

STATEMENT OF

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BEFORE THE

COMMITTEE ON INDIAN AFFAIRS

UNITED STATES SENATE

May 12, 1999

Good morning Mr. Chairman and Members of the Committee. My name is Richard L. Hayes, and I am the Associate Deputy Administrator for the Office of Government Contracting and Minority Enterprise Development at the U.S. Small Business Administration (SBA). I am appearing on behalf of SBA Administrator Aida Alvarez, whose schedule does not permit her being with you today. I would like to thank you for giving me this opportunity to discuss the implementation of SBA's HUBZone Empowerment Contracting Program (HUBZone Program) and SBA's initiatives to promote economic development opportunities for Native Americans and within Indian reservation communities. I will also be discussing other SBA programs that support economic development on Indian reservations.

Since the HUBZone Program was launched on March 22, 1999, SBA's HUBZone Website has already had more than 1 million hits. As of today, we have received 105 applications and 42 applications have been approved. I am pleased to inform you that of the 42 HUBZone firms approved, five are Native American-owned. Now, let me tell you a little about each of these firms.

Dailey Construction of Lodge Grass, Montana, is a general construction firm that was established in 1978.

Short Hop Construction is a general construction firm located in Evans, Washington. Short Hop was established in 1996 and is a participant in SBA's Minority Enterprise Development Program.

- Lightning Excavation is a general construction firm located in Libby, Montana. Lightning Excavation was established in 1998 and is also a participant in SBA's Minority Business Development Program.
- Arrow Technology Group is located in Hugo, Oklahoma, and the firm was established in 1998.
- Door Electric Company is located in Onamia, Minnesota. The firm was established in 1986.

Mr. Chairman, let us say that Administrator Alvarez and I both feel strongly that the HUBZone Program will be a big success in promoting business and job opportunities in economically distressed urban and rural areas.

Now, let me summarize the program's brief history, cite the purpose of the HUBZone Empowerment Contracting Program, discuss the basic elements of the program, and then identify specific initiatives we have undertaken to implement the program.

On December 2, 1997, President Clinton signed into law the Small Business Reauthorization Act (P.L. 105-135), which authorized the HUBZone program. This program is designed to promote private-sector investment and employment opportunities in distressed communities by expanding Federal contracting within these communities. The HUBZone Program will fulfill its purpose by not only fostering community renewal in the short run, but also by helping to achieve and sustain the long-term viability of

HUBZone small businesses.

After enactment of the law, SBA began working on how to implement the program to accomplish its objectives. We wanted to build upon the President's Empowerment Contracting Program and other Federal programs targeting community renewal, such as the U.S. Department of Housing and Urban Development's and U.S. Department of Agriculture's Empowerment Zone/Enterprise Communities Programs, without diminishing or infringing upon other important Federal initiatives such as the 8(a) program.

On April 2, 1998, SBA issued the proposed regulations for the HUBZone Empowerment Contracting Program. On that same day, SBA established a HUBZone home page within SBA's Website. While preparing the proposed rule and establishing a Website, SBA consulted with a number of Federal agencies including: the Bureaus of Census, Labor Statistics and Indian Affairs, the U.S. Department of Commerce, and various other Federal agencies represented on the Federal Acquisition Regulation Council. SBA published the final rule for the HUBZone Program on June 11, 1998, and the final rule became effective on September 9, 1998. This final rule outlines SBA's responsibilities for the administration of the program. In addition, an interim rule that provides contractual guidance for the program was published as an amendment to the Federal Acquisition Regulation (FAR) on December 18, 1998, and became effective January 4, 1999. The final FAR rule is expected to be published shortly.

The purpose of the HUBZone Empowerment Contracting program is to provide Federal contracting opportunities for certain qualified small business concerns located in selected urban and rural areas. The implementing legislation set a goal for the HUBZone Program of three percent of Federal procurement phased in over a five-year period. In FY 1999, that equates to approximately \$2 billion. This number is expected to rise to \$6 billion a year by FY 2003. Additionally, the legislation provides for HUBZone contracting opportunities through restricted competitive, sole-source, and full and open competition. Small businesses will have the opportunity to participate in restricted competition limited to HUBZone firms and in negotiated sole-source contracts. Also, small companies located in HUBZone areas will be allowed a ten percent price evaluation preference in full and open competition. The program promotes private sector investment and employment opportunities in these communities. Eligible HUBZone businesses who locate in Empowerment Zone/Enterprise Communities may also qualify for a variety of employment and investment tax credits. Fostering the growth of Federal contractors in these areas and ensuring that these contractors become viable businesses for the long term, will help to empower these areas without adversely affecting recent efforts to streamline and improve the Federal procurement process.

In an attempt to implement this program in the most cost effective, efficient, and customer friendly manner possible, SBA has made extensive use of technology. All information about the program is available on the HUBZone Website, including descriptive materials, SBA's role in administering the program, frequently asked questions and a library which contains full text copies of program legislative and regulatory

documents. The Website address is www.sba.gov/hubzone.

The Website also has two very unique technical features that were added after SBA opened the program on March 22, 1999. The first is a geo-code mapping system which allows a firm to determine whether it is located in a HUBZone by simply typing in an address. The system also provides detailed maps of HUBZone areas, including eligible census tracts, non-metropolitan counties and reservations. The second feature is an electronic application form. The electronic application is straightforward and easy to complete. We estimate that most firms can complete it within one hour. The electronic application is supported by a complete application guide and context-sensitive help screens, which provide plain English explanations and reference material to assist the applicant. Our purpose in creating the HUBZone homepage was to provide small business firms easy access to all relevant information necessary to understand and apply for the program.

In order to ensure maximum utilization of this program by Federal contracting agencies, ensure that this program is both user friendly, and ensure that Federal agencies have easy access to a listing of eligible firms, we are using Pro-Net (SBA's national database of small business contractors), as a gateway to the database of approved HUBZone firms. Utilizing Pro-Net in this fashion is consistent with recent procurement streamlining initiatives, which encourage the use of centralized databases to identify prospective contractors. Through this process, contracting officers are able to use Pro-Net to identify firms for both small business and HUBZone set-aside opportunities.

Essentially, the HUBZone database serves as a subset of the overall Pro-Net database.

Next, I would like to outline the criteria for HUBZone areas and individual firm eligibility. HUBZone areas include the following: designated census tracts that are primarily located in metropolitan areas, qualified non-metropolitan counties that meet a specific income or unemployment test, and lands within the exterior boundaries of Indian reservations. Individual firm eligibility is based upon four specific criteria as follows: (1) the firm must be a small business, (2) its principal office must be located within a HUBZone, (3) it must be owned and controlled by one or more persons, each of whom are United States citizens, and (4) at least 35% of its employees must reside in a HUBZone.

Although the eligibility criteria for firms appears straightforward, there is one unique issue that affects tribally owned firms. As stated above, the statute requires that a HUBZone small business concern be “owned and controlled by 1 or more persons, each of whom is a United States citizen.” Thus, a legal issue has arisen concerning whether a small business concern owned and controlled by a Tribe, as an entity, rather than the individual tribal members, is owned and controlled by a person, who is also a U.S. citizen. After looking at the issue, we feel that there is a need for clarifying language to make it absolutely clear that tribally-owned businesses are eligible for the program. We are prepared to do that as part of our FY 2000 legislative package that will be transmitted to Congress shortly.

I would now like to identify other SBA efforts to support economic development on Indian reservations. Despite the overall soundness of our economy, there are areas of our country that are suffering. The economic vitality of Indian reservations is not what it could or should be. For these reasons, the Administration has embarked upon the "New Markets Initiatives" which is designed to highlight and emphasize assistance to areas that have been traditionally underserved. These initiatives, proposed in the President's FY 2000 budget, include programs to infuse these areas with equity capital, debt financing, and technical assistance, and we expect that Native American tribes will be able to utilize these tools to enhance and foster the economies of Indian reservations.

In addition, as part of SBA's strategy to reach out to traditionally underserved communities, we provided funding and support to 14 Tribal Business Information Centers (TBICs) to promote economic development on Indian reservations.

In August of 1995, the SBA entered into a Memorandum of Understanding with the Bureau of Indian Affairs (BIA) to establish the Tribal Business Information Centers (TBICs) demonstration project. The objective of the project, a partnership arrangement between a tribe or tribal college and the SBA, was to provide accessible and cost effective business development resources to Native American entrepreneurs living on or near Indian reservations. This objective was to be accomplished by establishing reservation-based TBICs. Currently, there are a total of 17 TBICs, 14 of which received SBA funding, participating in the project located in seven states: Arizona, California, Minnesota, Montana, North Carolina, North Dakota, and South Dakota. The project continues to be

very successful with the TBICs serving as invaluable resources in the effort to enhance and foster economic development opportunities on Indian reservations. We regularly receive requests from Tribes to establish new centers.

Since the inception of the project, the TBICs have assisted approximately 6,700 clients, provided approximately 11,353 hours of business counseling, held approximately 455 work shops, assisted in the completion of approximately 326 business plans and 200 loan packages, and were instrumental in the startup of approximately 315 businesses. Also, as testimony to the productive work of the TBICs, I would like to bring to your attention a story that is representative of their hard work. The Salish & Kootenai Tribal Business Information Center, located in Pablo, Montana, was instrumental in assisting Mr. Wayne Knutsen, the Owner of Knutsen Enterprises, in his efforts to start a landscaping business. The Salishy & Kootenai TBIC assisted Mr. Knutsen by helping him draft a business plan, loan application and company profile brochures. Additionally, Mr. Knutsen is utilizing business-related software that was provided by the Agency (QuickBooks) to learn how to control and manage his business. Today, Knutsen Enterprises, a successful landscaping business, employs three tribal members and is seeking to expand in the very near future.

TBICs offer community access to business related computer software technology, provide one-on-one business counseling services, and hold business workshops on an on-going basis. In an effort to further enhance economic development on Indian reservations, the SBA provided extensive training to TBIC managers/facilitators. Each TBIC

manager/facilitator received detailed training in the Agency's lending, Entrepreneurial Development, 8(a) Business Development, Small Disadvantaged Business and HUBZone Empowerment Contracting Programs.

TBICs can help a new business or an existing business. TBICs provide access to the tools and advice necessary to evaluate and improve marketing or sales techniques and product pricing. TBICs also offer invaluable guidance and counseling in market research and on obtaining business capital and credit. Using TBIC resources can result in a well-crafted, comprehensive business plan, which can assist new businesses to obtain capital, or expand the product line or services of existing businesses. SBA in its FY 2000 budget requested a funding level of \$1.0 million for the continuation of the TBIC project.

In fiscal year 1998, the HUBZone Empowerment Contracting Program provided \$350,000 to be utilized by the TBICs in their efforts to actively encourage, counsel, guide and direct Native American clients seeking to participate in the HUBZone program.

In December of 1998, SBA's Office of Native American Affairs held a TBIC Training Conference in Albuquerque, New Mexico. Respective senior Agency program representatives provided extensive training on SBA's entrepreneurial, lending and business development programs, and specifically on the HUBZone Empowerment Contracting Program.

Each TBIC manager/facilitator was required to attend at least one training seminar

to enhance their knowledge of the regulatory requirements of the HUBZone program. Each of the fourteen TBIC managers/facilitators received extensive training and resource materials detailing the requirements and benefits of the HUBZone program. Additionally, a senior representative from the HUBZone Program office provided an extensive overview of the program's policies, procedures and guidelines. Since October 1998, cumulatively the TBICs have held nine HUBZone workshops with approximately 165 participants, and provided individual HUBZone counseling to approximately 200 individuals.

Furthermore, the Office of Native American Affairs has scheduled a second TBIC Training Conference to be held in Montana on June 22 - 23, 1999. A specific session is being scheduled to cover the HUBZone program in more detail. The Office of Native American Affairs is currently in the process of designing and implementing a database to capture HUBZone specific information.

SBA assistance to the American Indian community has not been limited to counseling and training activities. In Fiscal Year 1998, the SBA approved 462 business loans totaling \$76.5 million to Native American-owned businesses. Additionally, SBA's Office of Native American Affairs is in the process of establishing a National Native American Task Force (NNATF). The task force will be comprised of elected tribal officials, individuals associated with economic development associations and organizations, and individuals involved in the promotion of economic development. The NNATF will offer culturally tailored insight, guidance and advice as to how best SBA may deliver its programs in Indian country. Also, the NNATF will provide SBA with much

needed input and guidance in understanding the unique economic and cultural barriers confronted by reservations in their efforts to enhance and foster economic development

In conclusion, the HUBZone Empowerment Contracting Program will bring jobs and capital to underutilized areas, including reservation communities. The economic multiplier effect of this infusion will help provide the basic infrastructure necessary for long term, sustained community development. The HUBZone Empowerment Contracting Program will serve as a vital component in the Administration's Empowerment Zone "arsenal of weapons" initiative to empower underutilized areas and promote community self-determination and long term economic development.

Thank you for inviting me to discuss with you the HUBZone Empowerment Contracting Program. I will be happy to answer any questions you might have.