUBZone residents. From a purely fiscal perspective, the \$3 million SBA spends to run the HUBZone program yields a 6,733 percent return on investment.

Thank you again for the opportunity to participate in the legislative process and for all the Committee does to support the Small Business Community and local economies.

Very Sincerely,



Steve Mackie
President

Digitally signed by
Mackie.Steven.C.ORC1000031052.ID
DN: c=US, o=U.S. Government, ou=ECA,
ou=ORC, ou=Storage Strategies Inc.,
cn=Mackie.Steven.C.ORC1000031052.ID
Date: 2016.09.12 10:23:53 -04'00'



September 15, 2016
 Testimony for the Record
 Ensuring Opportunities: Oversight of the HUBZone Program
 U.S. House Small Business Committee

The Honorable Steve Chabot The Honorable Nydia Valazquez
 U.S House Small Business Committee U.S. House Small Business Committee

Dear Chairman Chabot and Ranking Member Valazquez,

Thank you for the opportunity to provide information to the House Small Business Committee on the importance of the HUBZone program to our nation and small government contractors such as SupplyCore Inc. We are an integrated logistics solutions company headquartered in Rockford, Illinois, which serves our military around the world. I appreciate the Small Business Committees' focus on the importance of enhancing and improving this underutilized and potentially very impactful HUBZone program in order to foster the maximum benefit of lifting up distressed economic areas of our communities, both in urban centers and rural areas throughout our nation. I would like to provide some input on how this program can help small business contractors grow and be even more impactful in revitalizing our communities.

Our small business located its principal office and company headquarters in the heart of a HUBZone designated area in Rockford, Illinois. This location is one of the most impoverished urban centers in the state of Illinois with high poverty rates, lack of safe, affordable housing options and chronic high unemployment. We are a small business concern by SBA standards, and currently have over 50 percent of our 200 employees performing their work at our HUBZone location in Rockford.

The presence of our company headquarters provides significant economic benefits to this blighted area of our city by creating activity for other local small businesses, which creates a multiplier effect with employees spending money at local shops, restaurants, and other businesses. Our company has invested \$15 million in renovating its own building, and is currently dedicating its government profits by investing into other central city revitalization projects in blighted areas and program initiatives in the HUBZone.

Currently, our company anticipates investing up to \$30 million in revitalizing local abandoned buildings to re-purpose and start new businesses. In addition, we have implemented a robust philanthropy program with strong engagement from our workforce dedicating volunteer time and financial resources to local non-profit organizations within



the HUBZone. Our growth strategy is to expand our federal government business even further, and invest even more revenue from our primary business into the local community.

Unfortunately, under current eligibility criteria, a small business such as ours cannot qualify as a HUBZone certified business which would significantly enhance our ability to grow, and have an even greater impact into the local economy of the HUBZone designated area. The company meets all requirements, with one exception, it only has 17 percent of its employees residing in the HUBZone areas. This does not meet the 35 percent residency threshold required for eligibility.

The 35 percent workforce residency requirement is one of the biggest challenges to allowing the overall HUBZone program to expand nationally and have an even greater positive impact in low income areas. Many small businesses have difficulty finding employees that reside directly in the HUBZone where there are limited housing options is very difficult. In addition, companies that may have operations in multiple locations around the nation only add to this challenge. Yet, the impact of the presence of a company's principal headquarters, with a majority of its employees working there is helping lift up an area that has been riddled with poverty and blight.

In order to address this challenge, I propose a slight modification to the program that will incentivize more companies like ours to start up, or locate their principal operations in HUBZone designated areas. I recommend establishing a modified HUBZone, secondary certification, which requires a business to establish its principal headquarters in the HUBZone, along with a requirement that at least 50 percent of the employees work directly at this location. The residency requirement would be eliminated for this secondary certification. This narrowly defined new designation under the HUBZone program would only allow the small business concern to be eligible to benefit from the 10 percent price evaluation preference in competing for full and open federal government agency competitions. This new designation would not be eligible for HUBZone sole source or set-aside acquisition strategies at the federal agencies, and therefore would not compete with current certified companies.

The impact of this enhancement to program eligibility criteria would be a very significant incentive for government contractors and serve as a major economic development tool for communities struggling to attract new employers to economically distressed areas. Under the secondary certification, the company would still need to meet the requirements as a small business by SBA standards. Again, this new designation would not compete with current HUBZone certified businesses, but greatly enhance the ability of the program to be one of the most successful federal programs revitalizing our urban centers, and low income rural areas around the United States.



Worldwide Supplies • Worldwide Support

Once again, thank you for your strong support of the HUBZone program and the Committee's interest in giving our communities another important tool to strengthen and revitalize their local economies that are most in need.

Sincerely,

Bryan Davis,
Vice President of Government Affairs and Community Engagement
SupplyCore Inc.
Rockford, Illinois



Matthew Kennedy, President
Summit Technologies & Solutions, Inc.
7686 Richmond Highway, Suite 110
Alexandria, VA 22306

United States House of Representatives Small Business Committee
Rayburn HOB
Room 2360
Washington, D.C. 20515

September 9, 2016

Dear Representatives,

On September 7, 2016 a hearing was held concerning the Historically Underutilized Business Zone (HUBZone) Program. Summit Technologies & Solutions, Inc. (Summit) would like to contribute additional information in hopes that the importance of the HUBZone Program and the need for further economic development of the Program's goals are fully recognized.

The HUBZone Program helps to promote job growth, capital investment, and economic development by providing contracting assistance to small businesses located in areas characterized by higher than average unemployment and lower than average income. Summit is proud to be a HUBZone-certified company. First located in Ranson, West Virginia, Summit is now headquartered in Alexandria, Virginia. As a company in the Aerospace and Defense Industry, we provide technically skilled personnel and specialized solutions in Systems Engineering, Program Management, Safety and Mission Assurance, and Information Technology to large engineering enterprises. In addition to these services, Summit also hires and trains administrative staff to help build the resumes of our part-time employees as they transition into full-time careers.

The Small Business Administration (SBA) and the Government Accountability Office (GAO) currently require a minimum of three percent (3%) of all federal prime contract and subcontract dollars go to businesses in economically disadvantaged communities. These earmarks for funding and contract awards help HUBZone-certified businesses compete with larger companies. Assigning contracts to HUBZone-certified businesses helps to create jobs, promote economic growth, and improve communities throughout the country. The HUBZone Program and the set-aside of HUBZone-designated work has contributed significantly to Summit's success as a federal government supplier. Since our inception in February 2009, Summit has been able to participate on more than twenty (20) contracts at five (5) NASA Centers. Our work at these Centers has been as both a prime contractor and subcontractor. Without the specific HUBZone goals set forth on contracts such as the Engineering Services Contract at the Kennedy Space Center, the Extra-Vehicular Space Operations Contract at the Johnson Space Center, the Ground



Systems and Mission Operations, and the Geophysics Geodynamics and Space Geodesy Contract at the Goddard Space Flight Center, and the HUBZone set aside Project Management Support Services Contract at Glenn Research Center, Summit would not have enjoyed the success it has over the last several years. It is because of opportunities like these that Summit has been able to grow and make a name for ourselves within an extremely competitive market. Summit hopes that the SBA, GAO, and Congress continue to hold large businesses accountable for meeting these set-aside goals. In 2015, for example, NASA awarded prime contracts to HUBZone contractors at only .62% of its total dollars, significantly less than the 3% goal set by the federal government. Additionally, only 2.3% of subcontract dollars were awarded to HUBZone contractors, well below the 3% goal. Until larger businesses and federal government agencies are required to fully meet the set-aside goals, companies like Summit will continue to struggle to compete and our communities will remain stagnant and not see their full potential.

Summit believes in the potential of the HUBZone Program to transform communities and has dedicated itself to assisting in the economic development of the area by providing high-quality jobs, frequenting other small business, supporting charitable efforts, and living and working in these areas. Since our inception, we have employed more than fifty-five people from HUBZone areas. We help individuals build their qualifications, self-confidence, family life and social contributions so that they can better their communities and help in the revitalization of the areas where they live. We fund charity races and science fairs; we dedicate time and resources to the Red Cross and Wounded Warriors Project; we even sponsor youth athletic teams and charity drives. Summit is fully invested in the HUBZone Program; we believe it is our duty and responsibility to positively change our community. Our employees work, live, and volunteer in HUBZone areas across the country, and if the SBA, GAO, and Congress continue to support the HUBZone Program, Summit will be able to continue to hire within the nation's HUBZone areas and our communities will continue to improve and compete with the more economically stable and affluent areas around us.

It is imperative that this program receive the support and commitment that it so desperately needs. Continuing to treat it in the same old fashion does nothing to build upon the limited success that it has seen. Congress and the federal government must recognize the importance of this program, acknowledge the good it is doing as a result of businesses such as Summit in employing individuals that otherwise would not have such opportunities, and commit to providing the program with the support and opportunities necessary to allow it to continue to grow.



Thank you for your time and whatever assistance you can provide to help support the HUBZone program.

Sincerely,

A handwritten signature in black ink, appearing to read "Matthew Kennedy", with a large, stylized flourish at the end.

Matthew Kennedy, President
Summit Technologies & Solutions, Inc.
7686 Richmond Highway, Suite 110
Alexandria, VA 22306



September 12, 2016

US House of Representatives Small Business Committee
(Rayburn HOB, Room 2360, Washington, DC 20515)

Subject: Testimony for the Record – Ensuring Opportunities: Oversight of the HUBZone Program

Chairman Chabot, Ranking Member Velazquez, and Members of the Committee, my name is Stephen Synnott, the President/CEO and owner of Syntelligent Analytic Solutions, LLC (Syntelligent). I wish to show my support for the HUBZone Program.

Syntelligent, a Certified Service Disabled Veteran Owned Small Business (SDVOSB) and an SBA certified HUBZone Small Business Concern, was founded in 2010 and provides professional, management and technical services and solutions in the areas of: Program Management & Support, Analytic & Intelligence Operations, Information Technology, and Security Operations.

In April 2012, when we opened our HUBZone Principal Office in Luray (Page County), VA, we had a total of seven employees (2 full-time and 5 part-time). Since that time, we have experienced a ten-fold increase in growth and currently support operations as a subcontractor at the Department of Homeland Security, Transportation Security Administration and the Defense Intelligence Agency. This work is directly tied to our participation in the HUBZone program.

Since entering the HUBZone Program, we have created 28 new jobs (6 full-time and 22 part-time) within HUBZones. These jobs are in the areas of information technology, human resources, administrative support, business development and recruiting. Many of the employees filling these positions were unemployed (some for quite some time) prior to coming to work for Syntelligent. These jobs would not exist in Luray, if it were not for the HUBZone program.

An additional six part-time employees have received training and experience and have moved to full-time positions with other companies over the past 4 years.

As part of our commitment to the local Page County community, Syntelligent provides paid internships for high school and college students providing them not only with finances to help with their education, but with meaningful professional work experience and job skills that will help guide them on a career path in the future.

The HUBZone Program enables Syntelligent and thousands of other small businesses to contribute to the economic development of their communities by creating jobs and opportunities for their residents.



September 12, 2016

Mr. Steve Chabot
Chairman
US House of Representatives
Small Business Committee
Rayburn HOB
Room 2360
Washington, DC 20515

Dear Mr. Chabot.

The Data Entry Company (TDEC) is a 58 year old HUBZone Small Business based in Oakland, Maryland (Garrett County). TDEC employs 100 people in Oakland who work in a 15,000 square foot data processing facility owned by the company. The company as a whole has 325 employees nationwide.

The HUBZone program has been valuable tool for TDEC. We have expanded our business by leveraging the programs benefits growing from 50 people when we started in the HUBZone program in 2001 to 325 people today. We have won prime federal HUBZone Set-Aside contracts and we subcontract to large businesses required to fill HUBZone contracting goals.

We are active members of the Garrett County Community hiring many people, creating well paying fully benefited jobs and we actively bring work to our facility which creates even more jobs and more opportunities.

That said, please work to increase the HUBZone re-designation period from 3 to 7 years which will keep this valuable program going in the right direction.

With best regards, I am

Sincerely,

A handwritten signature in black ink that reads "R. Dennis DuFour". The signature is written in a cursive style with a large, stylized "R" and "D".

R. Dennis DuFour
President

Telephone #: (276) 957-2281

Fax#: (276) 957-1049

Triangle Electric Corporation



560 Bouldin Road

Ridgeway, Virginia 24148

"HubZone / Woman Owned Small Business"

September 9, 2016

US House Of Representatives Small Business Committee
Rayburn HOB, Room 2360
Washington, DC 20515

Attn: Delia Barr; Committee Clerk

Located in Horsepasture, Virginia, Triangle Electric Corporation is a privately owned and operated business. Triangle Electric Corporation has been in business since 1965 and has provided safe, efficient, cost effective, reliable contracted electrical services and products for over 50 years.

Being a HUBZone certified company has benefited our company in numerous ways. Due to some government requirements to have a certain percentage of HUBZone participation, it has opened doors to us with the Federal Government. In return, it has opened up doors for our employees and our community. We have been able to hire additional staff as well as place employees on government contracted work. We have been able to expand areas of our company to meet the needs of the Federal Government. Due to Martinsville / Henry County having such a high unemployment rate, being a HUBZone certified company has helped with unemployment issues in the area.

Triangle Electric Corporation is very involved in the community. Nancy K. Bradshaw (President) is a member of the Martinsville-Henry County Chamber Of Commerce. The Chamber Of Commerce is always seeking ways to increase the economy of our area. Nancy K. Bradshaw and Charles H. Bradshaw (Vice President) are both active members of the Horsepasture Ruritan Club and Horsepasture Christian Church. Triangle Electric Corporation prides itself on being a small company that is community orientated.

Regards,

A handwritten signature in black ink, appearing to read "Charles H. Bradshaw".

Charles H. Bradshaw
Vice President
Triangle Electric Corporation



(866) 886-8527

"Testimony for the Record - Ensuring Opportunities: Oversight of the HUBZone Program"

12 September, 2016

To: US House of Representatives Small Business Committee

Recently, the Small Business Committee of the US House of Representatives reviewed the HUBZone Program, specifically reports of potential fraud and recent SBA actions to expand the number of Qualified Census Tracts in the program.

As a small business owner, I understand the value of oversight and accountability. As an SBA Subcontractor of the Year, I rely on that accountability in the SBA programs to discourage fraud and waste. What concerns me is that I see little attention paid to the value that HUBZone companies have to their communities. And I am equally concerned that our HUBZone is to expire here in rural Appalachia TN in 2018.

As TEVET CEO, I have established and grown a stable business through innovation, while at the same time significantly improving the economic, educational and social quality of life in and around Greeneville, Tennessee. At TEVET, we have focused on both job development and extensive community outreach and support. This is what led to our being named SBA Subcontractor of the Year as well as SBA HUBZone Corporate Citizen of the Year.

I am a proud US Navy veteran, and I am equally proud of the investment we have provided to our rural, economically-challenged region of East Tennessee. Growing up here, I saw many people lose their jobs as local companies moved manufacturing operations out of the country. TEVET supports many communities with regular donations to the Wounded Warrior Project, the Niswonger Children's Hospital, Holston Home for Children and in the revitalization of the Capitol Theatre of Greeneville. There are many many other areas of investment in outreach as well both here and nationally.

We HUBZone businesses know best: the program is essential to our continued success and ability to invest in local long term infrastructure. Without our HUBZone designation, TEVET would seriously consider and pursue relocation (even to another state) should our HUBZone shrink as planned for 2018.

Most importantly, we at TEVET want HUBZone policy to extend the redesignation to a full 7 years (instead of the current 3 years) to maintain our HUBZone status so that we and others have stability and can invest more heavily in infrastructure and job creation. Extending to seven years will encourage other companies to grow and assist their communities similarly as we are doing here in Eastern Tennessee.

The true value of HUBZone is just that: sustained growth and recovery in regions that need it most. I can't think of a region in the country that needs it more than those in rural Appalachia. "Please" consider and pass legislation to extend the redesignation period from 3 to 7 years in the HUBZone program.

Very truly,

Tracy D. Solomon
Tracy Solomon

TEVET CEO

Rev. 08 15 2016



September 12, 2016

US House of Representatives Small Business Committee
Rayburn HOB, Room 2360
Washington, DC 20515

I am writing this testimony on behalf of Work Force Now, a coalition of HUBZone small businesses, non-profit organizations (including Still Serving Veterans), and large businesses in the Huntsville, Alabama area.

The current HUBZone small business participants in this coalition are Canvas, Inc., Cortina Consulting Group, LLC, JBS Solutions, Inc., Linc Research Incorporated, and Maximum Technology Corporation (MTC). These HUBZone companies are all engineering and professional services companies and collectively employ 150+ employees. Over 50 of these employees reside in designated HUBZone areas.

Workforce Now's mission is to prepare individuals in under resourced communities, who want a career, to enter the workforce through HUBZone companies.

Compare this to the SBA HUBZone programs stated mission: "to provide federal contracting assistance for qualified Small Business Concerns (SBCs) located in historically underutilized business zones in an effort to increase employment opportunities, investment, and economic development."

The primary difference is that we've just taken it one step further.

Our goal is not just to provide jobs but to provide careers. There is no better path to economic prosperity than jobs, especially jobs with a high potential for professional growth.

We not only want to provide careers to currently eligible employees now but also to provide career visioning to the entire HUBZone community including schools down to the elementary level. The other aspect to our career emphasis is that we feel we should be representative of the large high-tech workforce in the Huntsville, Alabama area.

We believe that to be a successful and sustainable HUBZone business, you really have to be about the "HUBZone" just as much if not sometimes more than the "Business".

We accomplish our mission by providing resources to our local under resourced communities for Job Skills Training, Life Skills Training, Mentoring, Job Placement, and On-The-Job-Training. We host periodic job recruiting fairs that also include resume writing, interviewing, and job skills coaching.



The SBA HUBZone program has been instrumental in our success at creating jobs and careers in distressed areas. Because of the preferential treatment afforded to HUBZone companies, we can succeed with a business model that invests resources to develop our employees from part-time entry level jobs to full time professional careers.

It is critical to our on-the-job-training programs that we continue to receive credit for part-time employees.

Although the HUBZone program has been successful at creating jobs in our community, it could be even more effective if regulations were modified to reduce some of the risks associated with HUBZone certification.

One of the biggest challenges to HUBZone companies is the ability to remain certified after we make an investment in our HUBZone communities.

Under current regulations, it is very risky for HUBZone companies to invest in long term leases or purchase office space in HUBZone areas. This risk could be mitigated by allowing an office location to be remain compliant, even if the office location is later re-designated.

And because 35% or more of our employees live in designated HUBZone areas, we are at significant risk for our employees becoming ineligible as a result of re-designations. This risk could be prevented by allowing employees of certified HUBZone companies to remain eligible as long as they remain at the same address, even if that address is subsequently re-designated.

As HUBZone companies succeed in creating jobs in disadvantaged areas, our companies and our employees should not suffer the detrimental consequences of decertification; especially, when re-designation is caused by the economic development and prosperity that our efforts and investments created.

The HUBZone program has the most far reaching impact of any of the other socioeconomic programs. The HUBZone program helps entire communities, instead of just the disadvantaged individuals that own the business.

With some modifications to the current program, the HUBZone program could stimulate major jobs creation and economic development across the country.

Sincerely,

Edwina Musante

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