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H.R. 1460, THE VETERANS ENTREPRENEURSHIP ACT OF 2003; H.R. 1712, THE VETERANS FEDERAL PROCUREMENT OPPORTUNITY ACT OF 2003; AND H.R. 1716, THE VETERANS EARN AND LEARN ACT

HEARING

BEFORE THE

SUBCOMMITTEE ON BENEFITS

OF THE

COMMITTEE ON VETERANS' AFFAIRS
HOUSE OF REPRESENTATIVES

ONE HUNDRED EIGHTH CONGRESS

FIRST SESSION

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H.R. 1460, THE VETERANS ENTREPRENEURSHIP ACT OF 2003; H.R. 1712, THE VETERANS FEDERAL PROCUREMENT OPPORTUNITY ACT OF 2003; AND H.R. 1716, THE VETERANS EARN AND LEARN ACT

WEDNESDAY, APRIL 30, 2003

U.S. HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON BENEFITS,
COMMITTEE ON VETERANS' AFFAIRS,
Washington, DC

The subcommittee met, pursuant to notice, at 10 a.m., in room 334, Cannon House Office Building, Hon. Henry Brown (chairman of the subcommittee) presiding.

Present: Representatives Brown, Brown-Waite, Michaud, and Davis.

Ex-officio present: Representative Evans.

OPENING STATEMENT OF CHAIRMAN BROWN

Mr. BROWN. Good morning, ladies and gentlemen. Welcome to this morning's hearing on House Resolution 1460, the Veterans Entrepreneurship Act of 2003; House Resolution 1712, the Veterans Federal Procurement Opportunity Act of 2003; and House Resolution 1716, the Veterans Earn and Learn Act.

As I see it, America's sons and daughters who have served—and are serving—in our military are the most engaging and resourceful persons to be found anywhere. I am so proud of them. I am especially proud of our servicemembers who recently have freed Afghani and Iraqi citizens from oppressive and murderous regimes. In so doing, they have protected our everyday freedom as well. These bills are for them, for those who preceded them, and those who will follow them.

The Parliamentarian has split jurisdiction of House Resolution 1460 to the Small Business Committee and parts to the Veterans' Affairs Committee. The Parliamentarian refers House Resolution 1712 to the Small Business Committee. The Small Business Committee retains jurisdiction. Staff continue to informally discuss with the Parliamentarian the possibility of a sequential referral to this committee for certain parts of House Resolution 1712.

I am pleased to have the opportunity to work with Mr. Michaud. With that, I will turn to him, the Ranking Member, for opening remarks.

OPENING STATEMENT OF HON. MICHAEL H. MICHAUD

Mr. MICHAUD. Thank you very much, Mr. Chairman. Thank you also for having this hearing to discuss these very important pieces of legislation. The three bills before us today represent efforts to enforce and enhance veterans' small business opportunities, provide quality job training and education programs, and assist service-disabled veterans re-entering into the workforce.

The first hearing I attended as a Member of this Congress examined in part the issues of veteran small business owners and their participation, or lack thereof, in the federal procurement and contracting process. Consequently, I am pleased to be here today to receive testimony and to discuss these measures, which attempt to respond to many of the problems raised in the first hearing. And I am also fortunate enough to sit on the House Small Business Committee as well as this committee.

I have great interest in these measures and look forward to working with my colleagues from both sides of the aisle on both committees to improve small business opportunities for veterans and service-disabled veterans as well.

Before we begin, I would like to extend a warm welcome to a fellow freshman lawmaker of the 108th Congress, Congressman Rick Renzi. I wish you a warm welcome, and I welcome the testimony of those that provide testimony to this committee today.

Thank you very much, Mr. Chairman.

[The prepared statement of Congressman Michaud appears on p. 103.]

Mr. BROWN. Thank you, Mr. Michaud. I am also pleased to welcome the ranking member of the full committee here this morning, Congressman Lane Evans. Mr. Evans is a Marine Corps veteran who is a tireless and a highly respected member of this committee, where he has served with distinction for some 22 years. Any opening remarks you would like to make, Mr. Evans? I know this is a great issue for you, and thank you for being here this morning.

OPENING STATEMENT OF HON. LANE EVANS, RANKING DEMOCRATIC MEMBER, COMMITTEE ON VETERANS' AFFAIRS

Mr. EVANS. Well, thank you, Mr. Chairman. It took me about 10 years before I became a ranking member. So these two members are excelling, have done what I was able to do quicker than myself.

Four years ago, Congressman Bob Stump, former chairman of this committee, and Jim Talent, and I had a specific intent when we sponsored the bill that became Public Law 106–50. We wanted to achieve real results for service-connected disabled small business owners contracting with the Federal Government. We also wanted to enhance the opportunities of all categories of small business owners by setting achievement goals. I will now introduce H.R. 1712 to achieve the outcomes intended by that public law.

The executive branch performance to date is very poor regarding the achievement of small business owners, their goals, and with respect to all service-disabled veterans with small businesses. The administration claims that it is about results. Mr. Chairman, H.R. 1712 will get results. It will get results for small business owners. It will get results for veterans. It will get results for women. It will get results from the disadvantaged. And it will get results for exec-

utive agencies. It is tough, but we need to enact tough and fair legislation to stop this backsliding. But Congress must not ignore what we set out to achieve. The bill is balanced. Agencies and vendors alike have had incentives to seek out small business concerns. It also has teeth and will soundly snap at any willful non-compliance.

Public Law 106–50 is being ignored. Let it be heard that the results we intended have not been achieved. I urge my colleagues to support H.R. 1712.

Thank you, Mr. Chairman, for the opportunity to speak, and I yield back the balance of my time.

[The prepared statement of Congressman Evans appears on p. 104.]

Mr. BROWN. Thank you, Mr. Evans.

Ms. Davis, do you have opening remarks?

OPENING STATEMENT OF HON. SUSAN A. DAVIS

Mrs. DAVIS. Thank you, Mr. Chairman and ranking member. I appreciate being here today. I am certainly looking forward to the testimony. And also I just wanted to thank those of you in the audience who are here because your presence is very important. We need to hear from you. We need to hear how the bills that we are talking about today can benefit you, what the problems might be, how we can make them better, what some of the pitfalls may be. That will be very, very important.

I recall, very briefly, when I had an opportunity actually to travel to Afghanistan. And we went on the JFK in the Arabian Coast, and I met a gentleman there, a sailor, one of our members who had been serving for almost 20 years, who was about ready to retire from the Navy, very nervous about his future. And yet quite obviously had some wonderful skills and expressed to me more than anything else he wanted to start his own business.

So I think that those are important issues. I appreciate the fact that we are dealing with them today, and I look forward to the hearing.

Thank you.

Mr. BROWN. Thank you, Ms. Davis. Ms. Brown-Waite.

OPENING STATEMENT OF HON. GINNY BROWN-WAITE

Ms. BROWN-WAITE. Thank you very much, Mr. Chairman. Obviously, coming from Florida, I have a large number of veterans. And one of the things that I always do when I am back in the district is I tell people that if they come to the hearings and there are not a large number of Members here, it is only because simultaneously other hearings are going on. Believe me, every Member who is not here on both sides of the aisle, it is only because there probably is a mark-up in the other committee that they are on.

With the large number of veterans in Florida, obviously, encouraging the veterans to start their own business, particularly in today's economy. It is a great opportunity for people to take advantage of programs out there and to start their own businesses. We all know that small businesses are the major employers in our country. And anything that we can do to encourage that, I support.

Anything that we can do to enforce the law and put more teeth into it is what I believe we should be all about.

And thank you, Mr. Chairman, for this opportunity.

Mr. BROWN. Thank you, Ms. Brown-Waite.

Before I recognize our freshman Congressman from Arizona, I would like just to address the audience. We were in a meeting earlier this morning with Speaker Hastert. During the Easter break, he went to Germany and met some of the service personnel in the hospitals there. And went to the USS *Truman*, an aircraft carrier, and met some 5,000 I guess young sailors and Air Force personnel. It looked like a UPS operation where all the merchandise came in and was disseminated back. But the impression that was really on his heart was that most of those personnel were 19- and 20-year old Americans. He said that down the line every person that he talked to were patriots. They all were anxious to be there to do their job and support this great country.

And I was relating to Secretary Mackay earlier this morning about the responsibility that we have for those young men and women who came and served, and came and served voluntarily, which is a great attribute for this nation. But we can't forget them, when they come and they serve and protect the freedom of this country. We have a moral obligation to continue to support them and their families.

So I am pleased to be a part of this committee, to be chairman of this subcommittee. And certainly look forward to the testimony this morning. And, like Ms. Davis, I also welcome all of you this morning to this hearing. I know it is going to be a long hearing. We have got some six panels that are coming, but it is for the right reason.

And, Mr. Renzi, we are certainly glad to have you, a member of this committee, to be part of this proceeding this morning. I know this is your first year, but you bring a lot of history. Your daddy was a general in the Army, and so you have a certain compassion for the military. We are pleased to have you come and testify this morning.

STATEMENT OF HON. RICK RENZI, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF ARIZONA

Mr. RENZI. Thank you, Mr. Chairman. I am honored to be with you and Ranking Member Michaud, Ranking Member Evans, and my colleagues. Thank you so much for giving me the honor to appear before you today and testify on this legislation that we worked on together. It does have a long history. And I am privileged to be the one having the ability to sponsor this to help improve veterans' employment.

Before I begin, I would like to recognize a personal friend and mentor, a man who helped my father become a general, who helped raise me down in Fort Huachuca, Arizona, I would like to recognize Lt. Gen. Emmett Paige. Lt. Gen. Paige was promoted to lieutenant general in 1984 when he assumed command of the Information Systems Command, which had over 42,000 soldiers and civilians headquartered at Fort Huachuca, Arizona, where I grew up and went to high school. Upon his retirement in 1988, President Clinton nominated Gen. Paige for the position of Assistant Secretary of

Defense for Command and Control Communications and Intelligence, C3–I. And he was confirmed by Congress in 1993. After which he served as president of OAO Corporation, which is a small disadvantaged corporation and which was one of the first to graduate from that program.

So his expertise and immense understanding of how we can grow small businesses and then get them to the point where they can graduate is integral today to our testimony.

Gen. Paige's testimony will be submitted for the record.

[The prepared statement of Lt. Gen. Emmett Paige appears on p. 194.]

Mr. RENZI. In addition today, I have with me Mr. James Krempasky and his brother. Mr. James Krempasky is a Purple Heart recipient from Grenada. He was Businessman of the Year in Arizona in 2003. He is uniquely qualified in the field of fire technology and terrorism defense. He has launched a small business in Arizona, which has the ability to help protect military bases, federal facilities, and even our capitol with a new fire foam that is a non-toxic, biodegradable, and very unique product that he is going to be discussing today.

He will be able to grow his company because of this proposed bill. And in also growing his company, the government will be able to achieve their objectives of meeting that 3 percent statutory goal that all of us together know the government has fallen way short of.

With that, I would like to submit my written testimony for the record and briefly discuss the reasons why I have introduced H.R. 1460.

The nation asked that young men and women volunteer their service to defend the freedoms we enjoy. Sometimes these brave individuals come home with an injury related to their service in the armed forces. I believe that we are morally bound to provide certain benefits and services to those who have made personal sacrifices on behalf of this nation.

Earlier this year, we heard testimony that service-disabled veteran-owned small businesses are not fully participating in federal contracting opportunities. While there is a government-wide 3 percent statutory goal for participating by service-disabled veterans' small businesses, the federal contracts to these business owners have not come anywhere near that goal. In fact, according to Administration figures, the numbers are going down. We need to improve veteran business owners and the federal contracting officers and provide them with the tools to achieve that goal. As service-disabled veterans return home from Operation Iraqi Freedom, we should give them the Purple Heart and the nation's gratitude, which they earned. And, in addition, we should help them in their transition into private life. They don't need a hand-out, they need a hand-up. And they simply need access to the resources and the opportunities to cultivate their businesses that are accorded to other select groups.

For those veterans who want to use the skills and training they have gained during their service to create a business, this legislation allows them to use their VA education benefits to learn how to grow and manage a business. This legislation gives government

contracting officers the discretionary authority to set aside contracts up to $5 million for service-disabled veteran-owned small businesses, the same authority accorded small and disadvantaged business, women-owned businesses, Hub Zone 8A owned businesses.

Service-disabled veterans reflect the fabric of our America. And this legislation provides the ability of veterans of every race, creed, gender, and economic condition to participate in contracting business with the Federal Government.

H.R. 1460 provides equity in federal contracting. Today, veterans who want to compete for federal contracts may not disclose that they are even a veteran-owned business because they don't benefit from this disclosure. Under this legislation, they will have the same advantages as other small businesses. Veterans should not be ashamed of their service. They should be proud of it and be able to benefit from it. H.R. 1460 will restore this pride that many of our men and women feel in serving our nation. They have earned our respect and they deserve to be treated fairly. They help preserve our economic environment, our economic security, and they allow this nation to prosper. It only seems right that they should participate in the market they have fought to sustain.

Mr. Chairman, Mr. Ranking Members, my colleagues, thank you for support on this legislation and for allowing me to appear before you today.

[The prepared statement of Congressman Renzi appears on p. 106.]

Mr. BROWN. Rick, thank you very much for bringing this testimony and your interest in this bill. I don't have any questions, but Mr. Michaud, do you have a question? Any other members of the panel?

Mr. EVANS. Excuse me, we forgot to applaud your excellent general and your Purple Heart winner.

Mr. RENZI. Yes, sir.

Mr. EVANS. And I would like to make sure they get a round of applause.

Mr. BROWN. Would you all stand, please, and be recognized. (Applause.)

Mr. RENZI. Thank you, Mr. Evans.

Mr. BROWN. Ms. Davis, do you have a question? Ms. Brown-Waite?

Thank you, Rick. Thank you very much for being a part of this committee.

Mr. RENZI. Thank you.

Mr. BROWN. Mr. Secretary? I am especially pleased to welcome the Honorable Leo Mackay, Deputy Secretary of the Department of Veterans Affairs. Deputy Secretary Mackay is accompanied by Mr. Tim McClain, general counsel; Mr. William Campbell, Assistant Secretary for Management; Mr. Robert Epley, Associate Deputy Under Secretary for Policy and Program Management, Veterans Benefits Administration; and Mr. Scott Denniston, Director, Office of Small and Disadvantaged Business Utilization.

Dr. Mackay is a Naval Academy graduate and a former Naval aviator with 235 carrier landings and 1,000 hours in the F–14. He earned his master's degree in public policy and a Ph.D. in political

economic analysis, both at Harvard. He was a Harvard McArthur Scholar, a graduate prize fellow, and research fellow at the Center for Science and International Affairs. Dr. Mackay has taught at the Naval Academy and was a special guest fellow at the Brookings Institution.

Following his distinguished naval career, Dr. Mackay was an executive at Lockheed Martin, where he was director of market development prior to his nomination. Dr. Mackay had general management responsibilities as vice president of the Aircraft Service Business Unit at Bell Helicopter Teltron, Inc., of Fort Worth, TX. Dr. Mackay is now the chief operating officer of the Federal government's second largest department, with a budget of more than $59 billion.

Dr. Mackay, a very special welcome to you on your first appearance before the Benefits Subcommittee. We are delighted to have you. You can start whenever you are ready. Thank you for being here.

STATEMENT OF LEO S. MACKAY, JR., DEPUTY SECRETARY, DEPARTMENT OF VETERANS AFFAIRS; ACCOMPANIED BY TIM MCCLAIN, GENERAL COUNSEL; WILLIAM CAMPBELL, ASSISTANT SECRETARY FOR MANAGEMENT; ROBERT EPLEY, ASSOCIATE DEPUTY UNDER SECRETARY FOR POLICY AND PROGRAM MANAGEMENT, VETERANS BENEFITS ADMINISTRATION; AND SCOTT DENNISTON, DIRECTOR, OFFICE OF SMALL AND DISADVANTAGED BUSINESS UTILIZATION

Dr. MACKAY. Thank you, Mr. Chairman. It is indeed a pleasure to be here. Ranking Member Michaud, it is good to be here. Ranking Member Evans and other Members of Congress, I certainly appreciate your holding this hearing. And thank you for inviting me to testify on the three bills being considered today, H.R. 1460, the Veterans Entrepreneurship Act of 2003; H.R. 1716, the Veterans Earn and Learn Act; and H.R. 1712, the Veterans Federal Procurement Opportunity Act of 2003.

This legislation would significantly affect VA's education and vocational rehabilitation programs, as well as many small business opportunities for veterans. The matters we are covering today are all about opportunity and incentive. Opportunity and incentive for our nation's veterans to learn, train, become successful entrepreneurs, and overcome disability and employment handicap to engage in self-employment enterprise that forms the very fabric of our economy.

I applaud the interest and the support apparent in the initiatives embodied in this legislation. Mr. Chairman, I am constrained to note, however, that many provisions of these bills carry with them costs. And although the Budget Enforcement Act's pay-as-you-go requirements and discretionary spending caps expired last year, the administration supports extension of these budget enforcement mechanisms in a manner that ensures fiscal discipline and is consistent with the President's budget. Thus, the support we express today for many provisions of this legislation must be contingent on accommodating its estimated cost within the overall budget submitted by the President. Still, I believe that working with the Sub-

committee we can find ways of achieving the goals of provisions that we mutually support.

Mr. Chairman, turning to the bills themselves, H.R. 1460 will give veterans the all-important opportunity to use their GI Bill education benefits to pursue certain entrepreneur courses. We wholly support the goals of this proposal and would hope that a franchiser, an authorized franchiser offering an entrepreneurship course likewise could be considered a qualified provider for this purpose. An offset of course would have to be found for the cost of the proposal, which is estimated at $1.5 million in fiscal year 2004 and a 10 year total of $32 million. However, we would be pleased to work with the Subcommittee on this.

H.R. 1460 would also expand the services and assistance available for self-employment goals under the VA Vocational Rehabilitation Program. We agree that it may be time to re-examine the current limitation in this area and are asking that the Secretary's recently established Vocational Rehabilitation Task Force do that examination. We will be happy to submit our official views once we receive the Task Force's guidance.

The last provision of H.R. 1460 would authorize certain sole source awards to small business concerns owned and controlled by service-disabled veterans and restrict competition to such concerns under specified conditions. We support this provision. Although we recognize that the provision of a set aside is an unusually strong measure that inhibits open market functioning, we believe it is only appropriate in this instance due to the singular worthiness of service-disabled veterans for preferential treatment. Its use here would not be meant however to establish a general precedent.

Mr. Chairman, H.R. 1716, the Veterans Earn and Learn Act, recognizes the importance of apprenticeship and on-the-job-training to veterans and to the economy and would make several changes affecting pursuit of that training under VA's education benefit programs.

Mr. Chairman, we certainly recognize the need to bring VA's benefits law relating to apprenticeships into the 21st Century. This bill contains some very worthwhile proposals. Nevertheless, unless an offset can be found for the estimated $47.7 million cost of H.R. 1716 in fiscal year 2004 and $548 million 10 year cost, VA cannot support this bill.

Finally, turning to H.R. 1712, VA supports the provisions of Section 4 that would establish a government-wide goal of 3 percent for award of contracts to veteran-owned small businesses. However, I am concerned with the provisions for raising the small business goal, prohibiting double counting of acquisitions, restricting appropriations, and mandating certain evaluation factors in negotiated acquisitions. The government already is struggling to meet its current goals. These provisions in our opinion would only exacerbate the problem, as well as remove the flexibility agency's need to successfully carry out their missions.

Mr. Chairman, that concludes my oral statement, and I would ask that my full written testimony also be included in the record. I will be pleased, as well as those with me, to answer any questions that you or the subcommittee may have.

[The prepared statement of Dr. Mackay appears on p. 108.]

Mr. BROWN. Mr. Secretary, would the VA support an expansion of section 2 of H.R. 1460, the Veterans Entrepreneurship Act of 2003, to cover classroom instruction as part of obtaining a franchise?

Dr. MACKAY. Yes, sir, Mr. Chairman. I would invite Scott Denniston to follow up with any comments after me. He runs our Center for Veterans' Enterprise and is our Office of Small and Disadvantaged Business Utilization Director.

This is a very important Act and a very important provision of the legislation under consideration today. The flexibility to use Montgomery GI Bill benefits, benefits which are paid into and contributed for by the veteran, in order to pursue entrepreneurial activities we think is a critical enhancement of the Montgomery GI Bill.

We have started a program with the International Franchise Association called VetFran, or actually resuscitated it. It was in an earlier incarnation during the Desert Storm period. And it is very successful. We have had 10 graduates of the program that are off running their businesses today. Twenty-five people are engaged in various stages of the VetFran initiative. And we have 93 members of the International Franchise Association (IFA) that are participating with us, and making entrepreneurial opportunities available to veterans. The ability to use their Montgomery GI Bill for education and training and other entrepreneurial activities and course work would be a substantial enhancement to this program and the overall opportunity for veterans to move from service into entrepreneurship.

Scott?

Mr. BROWN. One other question. Does the VA have an internal contracting goal for veteran-owned small businesses in addition to the government-wide 3 percent goal for service-disabled veterans owning small businesses?

Dr. MACKAY. Yes, sir, Mr. Chairman, we do. I am happy to report in fiscal year 2002 that VA was able to meet for veteran-owned businesses, the 3 percentage point goal. Now the 3 percent goal from Public Law 106–50 applies to service-disabled veteran-owned business and, frankly, our present condition I would admit is not where it needs to be. We are at 6/10 of 1 percent in fiscal year 2002 performance in terms of the percentage of our contracts that were delivered to service-disabled veteran-owned businesses. I would say, however, that that 0.6 percent is triple the figure in fiscal year 2001, which was 0.2 percent, which in turn was double the 0.1 percent that we achieved in fiscal year 2000. So there is a track record of some achievement.

We have challenged ourselves at VA. We have an overall goal for business with veteran-owned small business of 7 percent in addition to the 3 percent for service-disabled veteran-owned businesses. We are not there. That is one of the reasons that we favor the proposal in H.R. 1460, it would give us flexibility with respect to sole-source contracting, and a tool, an important tool to help make this goal. That is one of the reasons that we have the Center for Veterans' Enterprise. It is one of the reasons for our MOU with the IFA.

One of the reasons that the Secretary chartered our own internal study to seek improvement to our relationship with service-disabled veteran-owned last summer, was to add other measures in education, in outreach, in other types of flexibility that would help us meet those goals.

Scott or our chief financial officer, Bill Campbell, I would invite them to comment about that at this time, if they have anything.

Mr. CAMPBELL. The VA goal of 7 percent that we have internally, and we do an awful lot of work to try to make that, shows just how very difficult it is to meet the goals. And it is my opinion, I don't have any data for it, but having been involved in federal procurement now for the last two decades, it appears that what and how the Federal Government is buying things have a profound effect on all small business, including that of veterans.

Mr. DENNISTON. I would just like to add to that some comments from the task force report that Dr. Mackay spoke of. The task force was established in July of 2002 and the report was delivered to the Secretary in January. And some of the areas that we looked at, that we think we can do a better job at, number one is acquisition planning. Number two is identifying capabilities of service-disabled veteran-owned small business and developing a match for what we need versus the capabilities. We also think we need to do a better job internally of communicating the Secretary's desires, Dr. Mackay's desires in the goals. We also are going to establish performance standards for the appropriate people in the acquisition process to ensure that the veteran goals are part of the performance plan. And the last thing that we are doing is we have made recommendations, and we are continuing to make recommendations, on specific procurement mechanisms that would allow us to do a better job of meeting the goals.

Mr. BROWN. Thank you very much. Mr. Michaud?

Mr. MICHAUD. Thank you very much, Mr. Chairman. The procurement process has recently been granted additional flexibility, yet the executive branch performance for veterans actually has decreased. If you look at it, it went from bad to worse. So how does flexibility without accountability help?

That is my first question. And my second question is should service-disabled veterans be required to compete against workers in foreign countries who may be able to provide lower costs for goods and services because those countries do not have to pay minimum wage or any safety standards comparable to those in the United States?

Dr. MACKAY. Sir, we don't seek to evade accountability. I mentioned our performance in order to highlight where we are. We are not satisfied with where we are at the Department of Veterans Affairs with regard to dealing with service-disabled veterans and veteran-owned businesses. That is why we seek the very flexibility. So we seek both flexibility and accountability.

I think as well the provision that we support, which would give us authority to structure sole-source contracting opportunities or places where two service-disabled veteran-owned businesses would compete against each other but the winner, of course, would be a service-disabled, veteran-owned business provides just the kind of insulation from competition that you seek. It is an important tool that would give us a lot of the flexibility that you talked about.

And we would be happy to be held accountable. We want to partner with this committee. We want to partner with you and the chairman. We need to get this done.

Two of the most honored titles that an American citizen can hope to accede to are veteran and entrepreneur. We are committed to that. And I think that some of the steps that we talked about, Center for Veterans' Enterprise, our task force study, our MOU with the International Franchise Association, we are seeking as many outlets as we can think of in order to push this because this is important for veterans, for their future and for ours.

Mr. MICHAUD. What do you seek for accountability measures?

Dr. MACKAY. Accountability measures are the ones embodied in Public Law 106–50, the ones embodied in our own internal measures. We have a 7 percent goal for veteran-owned small business and, of course, the 3 percent goal for service-disabled-veteran-owned small businesses.

Mr. MICHAUD. And I don't think you have ever reached that, but I will forward some additional questions. Before my time runs out, there is one issue that you had mentioned I would like to comment on. And it is not meant to you directly because I know you work ultimately for the President. But when you mentioned in your speech about fiscal discipline, I question this budget's fiscal discipline. For your information, I served 22 years in the Maine legislature, served on the appropriations committee. We went from number 48th in the country as far as how our budget was put together to number six during my 4 years as chair. So I am quite familiar with fiscal discipline, and this budget is not a fiscally responsible budget.

My concern is everyone is talking about supporting our troops because of the war in Iraq, which I agree with. My biggest concern, in your testimony, it is not included in the budget of the President's, the funding is not included in the budget of the President's. And that is my big concern, because it is a matter of priorities. I think we definitely have to support our troops during the time of war, but, more importantly, we have to support them after the war is over, because a lot of veterans will come back with a limb missing or what have you. Those families have to deal with that long term. It is not the short term like the war. Likewise, if a member lost their life in war. So it is a matter of priorities.

And I don't think that this administration is putting veterans as a top priority when you look at the budget proposal, when you look at some of the cuts that is proposed in the budget. But when you look at your comments here that you will do it if we can find the money. I agree we have to do it. If this is a priority for the VA, I would suggest that the VA strongly talk to the President and those who are advising the President that we want to make sure that veterans are taken care of and they are not being taken care of. Would you comment on that?

Dr. MACKAY. I would certainly be very happy to. With all due respect, I must disagree. The budget that the President sent to Congress calls for a 7.7 percent increase—increase, not a cut—in the budget. It is a fact that from fiscal year 2001 to fiscal year 2004 resources for the Department have risen from $48 billion to $64 bil-

lion, as the President's budget accounts for. If you do your math, that is a 32 percent increase.

If you look at the increases year over year, from fiscal year 2001 to 2002 to 2003 to 2004, they average about 7.5 percent. And that 7.7 percent in this budget, this President's budget that was sent to Congress, represents the second largest—second largest percentage increase of all the cabinet agencies in the Federal Government. I think that that is a message that says that this President cares about veterans. It is a high priority for this President to support our nation's veterans.

And on fiscal discipline, it is the plain fact that as the pay-go provisions are an exercise of fiscal discipline because they say that new spending must be offset by a reduction in other identified spending. That, sir, is an exercise in fiscal discipline. And it is a recognition of both this Congress and this administration's respect for that fiscal discipline that led me to mention that in the opening part of my statement.

Mr. MICHAUD. Thank you very much. But when I stop hearing from veterans in the State of Maine that they have to wait a year or so just to get an exam, then I will say we are taking care of our veterans. We are not taking care of our veterans. And whatever statistics that you throw out there, you can manipulate statistics. I have been around long enough to realize that. And once veterans stop complaining about the lack of service that they are receiving, then I will say that we are taking care of our veterans. Until that point in time, I feel confident saying we are not taking care of our veterans. We have got to do a much better job than what we currently are doing right now.

Thank you.

Mr. BROWN. Mr. Evans, do you have any questions for the panel?

Mr. EVANS. Yes. Actually, I should yield to the Congresswoman from California.

Mrs. DAVIS. I would be happy to yield to the ranking member.

Mr. EVANS. I do have a hypothetical question; at least the way I am going to pose it, it is somewhat hypothetical. The gentleman from Maine has raised an important issue about how contracts of the VA may be going to overseas markets. We found out that, for example, janitor uniforms, which had to be disposed of just a few days after they had been worn, actually had been made in Honduras at a time in which Protectsol, an Illinois plant, tried to bid for these contracts without any real ability to go after them the way that large private contractors do. So what are we doing to proactively recruit small businesses to get veterans contracts? I suppose most of my colleagues would have a situation I do where the veterans involved really don't have much say in these matters, but they would like the uniforms that they work in to be made in America. Any comments you might be able to make about how we do that?

Dr. MACKAY. Yes, sir, Congressman. I am not familiar with the instance that you raise, and I would be happy to find out about it and communicate with you further. I would ask the real expert—I am aware of many, many things, but Scott is our expert—in terms of outreach. And I would ask him to comment in detail about the outreach efforts that we are undertaking across the board with

respect to getting veteran and service-disabled veteran-owned businesses knowledgeable, involved, and, as I mentioned, contracting with the Department.

Scott?

Mr. DENNISTON. Thank you. We have been active since the passage of Public Law 106–50 of getting the word out within the veterans community. We have entered into some partnerships with the Association of Small Business Development Centers, the Procurement Technical Assistance Centers that are funded by the Department of Defense. We put those together. We have got about 1,200 partners around the country that we have been working with to get the word out. The beauty of those two organizations is they work directly with small businesses in the local community. We have worked very closely with the National Veterans Business Development Corporation to get the word out. We have a fairly robust website that we use for getting the word out.

We have participated in somewhere around 85 conferences this past year doing workshops. We average about 1,000 calls a month to our Center for Veterans Enterprise for veterans who are interested in starting small businesses, not necessarily in the world of federal procurement. But, as we know, we can't have successful federal procurement if we don't grow those small businesses to be able to compete. So we have been very, very active in doing that with the partners that are in the local communities because we think that is the best approach.

Mr. EVANS. But it is part of the larger issue as well. So I will meet with you after the meeting and discuss it then, I guess.

Thank you, Mr. Chairman.

Mr. BROWN. Thank you, Mr. Evans. Ms. Davis, do you have a question?

Mrs. DAVIS. Thank you, Mr. Chairman. I wanted to just go back to the H.R. 1712 accountability provisions. And you had raised the equal protection concerns as well in your statement. And could you also talk more specifically about what kind of enforcement mechanisms really are applicable, what work, what do we really have at our disposal that is used?

Dr. MACKAY. Well, let me let our general counsel talk about the specific legal issue that you raised, and I would be happy to discuss the second issue you raised.

Mr. MCCLAIN. Congresswoman Davis, you were talking about a equal protection issue in the written statement? And if you could just point me to it, it might make it easier.

Mrs. DAVIS. They really are dealing with the equal protection of gender and race, "In implementing the various provisions of the legislation that make classifications based on race and gender, the government would afford equal protection of the laws as required by the due process clause of the Fifth Amendment to the Constitution," on page 10.

Mr. MCCLAIN. I see where you are pointing. And rather than trying to address it off the cuff, I would be glad to provide you with our analysis of it for the record and directly to you.

Mrs. DAVIS. Okay, that would be acceptable. Obviously, raising concerns about whether or not you can—to deal with the VA issues

and how that might conflict with existing provisions, and I would be interested in having you talk more about that.

But I also wondered, could you address then the issue of enforcement, the mechanisms that we have?

Dr. MACKAY. One of the important points about differences between goals and quotas. And we have goals. And so we need to have flexible tools. Certainly we need to be held accountable. We need performance metrics. We need to deliver what we promise. We need to use every mechanism possible to reach those goals. But they need to remain goals. And some of the enforcement mechanisms that are contemplated in H.R. 1712, in our opinion, would be tantamount to constructing quotas. If money is not expended such that you reach 28 percent, which is the recommendation of the bill, then the provision of that money in subsequent appropriations bills would be spent with those particular categories of suppliers is tantamount to making a goal a quota.

While we support wholeheartedly these goals, we commit to work hard to realize these goals, and we are making progress, as I pointed out earlier, we cannot change a goal to a quota. And I think that is the effect—perhaps not the intent but the effect—of some of the provisions in H.R. 1712.

There is a significant curtailment of the flexibility that a departmental manager would need and would seek in order to try to reach these goals. I think the measure that I supported earlier in testimony, the sole-source contracting flexibility that we would have at the Department, is a good example of a tool that would be a positive good in allowing us to reach this goal. It does not create a quota but it does recognize the very special character of the people that we are dealing with. And it does give us a very special tool in order to help us continue to track and to make improvements.

I would remind you we have gone from a doubling to a tripling. We are still under 1 percent, that is still not good enough. I am not satisfied. I know that the members of this committee are not satisfied. But we want to keep that track record of success going. We also want to make sure that we do not turn goals into quotas.

Mrs. DAVIS. I would agree with you that we should always use incentives, carrots, as opposed to sticks. But I also know that when we don't get there, or we don't even come close, that sometimes we do have to think of some other remedies that we might have at our disposal. And that is why I was interested in knowing, are there any?

Dr. MACKAY. Well, I think that the measures that we have talked about, that Scott has talked about in terms of education, learning, outreach, as well as the very special tool that we support in this legislation, would be good, constructive measures. We commit to you to continue to make progress and we expect to be held accountable. I expect to come back on other occasions in other venues to talk about these. And we welcome—we ask for the flexibility and we welcome the accountability.

Mr. BROWN. Thank you, Ms. Davis.

Ms. Brown-Waite, do you have a question?

Ms. BROWN-WAITE. Yes, sir, I do.

Dr. Mackay, first of all, I want to thank you for setting the record straight on the veterans funding in this current budget. I,

too, have veterans who are waiting, and one of the reasons why I supported the budget was because there was increased funding in there for veterans' health care, so we can make sure that we whittle away at the wait times. I am not happy with the wait times. You know, we have had this conversation. And making sure that the funding is in the budget to eliminate as many of the long periods that veterans are currently waiting for health care is important I believe to every member on both sides of the aisle.

When you look at the veterans contracting program, obviously, with 6/10 of 1 percent, something is in the way of bringing more veterans in to take advantage of it. In order to solve this problem, I think you need to look at what the obstacles are. Have you done an assessment of what your agency believes the obstacles currently are?

Dr. MACKAY. Congresswoman, yes, we have. We have just completed, and I would be happy to supply your office with a copy or copies, of a task force report focused on veteran-owned small business and service-disabled veteran-owned small business. We, too, are not satisfied with 0.6 percent in fiscal year 2002 and that is why we constructed this task force. It talks about the things that we can do to actively in solicit and identify veteran-owned businesses internally. That is, again at risk of belaboring the point, that is why we support so vigorously the sole-source contracting tool that will allow us to have flexibility with the restrictions that are there for fair and reasonable pricing and for the very modest top-dollar amounts, to be able to go out and construct sole-source opportunities for veteran-owned small business.

I would also like to point out just a couple of figures, not so much in defense of our Department but to give the whole picture. In fiscal year 2001, among federal agencies, of the 88,000 actions with veteran-owned small business, VA was responsible for 94 percent of them, or 83,000, with a total contract value of $122 million, which was almost 22 percent of the total contracted dollar amount that was contracted with veteran-owned small businesses.

With respect to service-disabled veteran-owned small businesses, we accounted for almost 64 percent, 63.97 percent, of the actions with service-disabled-veteran-owned small business in all the Federal Government for that year. However, the dollar totals were much more modest, only $13 million. But we are making some progress. I mentioned the progress from 0.1 percent in fiscal year 2000, a doubling to 0.23 percent in 2001, and then a tripling to 0.6 percent here in fiscal year 2002. I expect that to continue. We are committed to continuing that progress. We are already at the 3 percent level for veteran-owned small businesses, and we have a target of 7 percent for veteran-owned small businesses. We need to get that 3 percent for service-disabled-veteran-owned small businesses.

Ms. BROWN-WAITE. Just one more question. Do you encourage veterans who are applying to also work with SCORE, the Service Corps of Retired Executives? Because I can just tell you, as somebody who started a small business in the 1980s when interest rates were high, we didn't, although my husband was eligible, we didn't apply for any sort of veterans contracting or anything. It is pretty darn intimidating to start a small business. So if you can partner

with SCORE and have the availability of sometimes decades of managerial and executive experience in business, that way you can ensure that when a veteran starts a business, that he or she is very successful. And I think that is another important thing too, that we not only start the businesses but that we mentor them to make sure that they are successes.

Dr. MACKAY. I could not agree more with your statement, and I certainly appreciate your advocacy for veterans in Florida and your support of our Department. Scott was nodding his head. Perhaps you know more specifically about our partnership with SCORE?

Mr. DENNISTON. Sure, be happy to. SCORE is one of those partners that I failed to mention, along with SBA, as part of Public Law 106–50 that we work closely with. SCORE has responsibilities under Public Law 106–50 to do special outreach to veterans, as the rest of us do.

Congresswoman Davis, if I could just go back to your question of the impediments. It is very difficult as a contracting officer to have a lot of different goals but no mechanisms to reach the goal. And, unfortunately, that is the dilemma that we are in with the service-disabled-veteran-owned businesses. That is why, as Dr. Mackay said, we support the legislation. That is why we think that the performance standards, and making this a performance standard for everybody in the acquisition process, is going to be very important.

As an anecdotal story, after we got our statistics halfway through the year, I was frustrated with what I would consider non-performance of some of our facilities. Went to Dr. Mackay, he picked up the phone, and he called those directors and said to them point blank, "You need to do better." That kind of attention, when it comes from the top of an agency, I think, makes all the difference in the world, and why we are confident that the trends that Dr. Mackay talked about will continue to go up.

Mr. BROWN. Well, thank you very, very much for coming. Dr. Mackay, I wonder if you could submit a copy of that report to the committee, and we will get it out to the other members.

Dr. MACKAY. Mr. Chairman, we would be delighted.

Mr. BROWN. Thank you all for coming and thank you for all you do for our veterans in this great nation.

Dr. MACKAY. Thank you, sir.

Mr. BROWN. Ladies and gentlemen, the next panel will speak to House Resolution 1716, the Veterans Earn and Learn Act. This measure updates the on-the-job training and apprenticeship programs administered by the Department of Veterans Affairs to reflect today's workplace.

Joining us today is Mr. George Bliss of the United Association of Plumbing and Pipefitters. Mr. Bliss also chairs the Building and Construction Trades Department Apprenticeship and Training Committee. We also welcome Mr. William Stephens and Mr. Chad Schatz. With a name like Henry Brown I get mixed up all the time. Welcome. And Ms. Ann Sullivan for Women Impacting Public Policy.

I would ask members to hold their questions until all witnesses have completed their testimony. Without objection, the witness' full statement will be included in the printed record of the hearing. I

would appreciate witnesses limiting remarks to no more than 5 minutes. And if the red light appears, please conclude your testimony.

Mr. Bliss, we begin with you. Thank you very much for coming.

STATEMENTS OF GEORGE H. BLISS, III, THE BUILDING AND CONSTRUCTION TRADES DEPARTMENT APPRENTICESHIP AND TRAINING COMMITTEE; WILLIAM D. STEPHENS, CO-CHAIR, APPRENTICESHIP AND ON-JOB TRAINING COMMITTEE, NATIONAL ASSOCIATION OF STATE APPROVING AGENCIES; CHAD SCHATZ, SECRETARY, NATIONAL ASSOCIATION OF STATE APPROVING AGENCIES; AND ANN SULLIVAN, FEDERAL LEGISLATIVE CONSULTANT, WOMEN IMPACTING PUBLIC POLICY, INC.

STATEMENT OF GEORGE H. BLISS, III

Mr. BLISS. Thank you. Good morning. As you mentioned, my name is George Bliss. I am the director of training for the United Association as well as the chair of the Building and Construction Trades Department Apprenticeship and Training Committee. And I would like to thank you for the opportunity to present this information.

The United Association of Plumbers, Pipefitters, and Sprinkler Fitters and the Building and Construction Trades Department are proud to support the fine men and women of our Armed Forces. As evidence of our gratitude for their service to our nation, it is our intention to do all we can to assist those leaving the military and returning to civilian life. To that end, the United Association, the other building trade union, has recently developed a program designed to provide training and career opportunities to qualified veterans. This program is know the Helmets to Hard Hats Initiative. And we believe it is a strong adjunct to our nation's existing veterans programs, such as Transitional Assistance Program, TAP, and the GI Jobs Bill.

While we support the proposed changes to the GI Bill, we want to take this time to raise just a few concerns. Today, the apprenticeship program in the United States, and especially that found in the unionized building trades, offers the finest skill training in the world. This excellent training leads to employment that provides high wages and generous benefits. This training is now available in hundreds of occupations for veterans making the transition into the private sector, not only TAP, GIs to Jobs Programs, but also through Helmets to Hard Hats. This is accomplished through the U.S. Military Apprenticeship Program, known as U.S. MAP. The program is part of an ongoing effort to develop a bridge between the military occupations and the private sector occupations.

The benefits of this effort are twofold. One, it allows departing veterans, who have participated in or completed an apprenticeship program under U.S. MAP to have direct entry into registered apprenticeship programs, such as those found in the building trades. Secondly, the program offers private industry employers sponsors, such as our signatory contractors, access to some of our nation's most highly-motivated and dedicated workers. Unfortunately, today only the Navy, Marines, and Coast Guard are participating in U.S.

MAP. It is our belief that both veterans and the private sector would benefit if the Army and the Air Force would participate in this program as well.

The United Association's National Apprenticeship Program recognizes the great value that military personnel can bring to our industry. These local and hard-working veterans bring experience, leadership, and skills that all of our employers want and need in the workforce. Because we recognize that our veterans have a proven track record of commitment and excellence on the job, we have included in our own apprenticeship standards a provision for direct entry into our programs by military personnel covered under U.S. MAP. In addition, we give credit for those skills that are directly related to our industry that these veterans acquired while serving our country. Thus, they have the opportunity, depending on experience, to move quickly through our traditional five year program since they may be able to start as either second, third, or fourth year apprentices.

While our UA programs are certain to continue to benefit both industry and workers, we recognize that apprenticeship training is a long-term strategy and represents a commitment on both the parts of employers and workers. Many industries, and most especially the construction industries are cyclical in nature with periods of high employment and then low employment. We believe that the veterans' apprenticeship benefits should not be withheld or suspended due to downturns in the economy that create interruptions in apprenticeship training.

The current requirement for veterans to receive apprenticeship benefits is 120 hours per month of classroom and on-the-job training. While in many parts of the country, this is not a difficult obligation to fulfill, there are areas where the up and down nature of the construction industry could make that requirement difficult to meet at times. It is our position that that requirement should be lowered to 100 hours per month so that no veteran is left behind.

We also believe that we have to look to the future and give special consideration to those young people who are entering the Armed Forces today or are contemplating entering. They are asked to elect certain veterans' benefits at the time that they are inducted into the service. But are they really prepared to make those important long-term decisions? These are usually young people, perhaps just out of high school, who have very little workplace experience. Many of them are hoping to acquire skills and training while in the military but they might not know how to do that. For example, they may be going through training and they discover an aptitude for a certain mechanical skill that they didn't know they had. So they should not be precluded from expanding these skills later on after discharge simply because of their youth and inexperience in years.

One of the great benefits of the all-volunteer armed forces is the opportunity it provides generations of young people to develop not only certain technical skills but also the discipline, maturity, and a sense of responsibility that sets them apart from those who have not shared the extraordinary experience of military service. Many young people today struggle to develop the same work ethic that is integral to parts of life in our nation. It is also this very quality

that makes veterans so appealing to employers in the private sector. The men and women leaving the Forces today are remarkable individuals who have demonstrated a commitment and courage that deserves to be rewarded. It is my belief that we have a fundamental obligation to ensure that all these service people find ample opportunities for success in the private sector.

Thank you.

[The prepared statement of Mr. Bliss appears on p. 116.]

Mr. BROWN. Thank you very much, Mr. Bliss. Mr. Stephens.

STATEMENT OF WILLIAM D. STEPHENS

Mr. STEPHENS. Mr. Chairman and members of the subcommittee, we are pleased to appear before you today on behalf of the National Association of State Approving Agencies to provide support for H.R. 1716, the Veterans Learn and Earn Act.

State approving agencies are an integral part of the administration of the GI Bill. We are very pleased with all sections of this bill. The standardization of the method which entitlement is used for all chapters of the GI Bill is definitely needed. Competency-based apprenticeship programs are viable training methods, and the lump sum payment for individuals who complete competency-based apprenticeships early ensures that no one will be placed at a disadvantage. The equalization of the benefit payment for individuals enrolled in a training program, which includes classroom training, will remedy the current problem of having two eligible individuals with the same entitlement in the same classroom receiving different benefit amounts. Police academies are a prime example of where this is occurring now.

In addition to increasing the use of registered apprenticeship programs, working closer with Department of Labor staff will also increase GI Bill utilization. Some states currently have outstanding working relationships between the state approving agency and the apprenticeship registering agency. There are a couple of states which have not been able to develop effective working relationships with their registering agency. There is no question that the sharing of information will be beneficial to all concerned.

State approving agencies have been actively involved in outreach for several years. A major focus of the outreach program has been to ensure all eligible veterans, reservists, and dependents are aware that they can use their benefits for apprenticeship or on-the-job training programs. In short, the GI Bill is not just for college.

We will now discuss several examples of what SAAs have been doing. In Pennsylvania, we do the following for outreach. We have a welcome home packet which provides information to each returning veteran. This includes a letter from the governor, a directory of agencies that assists veterans, information on apprenticeship on-the-job training, information concerning the Transition Assistance Program and a pre-paid postcard to request additional information. This project began in 1990 and has provided information to over 103,000 returning veterans.

We also utilize three information pamphlets, one for education, two for apprenticeship on-the-job training. I have an example of one of the OJT booklets designed for the individuals. It is an excellent tool. It is easy to mail.

We also sponsor a booth at the annual Pennsylvania Farm Show dedicated exclusively to veterans' issues. This booth includes information concerning GI Bill benefits, apprenticeship on-the-job training programs, health care, disability benefits, home loan benefits and more. It is operational for the entire Farm Show week. Many different organizations assist us in this. We get assistance from the VA, Vocational Rehabilitation Counselors, VA work study students, and many other organizations.

We also sponsor a Veterans' Day ceremony in the Department of Education. We get approximately 150 individuals who attend each year. In 2002, we were able to provide special recognition to the three Department of Education employees who were on Active duty at the time. We work closely with the Bureau of Apprenticeship and Training personnel who support the Pennsylvania State Apprenticeship Counsel. The most successful component of this close working relationship is the two year registered apprenticeship program for corrections officer at all of the 26 state prisons. This is both the largest registered and the largest approved-for-veterans training program in Pennsylvania.

We also work closely with the veterans employment representatives of the Department of Labor. We participate in job fairs, training sessions, and other outreach activities. As a side note, we also have the Veterans Employment Representative Programs, which are sometimes titled the Disabled Veterans Outreach Program, and the Local Veterans Employee Representative Programs, approved as 2-year on-the-job training programs. And we have had over 20 individuals complete these.

We conduct presentations at the Transition Assistance Programs at the four locations in Pennsylvania. We conduct mailings to county veterans' affairs directors, service organization, National Guard members, and we are continually looking for more things to do.

I would like to thank you for this opportunity. Chad will now finish our testimony.

STATEMENT OF CHAD SCHATZ

Mr. SCHATZ. Thank you, Mr. Chairman and members of the subcommittee. My name is Chad Schatz, executive secretary for the National Association of State Approving Agencies and state approving agency director in Missouri.

In Missouri, outreach is specifically designed to increase participation in on-the-job training and apprenticeship opportunities for VA-eligible trainees. The state approving agency has aggressively pursued outreach to increase usage. The outreach effort includes identification of eligible trainees and orientation for prospective training establishments in public and private sectors.

Since September 1, 1996, this effort has yielded 622 new and additional programs yielding dramatic economic impact benefitting over 820 eligible veterans. The economic impact of one veteran receiving an average annual benefit of $5,608 annually will impact the economy by approximately $16,824 according to the Missouri Economic Development Office.

Computing approximate benefits and economic impact from approvals written since September 1, 1996 and participant numbers, a figure of $10,873,000 is developed. Beyond the impressive impact

this program has on economic development through the course of on-the-job training, benefits of well-trained workers and greater stability and enhanced performance within crafts and trades are achieved. The Missouri Army National Guard, the Missouri Air Force National Guard and the Missouri State Approving Agency have teamed to engage in broader outreach activities. Guard recruiters receive orientation training, on-the-job training, apprenticeship benefits, and approval criteria through the state approving agency to provide accurate program information.

The state approving agency and the Missouri Army National Guard have teamed to produce compact discs, videos, audio tapes on on-the-job training apprenticeships and other media-related pieces. Copies are routinely distributed to strategic points of contact, including public service announcements for radio and television.

The state approving agency networks with the U.S. Department of Labor Veterans' Employment and Training Services, presentations to various organizations are made, including area Chambers of Commerce, recruiting stations, and law enforcement training centers. The state approving agency also has used the Add-A-Stop Program. As time permits, staff that are en route to or from a scheduled visit to an approved institution or establishment stop at a non-approved location to discuss apprenticeship or on-the-job training program opportunities. This does not increase travel costs and has provided excellent results.

The Missouri State Approving Agency has recently approved school teachers as an on-the-job training program. The Missouri State Approving Agency also is actively involved in the Troops to Teachers Program.

Other outreach efforts include press releases, various pamphlets, posters, participation at job fairs, et cetera. In Texas, the state approving agency also has active outreach efforts that include a recently designed and distributed pamphlet entitled, "Earn While You Learn" at job fairs, local workforce centers, TAP briefings, and other venues. The state approving agency works with local workforce boards and the Texas Commission in distribution of material. The state approving agency also conducts presentations with various organizations. Other SAAs have active outreach efforts.

There are many opportunities for veterans, reservists, and dependents to use their earned benefits while enrolled in training programs. State approving agencies are continually seeking new and innovative outreach projects to ensure that everyone is aware of their opportunities.

Recommendations of the National Association of State Approving Agencies:

It is with these beliefs and insights that we support the provisions of H.R. 1716. In addition, we would also request that when the time is appropriate, consideration be given to modifying the current payment formula provided for eligible individuals enrolled in training programs. Currently, the percentages are 75 percent of the amount they would receive if attending an educational institution for the first 6 months, 55 percent for the next 6 months, and 35 percent for the remainder of the program. The National Association of State Approving Agencies recommends these percentages in-

crease to 100 percent for the first 6 months, 75 percent for the next 6 months, and 50 percent for the remainder of the program.

In closing, we encourage the leadership and the members of this committee to take a firm and aggressive stand in promoting the enactment of the provisions of H.R. 1716.

Thank you, Mr. Chairman and members of the subcommittee for the opportunity to address you today. We would be pleased to respond to any questions that you have.

[The prepared statement of National Association of State Approving Agencies appears on p. 121.]

Mr. BROWN. Thank you, Mr. Schatz. Ms. Sullivan.

STATEMENT OF ANN SULLIVAN

Ms. SULLIVAN. Mr. Chairman, members of the subcommittee, my name is Ann Sullivan. I am pleased to appear today on behalf of Women Impacting Public Policy. Women Impacting Public Policy is a bipartisan organization of 430,000 women and minority business members nationwide. Thank you for inviting us to comment on H.R. 1460 and H.R. 1712.

First let me say WIPP applauds any legislation that establishes programs for small businesses to compete in the federal contracting arena, as is the case with the legislation the subcommittee is considering today. We believe that the barriers to federal contracting for small businesses are great and those companies that face economic and social barriers deserve special consideration when trying to enter that arena.

But on behalf of the women business owners that WIPP represents, we say, "Be careful what you wish for." We are referring, of course, to the statute, Public Law 106–554, which established a program which would allow federal contracting officers to restrict competition for any contract to women-owned companies if the following conditions are met:

One, 51 percent ownership by women are economically disadvantaged;

Two, the contracting officer has to have a reasonable expectation that two or more small women-owned companies will bid on the contract;

Three, a contract is for procurement of goods or services that is shown to be under-represented by the SBA administrator;

Four, the anticipated award does not exceed $5 million for an industrial code or $3 million for any other contract;

Five, the contract award can be made at a fair and reasonable price.

The statute requires that a federal, state, or national certifying entity approved by the administrator must certify that the business is woman-owned. In order to identify industries in which small women-owned businesses are under-represented in federal procurement contracting, the statute requires that the SBA administrator conduct a study to determine those industries.

That law was passed in the year 2000. It has yet to be implemented. Over one year ago, the SBA declared the study completed to identify the industries under-represented as unsatisfactory. Just last month, the SBA told the Small Business Committee that it intended to complete a study to study the study in the next 7 months

at the cost of $150,000. So we are really talking about implementation of a law 4 years later, if in fact the study is ever accepted.

Mr. Chairman, the bills you are considering today would establish a much stronger program for service-disabled veterans with regard to federal contracting, including sole-source contracts and penalties for federal agencies failing to meet their goals. They are much stronger than the women-owned program. If the administration has been unwilling to implement the women-owned program, we believe that it will indeed be an uphill battle, not only for passage for implementation of the laws and the legislation that you are considering. Our recommendation is by all means don't include a study in your legislation.

The government-wide women-owned goal established in 1994 is 5 percent. When Public Law 106–554 was passed, women owned one-third of all businesses, and 40 percent were deemed able to do business with the Federal Government. Now 40 percent of all new businesses are owned by women and their capabilities have vastly expanded. Yet the Federal Government has yet to meet their 5 percent target. The woman-owned percentage government-wide is 2.49 percent. Just recently, Women Impacting Public Policy conducted a survey of our membership that indicated that 95 percent of the businesses are willing and qualified to bid on federal contracts.

In closing, WIPP believes it is important that all small businesses be treated equally with regard to federal procurement programs. We urge the subcommittee to work with all small business groups who are seeking to increase federal procurement opportunities, whether it be HUB-owned, women-owned, STB or veteran. We believe that all of these groups should work together to increase the federal procurement dollars going to small business.

Thank you.

[The prepared statement of Ms. Sullivan appears on p. 125.]

Mr. BROWN. Thank you very much for that timely testimony.

Mr. Michaud, do you have a question?

Mr. MICHAUD. Yes, Ms. Sullivan, with respect to small business concerns, what are the key hurdles to the Federal Government improving its procurement process, in your opinion?

Ms. SULLIVAN. I think our previous speakers have identified some, and certainly some that are following us, like Ms. Styles and Mr. Armendariz, can comment on that as well. One is a culture that pervades in the federal agencies. Basically, it is very tough to get contracting officers to want to work with small business. It is much easier to bundle contracts, make them big and work with the big businesses that have 77 percent of the federal pie at this time.

Another one is the extensive paperwork that is required to participate in federal procurement. It is not certainly for the weak or businesses that cannot devote a large amount of time at the front end to complete things like the 8A certification, GSA's schedule, which is around 100 pages. So it is very tough to even get through those hurdles when you are a small business.

The other thing that we find is that many agencies encourage our members to be subcontractors instead of primes. But with that comes another whole set of issues. Many women-owned businesses are listed in the contracts that the large federal contractors have and may never see a dollar of that business.

So there are a lot of barriers.

Mr. BROWN. Ms. Davis, do you have a question?

Mrs. DAVIS. Just a comment. Thank you very much, all of you, for being here. I really wanted to pursue the same question, because I know in San Diego it is a very big concern for women-owned businesses; we have a lot of contracts that go out in our community, and yet our numbers are low.

Do you see within the paperwork that needs to be done, have you all identified some ways that there could be more of a general office that that might go through that would be assisting so that it would still obviously be fair for everybody? How do you—when you all sit around and talk about this, what would be the——

Ms. SULLIVAN. I wish I had a wonderful answer for you. We struggle with that, because the committees and the small business committees in both the House and Senate have asked us that question. SBA has asked us that question. One of the things that our women find is that they might complete federal paperwork process, like the GSA schedule. But then they also have state certifications. They have got local certifications. It just goes on and on and on.

So we would love to see something where if you are certified by the feds via GSA schedule or 8(a), that somehow that applies across government and across state and local so that you don't keep on doing these things over and over.

Mrs. DAVIS. So that there is some way, standard—I guess it is not necessarily standardizing it, taking a look at what qualifications are singular for state or federal and how you would make them so that they are not duplicative?

Ms. SULLIVAN. Exactly. The goal is that more people accept one certification so that once you have completed one it is widely accepted. That doesn't go to the heart of your question, which is there a way to simplify it? There probably is, but we don't claim to be experts on how to simplify a GSA process.

Mrs. DAVIS. Are there communities that have almost an incubator-type system so they have people who help and assist with that, almost like a grant writer but who obviously are not employed by the small business to do that, particularly? Have you seen successes in that way?

Ms. SULLIVAN. It really depends on the GSA folks or the SBA folks who are just kind of willing to do that. We haven't seen a concerted effort to help our people with their certifications. It is just a matter of who the personnel is in the regional offices. So the degrees of help vary just depending on how strong the staff is. But we could sure use more help on that.

Mrs. DAVIS. Thank you.

Ms. SULLIVAN. You are welcome.

Mr. BROWN. Thank you all very much for coming. Mr. Evans, did you have a question? I am sorry. Okay, thank you very much for coming.

The next panel scheduled is Panel 4, but I understand Ms. Styles is not here yet, and so if we could have Panel 5 come forward.

Thank you for your indulgence. We had to go vote, and we appreciate you all waiting around. And thank you for filling in for Panel 4. I guess everybody will be here on that panel pretty soon.

This panel is here to testify on House Resolution 1460 and House Resolution 1712, the two bills dealing with veterans' small business issues. Testifying today is Mr. John Lopez, Chairman of the Association for Service-Disabled Veterans; Mr. Donald Wilson, president and CEO of the Association of Small Business Development Centers; Mr. James Krempasky, president and CEO of Western Fire, Incorporated, Mr. Robert Hesser, president and CEO of HI Tech Services, Incorporated; and we have got a new member of this panel, Maj. Gen. Charles Henry, U.S. Army, retired, president and CEO of the National Veterans Business Development Corporation.

Gentlemen, thank you very much for coming. We look forward to your testimony. Mr. Lopez.

STATEMENTS OF JOHN K. LOPEZ, CHAIRMAN, ASSOCIATION OF SERVICE-DISABLED VETERANS; DONALD WILSON, PRESIDENT AND CEO, ASSOCIATION OF SMALL BUSINESS DEVELOPMENT CENTERS; JAMES R. KREMPASKY, PRESIDENT AND CEO, WESTERN FIRE, INC.; ROBERT G. HESSER, PRESIDENT AND CEO, HI TECH SERVICES, INC.; AND CHARLES HENRY, PRESIDENT AND CEO, NATIONAL VETERANS BUSINESS DEVELOPMENT CORPORATION

STATEMENT OF JOHN K. LOPEZ

Mr. LOPEZ. Mr. Chairman and distinguished members of the committee, it is a pleasure for me to appear today to provide the Association for Service Disabled Veterans' views concerning H.R. 1460, the Veterans Entrepreneurship Act of 2003 and H.R. 1712, the Veterans Federal Procurement Act of 2003. I applaud the wisdom of the sponsors and co-sponsors of these important legislative initiatives and the committee for holding today's hearing. For matters of convenience, I will summarize my testimony. I respectfully respect that our written statement in its entirety be entered into the record.

Mr. BROWN. So noted.

Mr. LOPEZ. For far too long our nation's veterans, particularly service-disabled veterans, have been excluded from federal programs that facilitate small business development and federal contracting. Presently, mandated programs have not assisted all businesses equally. ASDV is dedicated to the development of self-employment and managed employment opportunities for those men and women who incurred disabling injuries while serving our nation. We view H.R. 1460 and H.R. 1712 as being mutually supporting and both have great merit.

The H.R. 1460 establishment of self-employment as a goal and entrepreneurship training as a benefit via the Department of Veterans Affairs Rehabilitation Service will provide all disabled veterans an opportunity to receive the support, the procurement services, and the professional training to assist them to achieve success. We are pleased to see that the administration in the Department's fiscal year 2004 budget submission will submit legislation to modify the Montgomery GI Bill to enable veterans to be reimbursed for certain self-employment training programs.

We are also pleased that the sponsors of H.R. 1460 took into consideration recommendations to utilize restricted competition pro-

curement programs for service-disabled veteran-owned small business. I think they are referred to as sole-source, I call them restricted competition. I respectfully suggest that for H.R. 1460 to be most effective, the language addressing procurement programs could be modified. Attached to this testimony is suggested language for consideration by the committee. I submit that this proposed language will also strengthen and enhance the language in H.R. 1712 that establishes an enhanced veterans' business development program within the Small Business Administration.

We also firmly believe that the committee should carefully consider establishing a national veterans service-disabled veteran business certification program, administered by the Department of Veterans Affairs in coordination with the Department of Defense Central Contract Registry.

However, Mr. Chairman, we also feel very strongly that America's veterans and service-disabled veterans, men and women who have earned their benefits in service to this great nation, should not be subjected to proving that their misery and injuries create economic disadvantage as proposed in H.R. 1712. Although I have been assured by the staff that that provision is being modified.

Veterans placed at risk for death, disability, and torture should not be subjected to artificial barriers to participation in the economic system they sacrifice to preserve. They answered your call and made a personal sacrifice. A grateful nation should eagerly provide them with opportunity, not subject them to demeaning bureaucratic processes.

We are pleased that the committee is concerned with federal agency non-compliance with the goals that Congress specified in Public Law 106–50, goals intended to provide service-disabled veterans increased government contracting opportunities.

I compliment the Chairman and Ranking Member Evans, for their foresight in including consequences for non-compliance in H.R. 1712. And Chairman Smith, Congressman Renzi, and Chairman Manzullo for their insight in recognizing that self-employment assistance is an important rehabilitation benefit, just as is education and training, medical care, and home ownership assistance.

Mr. Chairman, members of the committee, I extend my admiration and my compliments to you for your understanding of the difficulties confronting our service-disabled veterans in establishing small businesses and actively participating in Federal Government procurement programs. We encourage and request your support and that of the 108th Congress for passage of H.R. 1460 and H.R. 1712. These two bills are mutually supporting and will serve to open doors that have restricted veteran-owned business opportunities for the past 50 years.

I will be pleased to answer any questions from the members. Thank you.

[The prepared statement of Mr. Lopez, with attachment, appears on p. 128.]

Mr. BROWN. Thank you, Mr. Lopez. Mr. Wilson.

STATEMENT OF DONALD WILSON

Mr. WILSON. Mr. Chairman, thank you very much for having the Association of Small Business Development Centers testify today.

I will direct my comments essentially to H.R. 1460, Congressman Renzi's legislation. We would like to commend Congressman Renzi, all of those on the staff, and the co-sponsors who helped bring this legislation before the Congress and commend you and Ranking Member Michaud for holding a hearing on this important legislation today.

The Small Business Development Center Program was created in 1980, signed into law by President Carter. It is the nation's largest management assistance training program. We have served over 10,000—excuse me, 10 million small business owners and aspiring small business owners in the last 23 years.

Four years ago, when I came to the Association, one of the things that I wanted to focus on was better serving the veterans' community. And within the first few months after I was there, former Congressman Solomon put together a breakfast meeting with the Association of Small Business Development Centers to meet with veterans service organizations in this town. To my knowledge, we were one of the first, if not the first, non-veteran service organization to support Public Law 106–50 and still support it. And commend all of those who put that legislation together.

Roughly 8 percent of our clients, Mr. Chairman, are self-declared veterans. We know the numbers are far greater than that. It is not surprising, entrepreneurship requires a great deal of discipline. It requires risk taking. It requires leadership. These and other characteristics that are inherent in our veterans make them outstanding entrepreneurs. The Kauffman Foundation estimates that one in 10 adult Americans is seeking to become an entrepreneur. And in fact the numbers may be up. The Department of Labor indicates that when unemployment rises, self-employment or the desire for self-employment rises. We have certainly seen the numbers of those approaching our centers for assistance increase.

Last year, we served 650,000 Americans with counseling of an hour or more or training of 2 hours or more. And we are finding waiting lists at many of our centers because we have been level funded essentially for a number of years.

Opening up the training programs that are available in entrepreneurship by SBDCs and other groups, Gen. Henry's group, for example, women business centers and others, is a tremendous opportunity for veterans, disabled veterans in particular. We believe the opportunities in technology that have now come along, with which we are extremely familiar and do a great deal of training in, open up the opportunities for self-employment to disabled veterans at home, which were not available say 6 or 8 years ago.

So we believe that this legislation has a tremendous potential. We have worked very closely with Mr. Denniston and others at the Department of Veterans Affairs and, as I said, work very closely with Mr. Elmore and Gen. Henry. We believe the opportunities that this legislation will afford to our nation's veterans to use Montgomery GI benefits will enable them to learn the skills required to be outstanding entrepreneurs. The studies that we have done, for example, probably 20 percent of small businesses are successful on average over 5 years. However, those at SBDC centers who have had long-term counseling and training, their success rate over that five year period is roughly 80 percent.

So we know the programs that we offer outstanding long-term curriculum, such as the Next Level Program and the Fast Track Program, which I know Gen. Henry and others are familiar with. We offer those regularly through nearly a 1,000 service centers nationwide. So this makes them readily accessible to our nation's veterans. We have roughly 6,000 employees. We are affiliated with some of the finest business schools and universities in the country.

And so we believe it is a resource that is the ideal resource to deliver this training to our nation's veterans and commend all of those associated with 1462 for making the changes in the statutes that would enable veterans to get this type of training.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Wilson appears on p. 135.]

Mr. BROWN. Thank you, Mr. Wilson. Mr. Krempasky.

STATEMENT OF JAMES R. KREMPASKY

Mr. KREMPASKY. Thank you, Mr. Chairman. I am very pleased to have been asked to appear this morning before the Subcommittee on Benefits for disabled veterans. My name is James Krempasky, and I am a service-connected, disabled veteran. I got this way not by choice, but I proudly wear the shoe that's been placed on me. It is a known fact and reality for disabled veterans that we are treated differently. But disabled veterans realize that they are limited only by the limitations placed in their own minds.

My status as a disabled veteran has put me at a disadvantage in the business world. I have found already, that owning my small business, that the federal procurement contracting world favors big businesses, and the small business owner doesn't have a level playing field. I feel that, if enacted, the bills before the subcommittee would help disabled veteran, small business owners have access to the same contracting opportunities as their larger counterparts. The bills are important for disabled veterans, why?

I feel, number one, they provide, as I stated before, an equal playing field for procurement contracting opportunities by sharing in the opportunities of government. Number two, they educate by providing the tools and skills necessary to be successful. Number three, the sole-source contracting under $5 million is very important as we, now, no longer have to compete on a level with big business. This may be good for services that are provided, but for someone in my particular business who provides products, I feel that there needs to be more done.

For example, I bring the latest technology in fire prevention and terrorism defense by virtue of my fire suppression foam. I can put my product in the fixed sprinkler system that currently exists in your building, thereby improving the capability 200 percent more than what it currently is right now.

But how do I get there? I have found a long process of empty roads and obstacles placed before me in trying to bring a product forward, with regards to a new technology, as a small business owner. We currently don't have deep pockets and the ability to pay for the enormous requirements of paying for testing and certification, in my instance, for the fire industry that is required. There is no way to get around that at this time. If you don't have deep pockets, you don't bring your technology forward; therefore, I can't

participate in the federal procurement contracting opportunities that are available.

I would ask that there be a way to make this happen, that funding be somehow put together to allow small business owners to bring new technology forward into the market that benefits mankind.

Lastly, and most important, what I have not heard this morning, it provides me with self-respect. It provides me with self-esteem and a self-reliance that I, otherwise, would not have. It would be very easy for me to sit at home and collect my pension check and not be a productive member of society. Disabled veterans don't want that. They want to be productive members of society. They don't want to surrender to their disabilities and sit at home and collect a paycheck. They do not want sympathy. They don't want a free handout. They only want fair opportunities to participate in the procurement process.

I read in the paper the other day about the 137 members of our armed forces, men and one woman, that were killed in Iraq. Yet most people don't realize that over twice as many of those service people were wounded. And out of those people that were wounded, two-thirds of them will no longer be able to go back to Active duty. They have become disabled veterans, and they will face the same pains and struggles that I faced when I came back from Active duty of what to do next.

I fully support Mr. Michaud and what you stated earlier sir that after the war is over, we are forgotten. We are out of sight and out of mind. I wish that that would change because I think, as was stated before, we have earned our right by sacrificing for our country to have an equal opportunity to share in the benefits that our government offers.

We still see this with the lack of equivalency for federal retirees. I don't get paid the same retirement that a regular federal retiree gets. That is not part of this hearing, but it still shows that disabled veterans are not getting their fair share.

Lastly, sir, I would like to add and ask respectfully for my written statement to be added to the record for this hearing.

Mr. BROWN. Without objection.

Mr. KREMPASKY. Thank you.

[The prepared statement of Mr. Krempasky appears on p. 138.]

Mr. BROWN. Thank you, Mr. Krempasky, lieutenant, I believe, and thank you for your service and thanks for being with us today. Mr. Hesser.

STATEMENT OF ROBERT G. HESSER

Mr. HESSER. Good morning, I would like to echo Mr. Krempasky's problems in trying to get a service-disabled veteran company going.

Good morning, Chairman Brown, Ranking Democrat Michaud, and your distinguished colleagues on this panel. My name is Bob Hesser. I currently serve as president of HI Tech Services, Incorporated, commonly known as HITS, a Virginia C corporation. I thank you for this opportunity to appear here today to present my views regarding the vital veterans' issue of providing veteran-

owned and service-disabled-veteran-owned business an equal opportunity to compete for Federal Government procurement.

My testimony concerns H.R. 1460 and H.R. 1712, as they will impact veteran-owned and service-disabled-veteran-owned small businesses. An attachment to my testimony addresses each section in more detail. Section 4 of H.R. 1460 will not be necessary if H.R. 1712 was passed. I believe the thoroughness of H.R. 1712 will provide guidance to federal contracting officers, other federal employees, and prime contractors so necessary since passage of Public Law 106–50.

Since passage of Public Law 106–50, I have attended over 60 small business conferences, met with over 100 government officials, met with most of the top 15 Federal Government prime contractors, and worked with several veteran-owned and service-disabled-veteran-owned small businesses. I am an active member of the Task Force of Veteran Entrepreneurship, as well as a member of veteran service organizations. I make this point because I want it to be clear that my knowledge and experience is beyond personal experience in just establishing HITS. My perspective is assuredly different than those without the same experience. Many people tell me that.

This testimony is my personal viewpoint and does not represent any organization or person. I want to make five points in my verbal testimony. Thus far, Public Law 106–50, as far as procurement opportunity is concerned, has provided nothing but a Guinea stamp.

Two, as a retired U.S. master chief, with 8 subsequent years as a government employee replacing two major IT systems through the federal procurement system in the Department of Agriculture and NAVC, with 7 years working with 8(a) firms, and 3 years establishing HITS, I firmly believe that the proposed legislation is sorely needed. Contracting officers and federal managers must have all the tools they need or Public Law 106–50's purpose will never be realized. Large businesses rarely achieve subcontracting goals. H.R. 1712 will result in approved achievement of prime and subcontracting goals for all groups. I believe H.R. 1712 addresses the provisions of section 4 of H.R. 1460.

Four, any legislative change made to the Small Business Act, and thus Federal Acquisition Regulations Part 19, will provide little improvement upon federal procurement from small business as long as the GSA has the ability to exempt FAR Part 19 from GSA schedule contracts.

During fiscal year 2002, GSA schedule sales equaled more than $22 billion. That is all GSA schedule sales. GSA schedule spending rose from 7 percent to 31 percent of total IT procurement dollars from 1997 through 2002. While full and open IT competition spending decreased from 57 to 41 percent. GSA can no longer be allowed to dance around the Small Business Act.

Five, I do not know how many procurement dollars went to small business. I don't think anybody does. Statistics from the Federal Procurement Data Center are the best available. I highly suspect their accuracy because many of the same procurement dollars are counted as 8(a), veteran, service-disabled veteran, et cetera.

From personal experience, I know that the few contract actions my company had during 2002 are only 50 percent accurate. If these

few transactions are inaccurate, how can I trust the others? Contracting officers do typically report more than one category per transaction.

In conclusion, Mr. Chairman, we need congressional support now. I have shared my opinions with you today because I, as well as many of my fellow veteran and service-disabled-veteran-owned business associates, believe we have a right to a fair and equitable playing field. I support the combining of H.R. 1712 and H.R. 1460, as stated. We desperately need this legislation. Without this legislation, we actually have nothing. I want to point out again I believe Public Law 106–50, insofar as procurement opportunity is concerned, has provided nothing but a Guinea stamp to service-disabled-veteran-owned companies.

Thank you for this opportunity to appear here today to share my views on these issues so vital to the well-being of America's veterans. And I would be happy to answer any questions. I request that my written testimony be made part of the record.

[The prepared statement of Mr. Hesser, with attachments, appears on p. 148.]

Mr. BROWN. So moved. Thank you, Mr. Hesser.

Gen. Henry, thank you for your patience in waiting. We will hear from you now.

STATEMENT OF CHARLES HENRY

Mr. HENRY. Mr. Chairman, thank you for the opportunity that put me on this panel. And let me say to Ranking Member Michaud and other distinguished members of this committee, I am just proud to be here and to give testimony in support of the legislation that is before it.

Mr. Chairman, before I do, we have two or three important people in the audience. May I take a moment and introduce them to the committee? The chairman of the National Veterans Business Development Corporation, a presidential appointee, Mr. Arthur Lopez, from the great State of California. He is our chairman. Along with him is Mr. Rich Oshner from the Commonwealth of Virginia, a presidential appointee on our board, the Veterans Corporation. And we have Dr. Sam Metters. He is a member of the newly appointed SBA Advisory Committee on Veterans Business Affairs. This is embodied in Public Law 106–50. And this organization just came into being last week. We are very delighted to have Dr. Sam and my two directors here with us today.

With your permission, Mr. Chairman, I would like to submit my testimony for the record and summarize my remarks. I would also like to say that I commend the committee for holding these hearings. The House Resolutions 1460, 1712, and 1716 are very important to the veterans' community. The Veterans' Corporation supports the majority of the provisions in these bills, and I would like to just detail some of the thoughts that we would have concerning each.

On H.R. 1460, we strongly support this provision. We think that the skills obtained in service to the nation makes service-disabled veterans well-suited for self-employment. And we heard the testimony here of an individual that talks about the benefit of that. We feel that the funding that this bill authorizes certainly would assist

in the effort. And we would strongly ask that the committee look at the procurement process and support a 3 percent set-aside—and I would call it a set aside goal for the enforcement of Public Law 106–50 in achieving the procurement goal in federal establishment. By way of explanation, I have got a history of being a senior acquisition executive back in the Department of Defense. Contracting officers do not have discretionary authority as you would think. I think it has to be mandated and put into the legislation.

We certainly support these vehicles to provide processes for service-disabled veterans but we would also ask that you consider including other veterans into that. And the way that we could make equity is that you give the service-disabled veterans more of a percentage than you would the others but certainly all veterans coming into the process. We would see that that would certainly help us. Accomplishing this provides solid, tangible proof I think that this nation truly values the great service that military members perform for our nation.

With respect to H.R. 1716, the Veterans Earn and Learn Act, we certainly support this Act and the potential to improve job opportunities for servicemembers as they leave the military. I can say that I as one individual using the GI Bill when I was on Active duty as a young officer, went to law school, and used the GI Bill to help me do that. And I can see the benefit of that and would certainly say that type of vehicles absolutely proof positive that it provides servicemembers with tremendous opportunities to learn and to be productive after they leave the service.

With respect to H.R. 1712, I say, Mr. Chairman and Ranking Member, we have had a great relationship with both the staff directors on both sides of the aisle. I personally want to commend Len Sistek and his staff for their efforts in drafting H.R. 1712. My written testimony will indicate that we are in support of its principles. While we are not reguesting additional administrative funding, we are in support of additional funding for specific Veteran service programs, for example, The Veterans Entrepreneurial Training (VET) Program and the Community Based Organizations initiative, but do appreciate the Minority staff's efforts on behalf of The Veterans Corporation. We have a great program to provide veteran education training that was given to us by the Kauffman Foundation. Mr. Wilson mentioned that. We have put together a program and that program is working to produce 617 veterans this year, by 30 September, our plan wraps to 1,500 veterans next year and 3,000 veterans the following year.

This program documents a 77 percent chance of being in business 5 years later. It is a tremendously successful program. The total bill for 3,000 veterans will be $6 million per year. We are asking the committee to look at this for program cost. That is money that we can input into a direct program that will benefit veterans starting now.

Sir, this concludes my testimony. I thank you for the opportunity to be here and to be a part of the distinguished members of this panel.

[The prepared statement of Mr. Henry appears on p. 156.]

Mr. BROWN. Ranking Member Evans, do you have a question? Okay, do any other members of the panel have a question?

Mr. Hesser, we are going to try our best to get some input from the GSA on your problem, and we hope we can get some support from that direction. But thank you all for coming and being a part of this deliberation this morning. I appreciate your patience in waiting us out and getting the votes out of the way. We will now go back to Panel 4. I understand Ms. Styles is here.

Mr. LOPEZ. Thank you.

Mr. BROWN. Welcome. We are glad to have you all appear before us this morning. I know that you are doing overtime today, Ms. Styles. We certainly appreciate your willingness to fit this in your schedule.

Accompanying Ms. Styles this morning is Mr. William Elmore, associate administrator for the Office of Veterans Business Development, and Mr. Fred Armendariz, associate deputy administrator for Government Contracting and Business Development. We have already heard from Gen. Henry. He was part of your panel but he elected to come earlier. We are glad that you are here, and we will hear from you now, Ms. Styles.

STATEMENT OF ANGELA B. STYLES, ADMINISTRATOR, OFFICE OF FEDERAL PROCUREMENT POLICY, OFFICE OF MANAGEMENT AND BUDGET; ACCOMPANIED BY WILLIAM D. ELMORE, ASSOCIATE ADMINISTRATOR, OFFICE OF VETERANS BUSINESS DEVELOPMENT, U.S. SMALL BUSINESS ADMINISTRATION; AND FRED C. ARMENDARIZ, ASSOCIATE DEPUTY ADMINISTRATOR, GOVERNMENT CONTRACTING AND BUSINESS DEVELOPMENT, U.S. SMALL BUSINESS ADMINISTRATION

Ms. STYLES. Thank you. I apologize for being late. I was testifying before the House Government Reform Committee and it ran a little bit over.

I am very pleased to be here today to discuss H.R. 1460 and H.R. 1712. I welcome the opportunity to collaborate with you on these issues. Both bills would establish mechanisms for creating opportunities for participation by veterans in federal contracting.

H.R. 1460 would authorize sole-source awards to service-disabled-veteran-owned small business, up to $5 million for manufacturing contracts, and $3 million for non-manufacturing contracts. The legislation would also establish a set aside for competition limited to these businesses.

H.R. 1460 focuses on setting aside contracts for small businesses owned and controlled by service-disabled veterans, whereas H.R. 1712 would be broad-reaching in its effect on all federal small business procurement programs. We support the procurement provisions of H.R. 1460 but we oppose H.R. 1712.

As I testified before this committee in February, the Federal Government has done an abysmal job of providing federal contracting opportunities for our veterans. And I have to tell you when my testimony went through clearance, I got several comments from agencies about using the word "abysmal," and I held firm on that. I don't think we have done a good job, and I think there are a lot of ways that we need to try and improve.

As you know, Section 502 of Public Law 106–50 sets a 3 percent government-wide goal for participation by small businesses owned

and controlled by service-disabled veterans in federal contracting and sub-contracting. The statistics from FPDS, our Federal Procurement Data System, reflect that the agencies really aren't doing a very good job of meeting veterans' procurement goals. As an initial step to rectify this situation, I issued a memorandum to all agencies reminding them of their goals and asking them to focus their attention on this segment of the commercial market.

To assist agencies in locating veteran-owned small business, these agencies were informed in my memorandum that the Department of Veterans Affairs is creating the Vet Biz vendor information pages, which will identify about 5,000 veteran-owned businesses. Attached to my testimony is a copy of that memo.

We hope that this will be an effective first step but I would like to emphasize it is just a first step. Friday of last week, I talked to Frank Ramos, the director of the Small Disadvantaged Business Utilization Office in the Department of Defense. We agreed to establish an inter-agency working group to address several issues that may be directly impacting veteran-owned small business participation in the federal procurement system. Although we have not yet identified members, we plan on addressing a wide range of issues, including proper identification of veteran-owned small businesses already participating in the federal procurement system.

There are a host of other issues this group can identify and address. This inter-agency group will work under the leadership of my office and a newly-established Federal Acquisition Council. In the near-term, we will be establishing objective, short-term and long-term plans for the veteran-owned small business community and the small business community generally.

On Monday of this week, I also addressed these issues with the newly-established Small Business Procurement Advisory Council at the Small Business Administration. I believe we have the recognition and understanding from small business offices within our agencies that these numbers must improve.

Over the past 2 years, I have encouraged restructuring of the current procurement system to allow for greater participation from small and first-time contractors to the federal marketplace. In this context, the administration strongly supports open competition among qualified firms in the awarding of government contracts. Unfortunately, the statute, judicial interpretations, and regulations have in the small business arena become so confusing and difficult for our procurement people to understand that I am concerned about the ramifications of creating new statutory preference programs. I sense an increasingly negative culture toward small business that could be exacerbated by additional statutory requirements.

I am also concerned that procurement preferences that would be created by H.R. 1460 might not have the long-term increase in contract awards to firms owned by service-disabled veterans that both the committee and this administration would like to see. Statutory changes could provide a short-term fix without consideration of long-term ramifications. However, recognizing the need to provide agencies with additional tools for contracting with service-disabled-veteran-owned small businesses, we support section 4 of H.R. 1460.

I would also like to point out the extraordinary nature of this proposed preference program for service-disabled-veteran-owned small businesses. It is only with extreme caution and reservation that this administration would support the creation of a new procurement preference program. However, in recognition of the sacrifice that service-disabled veterans have made for their country, we support the creation of this preference program. In every other conceivable instance, the administration would err towards open competition among qualified firms. Only through open competition, using our free market system, can we ensure that we are receiving the highest quality goods and services at the lowest price.

There is no question that this administration is committed to ensuring that veterans are provided every opportunity to fully integrate themselves in their communities upon return from service, and I am personally committed to ensuring that we continue to focus agency performance on improving contracting opportunities for veterans. We must demonstrate to our service personnel that we support them in all that they do and appreciate the sacrifices that they have made on our behalf. I look forward to continued collaboration on these issues.

This concludes my prepared remarks but I am very happy to answer any questions you may have.

[The prepared statement of Ms. Styles, with attachment, appears on p. 160.]

Mr. BROWN. Thank you, Ms. Styles.

Any questions from the panel? Mr. Michaud?

Mr. MICHAUD. Yes, thank you very much, Mr. Chair. Excuse me, Ms. Styles. Actually, Mr. Chairman, I would like to submit questions in writing for Ms. Styles to respond. Just a comment. You talked about—it is abysmal as far as what has happened out there. And I guess my only concern is I think veterans have heard a lot of promises and how we praise veterans and it is a good sound bite. But they haven't seen results. And that is what they want to do is see results. They are tired of promises and they have heard the same promises when it comes to the veterans' benefits. It has just been promises. And there are a lot of problems out there. And I think we got to make sure, this Congress and this administration has to make sure that we get results. And that is not happening. So I do have several questions which I will submit in writing. And hopefully OMB and SBA will take this very seriously because there are a lot of problems out there.

I want to thank the panel for their time today.

Ms. STYLES. Well, I agree with you. And I would also like to say that that is the reason that we support this set-aside and this sole-source authority, so we can give the agencies additional tools to be able to award contracts to service-disabled veterans.

Mr. BROWN. Ms. Davis, do you have a question? Okay, Ms. Styles, thank you very much for coming. I know this is double duty today, and I certainly appreciate the personal commitment, leadership and energy you bring to this issue on behalf of our President. And I thank you for all you and the rest of your team do there. Thanks for being a part of this, and we look forward to further input as we move these bills through the process.

Ms. STYLES. Thank you very much.

Mr. BROWN. Thank you. Welcome, gentlemen. Our final panel is made up of representatives of veterans service organizations. Mr. Blake Ortner?

STATEMENTS OF BLAKE ORTNER, ASSOCIATE LEGISLATIVE DIRECTOR, PARALYZED VETERANS OF AMERICA; BRIAN E. LAWRENCE, ASSISTANT NATIONAL LEGISLATIVE DIRECTOR, DISABLED AMERICAN VETERANS; PETER S. GAYTAN, PRINCIPAL DEPUTY DIRECTOR, NATIONAL VETERANS AFFAIRS AND REHABILITATION COMMISSION, THE AMERICAN LEGION; AND RICHARD JONES, NATIONAL LEGISLATIVE DIRECTOR, AMVETS

STATEMENT OF BLAKE ORTNER

Mr. ORTNER. Thank you, Mr. Chairman. Mr. Chairman, members of the subcommittee, Paralyzed Veterans of America is pleased to present our views on the legislation before you today. PVA is the only national veterans' service organization chartered by Congress to represent and advocate on behalf of our members and all Americans with spinal cord injury or disease. All of PVA's members in each of the 50 states and Puerto Rico are veterans with spinal cord injury or dysfunction. These veterans suffer from catastrophic injury and disease and face challenges everyday in their quest to survive and function fully in society.

Due to time, I will only address some of the issues with each piece of legislation but have included more detailed remarks in my written testimony, and I ask that be made part of the record.

PVA thanks Mr. Renzi for introducing H.R. 1460, the Veterans Entrepreneurship Act of 2003. Entrepreneurship training is a valuable process for veterans, especially disabled veterans as they reenter civilian society. This is especially true for those with catastrophic disabilities who often have difficulty and face multiple challenges in the normal workplace. The opportunity to gain training to make our disabled veterans self-employable will truly bring benefits to themselves and to America. It is a win for everyone.

PVA is also glad to see the legislation pursue non-traditional sources of training programs, such as the National Veterans Business Development Corporation, while maintaining sufficient definitions to preclude entities not able to deliver on their program promises. The legislation also provides for procurement improvements, allowing sole-source contracts to service-disabled businesses will give them the jumpstart needed to develop. But this will only be successful if contracting officers are encouraged to provide contracts to service-disabled-veteran-owned businesses as required by Public Law 106–50.

To date, the performance of federal agencies has been dismal. We would like to offer our special thanks to Mr. Evans for introducing H.R. 1712, the Veterans Federal Procurement Opportunity Act. The introduction of legislation to support our disabled veteran business owners is welcomed. But if there is no requirement to provide contracts to these businesses, then it is simply an empty gesture.

And I would like to applaud Ms. Styles. She is perhaps the first administration official to actually do something for veterans' businesses. She has met with some of our organizations. And I would

like to applaud her efforts on that. However, H.R. 1712 actually puts some teeth behind the rhetoric. PVA fully supports this legislation and particularly welcomes the modification of the Small Business Act to exclude amounts received for a veterans' service-connected disability when determining a veteran is economically disadvantaged.

PVA also welcomes the reauthorization of programs of the National Veterans Business Development Corporation. We are encouraged by the continuing support for the Corporation by the subcommittee. However, in appropriating funds for the Corporation, we would ask you to consider earmarking the appropriations for fiscal year 2005 and 2006 to programs developed by the Corporation. Possibly, for the community-based outreach programs and the educational training programs. Earmarking would directly benefit the programs provided by the Corporation and encourage the Corporation's own self-sufficiency. PVA fully supports the Veterans Corporation but also looks forward to it becoming the self-sustaining private corporation envisioned in Public Law 106–50.

PVA particularly welcomes the prohibition against double-counting. Double-counting is deceptive and does not give a clear picture of procurement for an agency. PVA also applauds language requiring a restriction on the use of funds for agencies that do not meet their goal. The only way to force agencies to meet their obligation to veterans is with an enforcement mechanism.

PVA thanks House Veterans' Affairs Committee Chairman Smith for his forward-thinking legislation, H.R. 1716, the Veterans Earn and Learn Act. A lump sum payment of benefits for those who complete training programs early only makes good sense. The ability to encourage veterans to move on to gainful employment benefits both the veteran and society. It will increase the veterans' self-esteem and confidence and may provide funds to become established if the veteran needs to re-locate to find higher paying jobs in a new discipline.

PVA also welcomes the recommendation for the Secretary to increase the use of apprenticeships which can more quickly return veterans to the workforce, often at jobs providing a higher initial income and living wage. This is particularly important with today's veterans who are often older and have families.

PVA welcomes provisions to share information among departments with respect to on-the-job training. PVA understands the needs for states and private organizations to regulate professional activities in their jurisdictions. But it simply doesn't make sense that veterans trained as professionals must be re-trained to meet bureaucratic requirements. We hope the departments will work with the Professional Certification Advisory Board to ensure our veterans face as few impediments to employment as possible. PVA would also like to see Congress earmark funding to support the Board's efforts.

Mr. Chairman, I thank you and the subcommittee for its efforts to provide for our veterans, and I would be pleased to answer any questions.

[The prepared statement of Mr. Ortner appears on p. 169.]

Mr. BROWN. Thank you, Mr. Ortner.

We also have with us Mr. Brian Lawrence, Disabled American Veterans.

STATEMENT OF BRIAN E. LAWRENCE

Mr. LAWRENCE. Thank you, sir. Good afternoon, Chairman Brown and Ranking Member Michaud. On behalf of the Disabled American Veterans, we appreciate the opportunity to testify on the bills under consideration today. The DAV was founded on the principal that our nation's first duty to veterans is rehabilitation of its war-time disabled. Along with quality health care and adequate compensation, this principal envisions training and assistance to help disabled veterans become self-sufficient.

H.R. 1460, H.R. 1712, and H.R. 1716 provide both disabled and non-disabled veterans an excellent opportunity to provide for themselves by running their own businesses. For some disabled veterans, entrepreneurship is the only viable option for maintaining self-sufficiency. The need for frequent medical treatments and other obstacles sometimes prohibit them from maintaining regular working hours. Such veterans often choose to operate their own businesses where they need not conform to the demands of a set schedule. Those who cannot are forced to rely on VA individual unemployability compensation.

From an economic standpoint, it is better when disabled veterans operate their own firms. As business owners, they are able to contribute to federal revenue, rather than being an added increase to spending for VA programs.

Small businesses also create millions of new jobs and generate billions of dollars annually. So we are stimulating the gross domestic product at the same time we are helping disabled veterans.

Mr. Chairman, the DAV has nothing except praise for these three bills. Preceding witnesses have well-outlined each of them so for the sake of brevity, I will not reiterate what has already been stated. I will close by saying on behalf of our 1.2 million members we appreciate the subcommittee's efforts to improve VA benefits. These bills illustrate to our nation's disabled veterans that their dedicated service and sacrifices are not forgotten. Clearly, the DAV's mission to improve the lives of disabled veterans is shared by this subcommittee, and we appreciate your efforts and look forward to working together on future issues.

Thank you.

[The prepared statement of Mr. Lawrence appears on p. 176.]

Mr. BROWN. Thank you, Mr. Lawrence.

Next will be Mr. Peter Gaytan of The American Legion.

STATEMENT OF PETER S. GAYTAN

Mr. GAYTAN. Mr. Chairman, thank you for the opportunity to present the American Legion's views on H.R. 1460, H.R. 1712, and H.R. 1716. We commend the subcommittee for holding a hearing to discuss these important issues. The American Legion recognizes the benefits of American entrepreneurship, not only for the overall American economy but also for the transitioning servicemember seeking to develop their own business.

The bills being considered today will indeed improve employment and entrepreneurship opportunities for America's veterans. H.R.

1460, the Veterans Entrepreneurship Act of 2003, allows veterans to use VA educational benefits to enroll in a non-degree, non-credit business course offered by a Small Business Development Center and the National Veterans Small Business Development Corporation. In addition, it clarifies that disabled veterans enrolled in school under a VA vocational rehabilitation program may establish self-employment and a small business enterprise as a vocational goal and would give federal agency contracting officers the discretionary authority to create sole-source contracts for disabled veteran-owned businesses up to $5 million for manufacturing awards and $3 million for non-manufacturing awards.

The American Legion fully supports the provisions of this bill. More than any other group, those veterans who have sacrificed their health and well-being in service to the nation deserve the opportunity to successfully transition to the civilian workforce.

H.R. 1712, the Veterans Federal Procurement Opportunity Act of 2003, seeks to establish a development program for small business concerns owned and controlled by qualified service-connected disabled veterans, to reauthorize the programs of the National Veterans Business Development Corporation, and to establish a government-wide procurement goal for small business concerns owned and controlled by veterans. The American Legion is pleased to see this proposed legislation adding veterans, especially service-connected disabled to the list of specified small business categories receiving a 3 percent set-aside. And the American Legion fully supports all provisions of H.R. 1712.

H.R. 1716, the Veterans Earn and Learn Act, seeks to approve VA educational assistance programs for apprenticeship or other on-the-job training. While the American Legion supports this important piece of legislation, we do not however have an official position on Section 6. We are reviewing the implications of this provision in detail and are willing to provide that opinion to the subcommittee when it is developed. And I will forward that to the committee as soon as it is ready.

I would like to focus specifically on Section 7, which requires certain coordination of information among VA, DOD, and DOL with respect to on-the-job training. At the time of a servicemember's separation from Active duty, the Secretary of Defense would be required to furnish VA with information concerning each registered apprenticeship pursued by servicemembers during Active duty service. Additionally, it would require VA, in conjunction with the DOL, to encourage and assist states and private organizations to grant credit to servicemembers and civilian occupations for skills and training earned during military service.

The American Legion has consistently advocated proper recognition of military training and experience by civilian licensor and certification agencies. Section 7 of this bill is a step in the right direction. Ignoring the skills and training of America's servicemembers when they transition into the civilian workforce, is not only a disservice to the transitioning veteran but is a disservice to the future employers. The training and education of military personnel is in many cases parallel, if not better, than their civilian counterparts. Parity recognition of their skills and qualifications enables civilian employers to recruit from the highly-trained and experienced work-

force of transitioning servicemembers. The American Legion applauds Chairman Smith for introducing this important piece of legislation.

Mr. Chairman, that concludes my testimony, and I welcome any questions you may have.

[The prepared statement of Mr. Gaytan appears on p. 182.]

Mr. BROWN. Thank you, Mr. Gaytan.

Mr. Richard Jones with AMVETS, welcome.

STATEMENT OF RICHARD JONES

Mr. JONES. Thank you. Chairman Brown, Ranking Member Michaud, thank you for the opportunity to present our views on the three bills subject to this hearing. Before I begin, I would like to publicly thank you both and members of this subcommittee and members of the full committee for your strong support for the Veterans' budget this year. Your work was outstanding. And I would also like to publicly thank the sponsor of H.R. 1460, Mr. Rick Renzi, for his principled stand in support of a strong VA budget. Through his work and your work, you have helped design a blueprint for VA to fulfill its mission to serve veterans, all veterans.

Regarding H.R. 1460, introduced by Representative Rick Renzi, the bill would seek to provide our nation's veterans economic opportunities that would allow them to create their own enterprises. By funding enrollment in new credit and non-degree business courses offered at Small Business Administration Centers, this legislation would help veterans learn the self-employment skills necessary to run a successful business enterprise. Additionally, H.R. 1460 would liberalize certain VA practices that require disabled veterans to state an inability to work for others before becoming eligible for certain entrepreneurial services provided by VA rehabilitation programs. This change would help make entrepreneurship a more integral part of rehabilitation for disabled veterans and bolster the opportunity for disabled veterans to foster home-based businesses.

The bill would also grant discretionary authority for procurement purchases and award contracts up to $5 million for manufacturing awards and $3 million for non-manufacturing awards to disabled veterans. This provision would help allow disabled veterans' businesses to catch up to more contract advance providers with longstanding ties to federal agencies. AMVETS supports H.R. 1460 and urges its passage by the full House.

Regarding the next bill under consideration, H.R. 1712, the Veterans Federal Procurement Opportunity Act of 2003, would advance the goals of Public Law 106–50, the Veterans Entrepreneurship and Small Business Development Act of 1990. H.R. 1712 would establish a new development program for low-income and service-connected veterans. It would provide assistance, both financial and non-financial, to qualified veterans for their business creation and it would provide set-aside authority for federal agencies to better reach the goal of at least 3 percent of their contracts being awarded to service-connected disabled veterans.

The bill would also eliminate double-counting. A contract to a service-connected disabled veteran would be counted as having been awarded to that single sub-category for tally in the Federal Procurement Data System. Under this system, much more realistic

statistics of an agency's performance under both 8(a) and new designations created by this bill for service-connected disabled veterans would be established.

Finally, H.R. 1712 would establish a lock box that ensures an agency meets the 3 percent goal. In short, should an agency not meet its goal of providing at least 3 percent of prime contracts to service-connected disabled veterans, the 3 percent of its funding would be withheld. Those funds could only be used to contract with eligible service-connected disabled veterans until the goals are met. AMVETS fully supports H.R. 1712 and urges its passage in the full House.

H.R. 1716, introduced by House Veterans' Affairs Committee Chairman Chris Smith, seeks to ensure that veterans have the best opportunity to receive valuable training through on-the-job training and apprenticeship programs. The changes sought by this bill would modernize VA's on-the-job training and apprenticeship programs to reflect the needs of American business in the 21st Century. Current VA on-the-job training and apprenticeship programs see limited use for fiscal year 2001, only 4.2 percent of veterans were enrolled in an on-the-job training or apprenticeship program. Several states, including Missouri and Pennsylvania, have mounted aggressive programs to place veterans in employment opportunities that offer on-the-job training.

These programs have shown encouraging results. Enactment of H.R. 1716 would provide veterans with greater opportunity for employment by helping them obtain the professional licenses and accreditation they require to get the job track they have chosen. AMVETS fully supports H.R. 1716 and urges its passage by the full House.

Again, we thank you for this opportunity to present our views and appreciate your time and efforts to make veterans' lives better and to give them improved and enhanced benefits for themselves and their families.

Thank you.

[The prepared statement of Mr. Jones appears on p. 189.]

Mr. BROWN. Thank you, Mr. Jones.

Mr. Michaud, do you have a question?

Mr. MICHAUD. Yes, two questions. My first question is have your organizations looked at the contract process for the application? I heard earlier that it is cumbersome. Is there a way to make that process, procurement process more streamline so small businesses of vets would be able to deal with it?

Mr. ORTNER. Sir, I am not sure that anything done in the government cannot be complicated. I say that sort of tongue and cheek but I am serious. When we are looking at spending the taxpayers' money, I think almost by definition, we want to have—you want it to be a little more complicated or at least a little more involved. I think some of the organizations or some of the agencies are looking at not necessarily streamlining the effects but providing assistance, providing outreach to help veterans get through the paperwork. I know there is some agency, NASA, I believe does it, I know the Treasury does it, where they actually do outreach to veterans' businesses where they do business fairs and the initial day of their business fair will be exclusively for veterans and service-disabled

veteran business owners. And when those owners come in, they get some assistance on getting through the process. And that seems to be more beneficial.

Mr. MICHAUD. Thank you. Actually, I think I remember during the campaign, Congressman Ron Emmanuel actually was talking to me about the student loan program where students had to fill out over 100 some odd questions for a couple of thousand dollars whereas when you are exporting businesses and when you deal with some other programs of the Federal Government that includes millions of dollars, there is only 12 questions the Federal Government had asked. So I think there probably is a way that we can streamline the process to still have accountability but also to make it more accessible.

My second question is, and I am not sure how long the 3 percent goal has been into statute, but a lot of times, having served for 22 years in the Maine Legislature, there is a resentment between the Executive and Legislative Branch, and bureaucrats sometimes tend to resent what the legislature might put into statute, in this case a 3 percent goal. So even though they say they might want to implement it, there is no real initiative for them to do that. And that is why I support that part of this provision.

But my question to the organizations, if in fact we can't achieve that 3 percent goal, do you have members in your organization, if we change the structure, so that the final approval rather than being made by existing bureaucrats that is set up by a committee maybe a three or a two from service organizations to make that final decision to ensure that contracts, procurement contracts, they are meeting their obligation under statute? Do you feel you have members in your organization that will be able to take on that task?

Mr. GAYTAN. The American Legion would be willing to get involved in ensuring that that 3 percent requirement is met, yes, sir.

Mr. LAWRENCE. The Disabled American Veterans would be happy to participate in that, as well. So please let us know if we can be of any assistance.

Mr. ORTNER. PVA may be able to, in a limited sense, do that; because of the catastrophic nature of our membership, there are limited numbers of business owners. But if the opportunity presented itself, it is certainly something we would like to look at.

Mr. JONES. Bureaucratic inertia is part of the law of government, so we would expect there would be resistance to change and slowness to do so. But what Ms. Styles presented in the testimony a month or so ago was just startling with regard to the 3 percent effort. The effort was better in the first year than it was in the second year. There was a depreciation of the value of what you had suggested in the 106th legislation. AMVETS would of course be pleased to participate in any sort of effort to ensure that the 3 percent goal was met. We are hopeful that the American taxpayers would see that what we were doing would be valuable. And we would be pleased to participate if such an opportunity presented itself.

Mr. MICHAUD. Thank you very much.

Mr. BROWN. Gentlemen, you are the last panel we will take input from. And thank you all for what you do for the veterans. We have

a goodly number of veterans down in South Carolina in my first congressional district. And I am absolutely so pleased to be the chairman of this Benefits Subcommittee and so glad to have testimony from you all today.

Unless there are any more comments, we will stand adjourned.

[Whereupon, at 12:45 p.m., the subcommittee was adjourned.]

APPENDIX

I

108TH CONGRESS
1ST SESSION

H. R. 1460

To amend title 38, United States Code, to permit the use of education benefits under such title for certain entrepreneurship courses, to permit veterans enrolled in a vocational rehabilitation program under chapter 31 of such title to have self-employment as a vocational goal, and for other purposes.

IN THE HOUSE OF REPRESENTATIVES

MARCH 27, 2003

Mr. RENZI (for himself, Mr. SMITH of New Jersey, Mr. EVANS, Mr. BROWN of South Carolina, Mr. MANZULLO, Mr. BEAUPREZ, and Mr. MICHAUD) introduced the following bill; which was referred to the Committee on Veterans' Affairs, and in addition to the Committee on Small Business, for a period to be subsequently determined by the Speaker, in each case for consideration of such provisions as fall within the jurisdiction of the committee concerned

A BILL

To amend title 38, United States Code, to permit the use of education benefits under such title for certain entrepreneurship courses, to permit veterans enrolled in a vocational rehabilitation program under chapter 31 of such title to have self-employment as a vocational goal, and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

1 **SECTION 1. SHORT TITLE.**

2 This Act may be cited as the "Veterans Entrepre-
3 neurship Act of 2003".

4 **SEC. 2. AUTHORIZATION FOR STATE APPROVING AGENCIES**
5 **TO APPROVE CERTAIN ENTREPRENEURSHIP**
6 **COURSES.**

7 (a) APPROVAL OF ENTREPRENEURSHIP COURSES.—
8 Section 3675 of title 38, United States Code, is amended
9 by adding at the end the following new subsection:

10 "(c)(1) A State approving agency may approve the
11 entrepreneurship courses offered by a qualified provider
12 of entrepreneurship courses.

13 "(2) For purposes of this subsection, the term 'entre-
14 preneurship course' means a non-degree, non-credit course
15 of business education that enables or assists a person to
16 start or enhance a small business enterprise.

17 "(3) Subsection (a) and paragraphs (1) and (2) of
18 subsection (b) do not apply to—

19 "(A) an entrepreneurship course offered by a
20 qualified provider of entrepreneurship courses; and

21 "(B) a qualified provider of entrepreneurship
22 courses by reason of such provider offering one or
23 more entrepreneurship courses.".

24 (b) BUSINESS OWNERS NOT TREATED AS ALREADY
25 QUALIFIED.—Section 3471 of such title is amended by in-
26 serting before the last sentence the following: "The Sec-

1 retary shall not treat a person as already qualified for the
2 objective of a program of education offered by a qualified
3 provider of entrepreneurship courses solely because such
4 person is the owner or operator of a business.".

5 (c) INCLUSION OF ENTREPRENEURSHIP COURSES IN
6 DEFINITION OF PROGRAM OF EDUCATION.—Subsection
7 (b) of section 3452 of such title is amended by adding
8 at the end the following: "Such term also includes any
9 course, or combination of courses, offered by a qualified
10 provider of entrepreneurship courses."

11 (d) INCLUSION OF QUALIFIED PROVIDER OF ENTRE-
12 PRENEURSHIP COURSES IN DEFINITION OF EDU-
13 CATIONAL INSTITUTION.—Subsection (c) of section 3452
14 of such title is amended by adding at the end the fol-
15 lowing: "Such term also includes any qualified provider
16 of entrepreneurship courses.".

17 (e) DEFINITION OF QUALIFIED PROVIDER OF EN-
18 TREPRENEURSHIP COURSES.—Section 3452 of such title
19 is further amended by adding at the end the following new
20 subsection:

21 "(h) The term 'qualified provider of entrepreneurship
22 courses' means—

23 "(1) a small business development center de-
24 scribed in section 21 of the Small Business Act (15
25 U.S.C. 648), and

1 "(2) the National Veterans Business Develop-
2 ment Corporation (established under section 33 of
3 such Act (15 U.S.C. 657c)) insofar as the Corpora-
4 tion offers or sponsors an entrepreneurship course
5 (as defined in section 3675(c)(2) of this title).".

6 (f) EFFECTIVE DATE.—The amendments made by
7 this section shall apply to courses approved by State ap-
8 proving agencies after the date of the enactment of this
9 Act.

10 **SEC. 3. ESTABLISHMENT OF SELF-EMPLOYMENT AS A VO-**
11 **CATIONAL GOAL FOR VETERANS RECEIVING**
12 **VOCATIONAL REHABILITATION.**

13 Section 3104 of title 38, United States Code, is
14 amended by adding at the end the following new sub-
15 section:

16 "(c) Any person entitled to a rehabilitation program
17 under this chapter may establish self-employment as a vo-
18 cational goal without regard to any requirement that the
19 person be unemployable.".

20 **SEC. 4. PROCUREMENT PROGRAM FOR SMALL BUSINESS**
21 **CONCERNS OWNED AND CONTROLLED BY**
22 **SERVICE-DISABLED VETERANS.**

23 The Small Business Act (15 U.S.C. 631 et seq.) is
24 amended by redesignating section 36 as section 37 and
25 by inserting after section 35 the following new section:

1 **"SEC. 36. PROCUREMENT PROGRAM FOR SMALL BUSINESS**
2 **CONCERNS OWNED AND CONTROLLED BY**
3 **SERVICE-DISABLED VETERANS.**

4 "(a) SOLE SOURCE CONTRACTS.—In accordance with
5 this section and not withstanding any other provision of
6 law, a contracting officer may award a sole source contract
7 to any small business concern owned and controlled by
8 service-disabled veterans if—

9 "(1) such concern is determined to be a respon-
10 sible contractor with respect to performance of such
11 contract opportunity and the contracting officer does
12 not have a reasonable expectation that 2 or more
13 small business concerns owned and controlled by
14 service-disabled veterans will submit offers for the
15 contracting opportunity;

16 "(2) the anticipated award price of the contract
17 (including options) will not exceed—

18 "(A) $5,000,000, in the case of a contract
19 opportunity assigned a standard industrial clas-
20 sification code for manufacturing; or

21 "(B) $3,000,000, in the case of any other
22 contract opportunity; and

23 "(3) in the estimation of the contracting officer,
24 the contract award can be made at a fair and rea-
25 sonable price.

1 "(b) RESTRICTED COMPETITION.—In accordance
2 with this section and not withstanding any other provision
3 of law, a contracting officer may award contracts on the
4 basis of competition restricted to small business concerns
5 owned and controlled by service-disabled veterans if the
6 contracting officer has a reasonable expectation that not
7 less than 2 small business concerns owned and controlled
8 by service-disabled veterans will submit offers and that the
9 award can be made at a fair market price.

10 "(c) APPEAL BY ADMINISTRATOR.—Not later than 5
11 days after the date on which the Administration is notified
12 of a contracting officer's decision not to award a contract
13 opportunity under this section to a small business concern
14 owned and controlled by service-disabled veterans, the Ad-
15 ministrator may notify the contracting officer of the intent
16 to appeal the contracting officer's decision, and within 15
17 days of such date the Administrator may file a written
18 request for reconsideration of the contracting officer's de-
19 cision with the Secretary of the department or agency
20 head.

21 "(d) RELATIONSHIP TO OTHER CONTRACTING PREF-
22 ERENCES.—A procurement may not be made from a
23 source on the basis of a preference provided under sub-
24 section (a) or (b) if the procurement would otherwise be
25 made from a different source under section 4124 or 4125

1 of title 18, United States Code, or the Javits-Wagner-
2 O'Day Act (41 U.S.C. 46 et seq.).
3 "(e) ENFORCEMENT; PENALTIES.—Rules similar to
4 the rules of paragraphs (5) and (6) of section 8(m) shall
5 apply for purposes of this section.
6 "(f) CONTRACTING OFFICER.—For purposes of this
7 section, the term 'contracting officer' has the meaning
8 given such term in section 27(f)(5) of the Office of Federal
9 Procurement Policy Act (41 U.S.C. 423(f)(5)).".

○

I

108TH CONGRESS
1ST SESSION

H. R. 1712

To amend the Small Business Act to establish a development program for small business concerns owned and controlled by qualified service-disabled veterans, to reauthorize the programs of the National Veterans Business Development Corporation, to establish a Government-wide procurement goal for small business concerns owned and controlled by veterans, and for other purposes.

IN THE HOUSE OF REPRESENTATIVES

APRIL 10, 2003

Mr. EVANS (for himself, Mr. FILNER, Mr. MICHAUD, and Ms. HOOLEY of Oregon) introduced the following bill; which was referred to the Committee on Small Business

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A BILL

To amend the Small Business Act to establish a development program for small business concerns owned and controlled by qualified service-disabled veterans, to reauthorize the programs of the National Veterans Business Development Corporation, to establish a Government-wide procurement goal for small business concerns owned and controlled by veterans, and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

1 **SECTION 1. SHORT TITLE.**

2 This Act may be cited as the "Veterans Federal Pro-
3 curement Opportunity Act of 2003".

4 **SEC. 2. DEVELOPMENT PROGRAM FOR SMALL BUSINESS**
5 **CONCERNS OWNED AND CONTROLLED BY**
6 **QUALIFIED SERVICE-DISABLED VETERANS.**

7 (a) ESTABLISHMENT OF PROGRAM.—The Small
8 Business Act (15 U.S.C. 631 et seq.) is amended by redes-
9 ignating section 36 as section 37 and by inserting after
10 section 35 the following new section:

11 **"SEC. 36. DEVELOPMENT PROGRAM FOR SMALL BUSINESS**
12 **CONCERNS OWNED AND CONTROLLED BY**
13 **QUALIFIED SERVICE-DISABLED VETERANS.**

14 "(a) IN GENERAL.—In accordance with this section,
15 the Administrator shall establish a development program
16 for small business concerns owned and controlled by quali-
17 fied service-disabled veterans. The program established
18 under this section shall be similar to the program de-
19 scribed in sections 7(j) and 8(a).

20 "(b) ASSISTANCE AND SERVICES; RULES.—The pro-
21 gram established under this section shall provide assist-
22 ance and services, and be governed by rules, similar to
23 the assistance and services provided under, and rules de-
24 scribed in, subsections (a)(20) and (j) of section 7 and
25 section 8(a).

26 "(c) DEFINITIONS.—For purposes of this section:

1 "(1) QUALIFIED SERVICE-DISABLED VET-
2 ERAN.—The term 'qualified service-disabled veteran'
3 means a service-disabled veteran who is economically
4 disadvantaged within the meaning of section 8(a)(6),
5 except that, solely for purposes of determining per-
6 sonal income under this section, no amount received
7 by such veteran by reason of such veteran's service-
8 connected disability or service as a member of the
9 Armed Forces shall be taken into account in deter-
10 mining whether such veteran is economically dis-
11 advantaged.
12 "(2) SMALL BUSINESS CONCERN OWNED AND
13 CONTROLLED BY QUALIFIED SERVICE-DISABLED
14 VETERANS.—The term 'small business concern
15 owned and controlled by qualified service-disabled
16 veterans' has the meaning given the term 'small
17 business concern owned and controlled by service-
18 disabled veterans' in section 3(q)(2), except that
19 'qualified service-disabled veteran' shall be sub-
20 stituted for 'service-disabled veteran'.".
21 (b) CONFORMING AMENDMENT.—Section
22 16(d)(1)(B) of the Small Business Act (15 U.S.C.
23 645(d)(1)(B)) is amended by inserting "or 36" after "sec-
24 tion 8(a)".

1 **SEC. 3. REAUTHORIZATION OF PROGRAMS OF THE NA-**
2 **TIONAL VETERANS BUSINESS DEVELOPMENT**
3 **CORPORATION AND THE ADVISORY COM-**
4 **MITTEE ON VETERANS AFFAIRS.**

5 (a) REAUTHORIZATION OF PROGRAMS OF NATIONAL
6 VETERANS BUSINESS DEVELOPMENT CORPORATION.—
7 Subsection (k) of section 33 of the Small Business Act
8 (15 U.S.C. 657c(k)) is amended by striking paragraphs
9 (1) and (2) and inserting the following new paragraphs:

10 "(1) IN GENERAL.—Subject to paragraph (2),
11 there are authorized to be appropriated to the Cor-
12 poration to carry out this section—

13 "(A) $2,000,000 for each of fiscal years
14 2003 and 2004; and

15 "(B) $1,000,000 for each of fiscal years
16 2005 and 2006.

17 "(2) MATCHING REQUIREMENT.—The amount
18 made available to the Corporation for any fiscal year
19 may not exceed the amount that the Corporation
20 certifies that it will provide for that fiscal year from
21 sources other than the Federal Government.".

22 (b) NATIONAL VETERANS BUSINESS DEVELOPMENT
23 CORPORATION REPORTS.—Subsection (g) of section 33 of
24 the Small Business Act (15 U.S.C. 657c(g)) is amended
25 to read as follows:

26 "(g) REPORTS.—

1 "(1) ANNUAL REPORT.—On or before October
2 1 of each year, the Board of Directors shall transmit
3 to the President, the Committees on Veterans Af-
4 fairs of the House of Representatives and of the
5 Senate, the Committee on Small Business of the
6 House of Representatives, and the Committee on
7 Small Business and Entrepreneurship of the Senate
8 a report describing the activities and accomplish-
9 ments of tbe Corporation for the preceding year.
10 Such report shall include—
11 "(A) the Corporation's findings regarding
12 the efforts of Federal, State, and private orga-
13 nizations to assist veterans in the formation
14 and expansion of small business concerns;
15 "(B) a description of the progress made by
16 the Corporation during such year in achieving
17 its specified annual performance goals and ob-
18 jectives; and
19 "(C) any revisions to annual performance
20 goals or indicators required to achieve specified
21 strategic goals and objectives.
22 "(2) 5-YEAR STRATEGIC PLAN.—On or before
23 October 1, 2003, and every 5 years thereafter, the
24 Board of Directors shall transmit to the President,
25 the Committees on Veterans Affairs of the House of

1 Representatives and of the Senate, the Committee
2 on Small Business of the House of Representatives,
3 and the Committee on Small Business and Entrepre-
4 neurship of the Senate a report describing the stra-
5 tegic objectives of the Corporation for the 5-year pe-
6 riod beginning on such date. Such report shall in-
7 clude—
8 "(A) a comprehensive mission statement
9 covering the major functions and operations of
10 the Corporation;
11 "(B) the general outcome related strategic
12 goals and objectives for each of the major func-
13 tions and operations of the Corporation;
14 "(C) a description of the means and strate-
15 gies, addressing both financial and non-finan-
16 cial resources, to be employed by the Corpora-
17 tion to achieve those specified strategic goals
18 and objectives;
19 "(D) a description of the annual output
20 and outcome related performance strategies,
21 with associated performance goals and indica-
22 tors, to be employed by the Corporation to help
23 achieve the general goals and objectives con-
24 tained in the strategic plan;

1 "(E) an identification of key factors that
2 could affect the achievement of the Corpora-
3 tions general goals and objectives; and
4 "(F) a description of the program evalua-
5 tions and performance indicators to be used by
6 the Corporation to assess its achievement of
7 strategic and annual performance goals and ob-
8 jectives.
9 "(3) 5-YEAR BUSINESS PLAN.—On or before
10 October 1, 2003, and every 5 years thereafter, the
11 Board of Directors shall transmit to the President,
12 the Committees on Veterans Affairs of the House of
13 Representatives and of the Senate, the Committee
14 on Small Business of the House of Representatives,
15 and the Committee on Small Business and Entrepre-
16 neurship of the Senate a report describing the finan-
17 cial objectives of the Corporation for the 5-year pe-
18 riod beginning on such date. Such report shall in-
19 clude a description of the specific plans to be imple-
20 mented to achieve such objectives and the require-
21 ments of paragraphs (2) and (3) of subsection (k)
22 and to provide for the long-term financial viability of
23 the Corporation.
24 "(4) AUDITED FINANCIAL STATEMENTS.—On
25 or before October 1, 2003, and every 2 years there-

1 after, the Board of Directors shall transmit to the
2 President, the Committees on Veterans Affairs of
3 the House of Representatives and of the Senate, the
4 Committee on Small Business of the House of Rep-
5 resentatives, and the Committee on Small Business
6 and Entrepreneurship of the Senate an audited fi-
7 nancial statement of the Corporation. Such state-
8 ment shall be prepared by an independent external
9 auditor and shall be conducted in accordance with
10 generally accepted government auditing standards.".
11 (c) ADVISORY COMMITTEE ON VETERANS BUSINESS
12 AFFAIRS.—Subsection (h) of section 203 of the Veterans
13 Entrepreneurship and Small Business Development Act of
14 1999 is amended by striking "2004" and inserting
15 "2009".

16 **SEC. 4. ESTABLISHMENT OF GOVERNMENT-WIDE PRO-**
17 **CUREMENT GOAL FOR SMALL BUSINESS CON-**
18 **CERNS OWNED AND CONTROLLED BY VET-**
19 **ERANS; AUTHORIZATION OF RESTRICTED**
20 **COMPETITION TO ACHIEVE GOALS; ETC.**

21 (a) IN GENERAL.—Section 15(g) of the Small Busi-
22 ness Act (15 U.S.C. 644(g)) is amended to read as follows:
23 "(g) GOVERNMENT-WIDE AND AGENCY SMALL BUSI-
24 NESS PROCUREMENT GOALS.—

1 "(1) ESTABLISHMENT BY PRESIDENT OF GOV-
2 ERNMENT-WIDE GOALS.—The President shall annu-
3 ally establish Government-wide goals for procure-
4 ment contracts awarded to each specified category of
5 small business concerns.

6 "(2) SMALL BUSINESS CONCERNS.—The Gov-
7 ernment-wide goal for participation by small busi-
8 ness concerns in prime contracts or applicable sub-
9 contracts shall be established at not less than 28
10 percent of the total value of all prime contract
11 awards for each fiscal year.

12 "(3) SMALL BUSINESS CONCERNS OWNED AND
13 CONTROLLED BY VETERANS.—The Government-wide
14 goal for participation by small business concerns
15 owned and controlled by veterans in prime contracts
16 or applicable subcontracts shall be established at not
17 less than 3 percent of the total value of all prime
18 contract awards for each fiscal year.

19 "(4) SMALL BUSINESS CONCERNS OWNED AND
20 CONTROLLED BY SERVICE-DISABLED VETERANS.—
21 The Government-wide goal for participation by small
22 business concerns owned and controlled by service-
23 disabled veterans in prime contracts or applicable
24 subcontracts shall be established at not less than 3

1 percent of the total value of all prime contract
2 awards for each fiscal year.
3 "(5) QUALIFIED HUBZONE SMALL BUSINESS
4 CONCERNS.—The Government-wide goal for partici-
5 pation by qualified HUBZone small business con-
6 cerns in prime contracts or applicable subcontracts
7 shall be established at not less than 3 percent of the
8 total value of all prime contract awards for each fis-
9 cal year.
10 "(6) SMALL BUSINESS CONCERNS OWNED AND
11 CONTROLLED BY SOCIALLY AND ECONOMICALLY DIS-
12 ADVANTAGED INDIVIDUALS.—The Government-wide
13 goal for participation by small business concerns
14 owned and controlled by socially and economically
15 disadvantaged individuals in prime contracts or ap-
16 plicable subcontracts shall be established at not less
17 than 5 percent of the total value of all prime con-
18 tract awards for each fiscal year.
19 "(7) SMALL BUSINESS CONCERNS OWNED AND
20 CONTROLLED BY WOMEN.—The Government-wide
21 goal for participation by small business concerns
22 owned and controlled by women in prime contracts
23 or applicable subcontracts shall be established at not
24 less than 5 percent of the total value of all prime
25 contract awards for each fiscal year.

1 "(8) AGENCY GOALS.—

2 "(A) IN GENERAL.—Each Federal agency
3 shall have annual goals that present, for that
4 agency, the maximum practicable opportunity
5 for each specified category of small business
6 concerns to perform prime contracts let by such
7 agency and subcontracts under such prime con-
8 tracts.

9 "(B) NOT LESS THAN GOVERNMENT-WIDE
10 GOALS.—No Federal agency may have an agen-
11 cy goal under subparagraph (A) which is less
12 than the corresponding Government-wide goal
13 established by the President under paragraph
14 (1).

15 "(C) PROCEDURE FOR ESTABLISHMENT.—
16 Each year, the Administration and the head of
17 each Federal agency shall jointly establish the
18 goals described in subparagraph (A) for such
19 agency. Whenever the Administration and the
20 head of any Federal agency fail to agree on es-
21 tablished goals, the disagreement shall be sub-
22 mitted to the Administrator of the Office of
23 Federal Procurement Policy for final deter-
24 mination.

1 "(D) EXPANSION OF PARTICIPATION.—For
2 the purpose of establishing goals under this
3 paragraph, the head of each Federal agency
4 shall make consistent efforts to annually expand
5 participation by small business concerns from
6 each industry category in procurement con-
7 tracts of the agency, including participation by
8 each specified category of small business con-
9 cerns. The head of each Federal agency, in at-
10 tempting to attain such participation, shall con-
11 sider—
12 "(i) contracts awarded as the result of
13 unrestricted competition;
14 "(ii) contracts awarded as the result
15 of restricted competition under this section
16 and under the programs established under
17 sections 8(a), 31, and 36; and
18 "(iii) subcontracts awarded pursuant
19 to subcontracting plans required under
20 paragraphs (4) or (5) of section 8(d).
21 "(9) DOUBLE COUNTING PROHIBITED.—In the
22 case of a small business concern that is part of more
23 than 1 specified subcategory of small business con-
24 cerns, with respect to any prime contract or sub-
25 contract awarded to such concern, a Federal agency

1 shall treat such concern as part of only 1 such speci-
2 fied subcategory for purposes of this subsection.
3 "(10) RESTRICTION ON USE OF FUNDS IN CASE
4 OF FAILURE TO ACHIEVE GOALS.—
5 "(A) IN GENERAL.—In the case of fiscal
6 year 2004 and each fiscal year thereafter, if an
7 agency fails to meet the Government-wide goal
8 established under this subsection for such fiscal
9 year with respect to any specified subcategory
10 of small business concerns, the applicable
11 amount of any amounts appropriated or other-
12 wise made available to such agency for the fol-
13 lowing fiscal year shall be used only for—
14 "(i) procurements under any prime
15 contract awarded to such specified sub-
16 category of small business concerns, and
17 "(ii) that portion of procurements
18 under any prime contract (with respect to
19 which a subcontracting plan is required
20 under paragraph (4) or (5)) which is at-
21 tributable to the goal for the utilization as
22 subcontractors of such specified sub-
23 category of small business concerns under
24 such plan.

1 "(B) APPLICABLE AMOUNT.—For purposes
2 of this paragraph, the term 'applicable amount'
3 means, with respect to any agency that fails to
4 meet a Government-wide goal for a fiscal year
5 with respect to any specified subcategory of
6 small business concerns, the applicable percent-
7 age for such fiscal year of the total value of all
8 prime contract awards made by such agency for
9 such fiscal year.
10 "(C) APPLICABLE PERCENTAGE.—For
11 purposes of this paragraph:
12 "(i) IN GENERAL.—Except as pro-
13 vided in clause (ii), the term 'applicable
14 percentage' means, with respect to any
15 specified subcategory of small business
16 concerns, the Government-wide percentage
17 goal for participation by such specified
18 subcategory of small business concerns for
19 the fiscal year.
20 "(ii) TRANSITION RULES.—In the
21 case of fiscal years 2004 through 2008:
22 "(I) 3 PERCENT GOALS.—With
23 respect to small business concerns
24 owned and controlled by veterans,
25 small business concerns owned and

1 controlled by service-disabled veterans,
2 and qualified HUBZone small busi-
3 ness concerns, the applicable percent-
4 age shall be determined in accordance
5 with the following table:

"In the case of fiscal year:	The applicable percentage is:
2004	0.5%
2005	1%
2006	1.5%
2007	2%
2008	2.5%.

6 "(II) 5 PERCENT GOALS.—With
7 respect to small business concerns
8 owned and controlled by socially and
9 economically disadvantaged individ-
10 uals and small business concerns
11 owned and controlled by women, the
12 applicable percentage shall be deter-
13 mined in accordance with the fol-
14 lowing table:

"In the case of fiscal year:	The applicable percentage is:
2004	1%
2005	2%
2006	3%
2007	4%
2008	5%.

15 "(11) RESTRICTED COMPETITION TO ACHIEVE
16 GOALS.—
17 "(A) IN GENERAL.—In accordance with
18 this paragraph, a contracting officer may re-

1 strict competition for any contract for the pro-
2 curement of goods or services by the Federal
3 Government to any specified category of small
4 business concerns, if—
5 "(i) the contracting officer has a rea-
6 sonable expectation that two or more small
7 business concerns of such category will
8 submit offers for the contract;
9 "(ii) the anticipated award price of
10 the contract (including options) does not
11 exceed the simplified acquisition threshold;
12 "(iii) in the estimation of the con-
13 tracting officer, the contract award can be
14 made at a fair and reasonable price;
15 "(iv) the award of such contract to a
16 small business concern of such category
17 will not result in the agency exceeding the
18 greater of the Government-wide goal or the
19 agency goal under this subsection with re-
20 spect to such category; and
21 "(v) each of the concerns—
22 "(I) is certified by the Adminis-
23 trator or any person or entity ap-
24 proved by the Administrator as a

1 small business concern of such cat-
2 egory; or
3 "(II) certifies to the contracting
4 officer that it is a small business con-
5 cern of such category and provides
6 adequate documentation, in accord-
7 ance with standards established by the
8 Administration, to support such cer-
9 tification.
10 "(B) RELATIONSHIP TO OTHER CON-
11 TRACTING PREFERENCES.—A procurement
12 shall not be made from a source on the basis
13 of a preference provided in subparagraph (A),
14 if the procurement would otherwise be made
15 from a different source under section 4124 or
16 4125 of title 18, United States Code, or the
17 Javits-Wagner-O'Day Act (41 U.S.C. 46 et
18 seq.).
19 "(C) VERIFICATION OF ELIGIBILITY.—In
20 carrying out this paragraph, the Administrator
21 shall establish procedures relating to—
22 "(i) the filing, investigation, and dis-
23 position by the Administration of any chal-
24 lenge to the eligibility of a small business
25 concern to receive assistance under this

1 paragraph (including a challenge, filed by
2 an interested party, relating to the veracity
3 of a certification referred to in subpara-
4 graph (A)(v)); and
5 "(ii) verification by the Administrator
6 of the accuracy of any certification made
7 or information provided under subpara-
8 graph (A)(v).
9 "(D) EXAMINATIONS.—The procedures es-
10 tablished under subparagraph (C) may provide
11 for program examinations (including random
12 program examinations) by the Administrator of
13 any small business concern certified under sub-
14 paragraph (A)(v).
15 "(E) PROVISION OF DATA.—Upon the re-
16 quest of the Administrator, the head of any
17 Federal agency shall promptly provide to the
18 Administrator such information as the Admini-
19 strator determines to be necessary to carry out
20 this paragraph.
21 "(F) PENALTIES.—In addition to the pen-
22 alties described in section 16(d), any small busi-
23 ness concern that is determined by the Admin-
24 istrator to have misrepresented the status of
25 that concern as part of a specified category of

1 small business concerns for purposes of this
2 paragraph shall be subject to—
3 "(i) section 1001 of title 18, United
4 States Code; and
5 "(ii) sections 3729 through 3733 of
6 title 31, United States Code.
7 "(G) CONTRACTING OFFICER.—For pur-
8 poses of this paragraph, the term 'contracting
9 officer' has the meaning given such term in sec-
10 tion 27(f)(5) of the Office of Federal Procure-
11 ment Policy Act (41 U.S.C. 423(f)(5)).
12 "(12) APPLICABLE SUBCONTRACTS.—For pur-
13 poses of this subsection, the term 'applicable sub-
14 contract' means any subcontract under a contract
15 that is subject to the requirements of paragraph (4)
16 or (5) of section 8(d).".
17 (b) CONFORMING AMENDMENTS.—Section 15(h)(2)
18 of the Small Business Act (15 U.S.C. 644(h)(2)) is
19 amended by striking subparagraphs (D), (E), and (F),
20 and inserting the following new subparagraphs:
21 "(D) The total number and dollar value of
22 prime contracts awarded to each specified category
23 of small business concerns through—
24 "(i) noncompetitive negotiation;

"(ii) competition restricted to such specified category; and

"(iii) unrestricted competition.

"(E) The total number and dollar value of applicable subcontracts (as defined in subsection (g)(12)) awarded to each specified category of small business concerns.

"(F) The information described in subparagraphs (D) and (E) stated separately with respect to each agency.".

SEC. 5. REQUIREMENTS RELATED TO SUBCONTRACTING PLANS.

(a) FACTORS FOR EVALUATING OFFERS.—Subparagraph (G) of section 8(d)(4) of the Small Business Act (15 U.S.C. 637(d)(4)) is amended to read as follows:

"(G) In the case of any contract that is awarded pursuant to the negotiated method of procurement, the following shall be treated as significant factors for purposes of evaluating offers for any such contract:

"(i) A factor that is based on the extent to which the subcontracting plan for small business participation in the performance of the contract exceeds the requirement described in paragraph (6)(A).

1 "(ii) A factor that is based on the extent to
2 which the subcontracting plan provides for the use
3 of small business concerns with respect to which the
4 contractor is serving as a mentor under a mentoring
5 program established by the agency.
6 "(iii) A factor that is based on the extent to
7 which the offeror attained applicable goals for small
8 business participation in the performance of past
9 and current contracts.".
10 (b) MINIMUM GOAL.—Subparagraph (A) of section
11 8(d)(6) of the Small Business Act (15 U.S.C. 637(d)(6))
12 is amended to read as follows:
13 "(A) percentage goals for the utilization as sub-
14 contractors of each specified category of small busi-
15 ness concerns (determined in accordance with the re-
16 quirement of section 15(g)(9)), which goal for the
17 utilization of small business concerns shall be not
18 less than the percentage goal established under sec-
19 tion 15(g)(2);".
20 (c) REQUIRED PENALTY FOR MATERIAL BREACH.—
21 Paragraph (8) of section 8(d) of the Small Business Act
22 (15 U.S.C. 637(d)(8)) is amended by adding at the end
23 the following: "If a contracting officer finds the prime con-
24 tractor or any subcontractor to be in material breach
25 under this paragraph, such prime contractor shall pay a

1 penalty in an amount determined by such officer, except
2 that such penalty shall not be less than 10 percent of the
3 total dollar value of the contract under which the prime
4 contractor or subcontractor is in material breach. Rules
5 similar to the rules of paragraph (4)(F)(ii) shall apply for
6 purposes of the preceding sentence. Notwithstanding any
7 other provision of law, the amount of any penalty collected
8 under this paragraph shall be paid over to the agency that
9 let the contract and may be retained and used by such
10 agency for any operating expense of the agency.".

11 **SEC. 6. DEFINITIONS.**

12 (a) SERVICE-DISABLED VETERAN.—

13 (1) IN GENERAL.—Paragraph (1) of section
14 3(q) of the Small Business Act (15 U.S.C.
15 632(q)(1)) is amended to read as follows:

16 "(1) SERVICE-DISABLED VETERAN.—The term
17 'service-disabled veteran' means any veteran with a
18 disability that is—

19 "(A) service-connected (as defined in sec-
20 tion 101(16) of title 38, United States Code);
21 and

22 "(B) rated at 10 percent or more disabling
23 by the Secretary of Veterans Affairs or, in the
24 case of a disability not rated by the Secretary
25 of Veterans Affairs, by the Secretary concerned

1 (as defined in section 101(25) of title 38,
2 United States Code).".
3 (2) TRANSITION RULE.—A small business con-
4 cern that is receiving assistance under this Act (or
5 if fully approved to receive such assistance) on the
6 date of the enactment of this Act shall not cease to
7 qualify for such assistance solely because of the
8 amendment made by paragraph (1). The preceding
9 sentence shall not make such concern eligible for any
10 other assistance.
11 (b) SPECIFIED CATEGORIES AND SUBCATEGORIES OF
12 SMALL BUSINESS CONCERNS.—Section 3 of the Small
13 Business Act (15 U.S.C. 632) is amended by adding at
14 the end the following new subsections:
15 "(r) SPECIFIED CATEGORY OF SMALL BUSINESS
16 CONCERNS.—For purposes of this Act, each of following
17 is a specified category of small business concerns:
18 "(1) Small business concerns owned and con-
19 trolled by veterans.
20 "(2) Small business concerns owned and con-
21 trolled by service-disabled veterans.
22 "(3) Qualified HUBZone small business con-
23 cerns.

"(4) Small business concerns owned and controlled by socially and economically disadvantaged individuals.

"(5) Small business concerns owned and controlled by women.

"(6) Small business concerns.

"(s) SPECIFIED SUBCATEGORIES OF SMALL BUSINESS CONCERNS.—For purposes of this Act, each specified category of small business concerns described in paragraphs (1) through (5) of subsection (r) is a specified subcategory of small business concerns.".

SEC. 7. UNIFORM APPLICATION OF DEFINITIONS OF SPECIFIED CATEGORIES AND SUBCATEGORIES OF SMALL BUSINESS CONCERNS.

(a) IN GENERAL.—

(1) Section 8(d)(1) of the Small Business Act (15 U.S.C. 637(d)(1)) is amended—

(A) in the first sentence, by striking "small business concerns" the first place it appears and all that follows through "women," and inserting "each specified category of small business concerns"; and

(B) in the second sentence, by striking "small business concerns" the first place it appears and all that follows through "women"

1 and inserting "each specified category of small
2 business concerns".
3 (2) Paragraphs (4)(D), (4)(E), (6)(C), (6)(F),
4 and (10)(B) of section 8(d) of the Small Business
5 Act (15 U.S.C. 637(d)) are each amended by strik-
6 ing "small business concerns" the first place it ap-
7 pears and all that follows through "women" and in-
8 serting "each specified category of small business
9 concerns".
10 (3) Paragraphs (1) and (2)(A) of section 15(h)
11 of the Small Business Act (15 U.S.C. 644(h)) are
12 each amended by striking "small business concerns"
13 the first place it appears and all that follows
14 through "women" and inserting "each specified cat-
15 egory of small business concerns".
16 (4) Section 16(d)(1) of the Small Business Act
17 (15 U.S.C. 645(d)(1)) is amended by striking "as a
18 'small business concern'" and all that follows
19 through "women'," and inserting "as being part of
20 any specified category of small business concerns".
21 (5) Section 16(e) of the Small Business Act (15
22 U.S.C. 645(e)) is amended by striking "as a 'small
23 business concern'" and all that follows through
24 "women'" and inserting "as being part of any speci-
25 fied category of small business concerns".

1 (b) APPLICATION TO CONTRACT CLAUSES.—

2 (1) IN GENERAL.—Section 8(d)(3) of the Small
3 Business Act (15 U.S.C. 637(d)(3)) is amended—

4 (A) in the first and second sentences of
5 subparagraph (A), by striking "small business
6 concerns" the first place it appears in each sen-
7 tence and all that follows through "women" and
8 inserting "each specified category of small busi-
9 ness concerns";

10 (B) by striking subparagraphs (C), (D),
11 (E), (F), and (G); and

12 (C) by inserting after subparagraph (B)
13 the following new subparagraphs:

14 "(C) As used in this contract, the term
15 'specified category of small business concerns'
16 has the meaning given such term pursuant to
17 section 3 of the Small Business Act and rel-
18 evant regulations promulgated thereto.

19 "(D) The contractor shall presume that so-
20 cially and economically disadvantaged individ-
21 uals include Black Americans, Hispanic Ameri-
22 cans, Native Americans, Asian Pacific Ameri-
23 cans, other minorities, and any other individual
24 found to be disadvantaged by the Administra-

1 tion pursuant to section 8(a) of the Small Busi-
2 ness Act.
3 "(E) Contractors acting in good faith may
4 rely on written representations by their sub-
5 contractors regarding their status as being part
6 of any specified category of small business con-
7 cerns.".
8 (2) DEFINITION OF SMALL BUSINESS CONCERN
9 OWNED AND CONTROLLED BY SOCIALLY AND ECO-
10 NOMICALLY DISADVANTAGED INDIVIDUALS.—Section
11 3 of the Small Business Act (15 U.S.C. 632) is fur-
12 ther amended by adding at the end the following
13 new subsection:
14 "(t) SMALL BUSINESS CONCERN OWNED AND CON-
15 TROLLED BY SOCIALLY AND ECONOMICALLY DISADVAN-
16 TAGED INDIVIDUALS.—For purposes of this Act:
17 "(1) IN GENERAL.—The term 'small business
18 concern owned and controlled by socially and eco-
19 nomically disadvantaged individuals' means a small
20 business concern—
21 "(A) which is at least 51 percent owned by
22 one or more socially and economically disadvan-
23 taged individuals; or, in the case of any publicly
24 owned business, at least 51 percent of the stock

of which is owned by one or more socially and economically disadvantaged individuals; and

"(B) whose management and daily business operations are controlled by one or more of such individuals.".

"(2) APPLICATION OF DEFINITION BY PERSONS OTHER THAN THE ADMINISTRATION.—Any individual or entity (other than the Administration) shall presume for purposes of carrying out any program that socially and economically disadvantaged individuals include Black Americans, Hispanic Americans, Native Americans, Asian Pacific Americans, other minorities, and any other individual found to be disadvantaged by the Administration pursuant to section 8(a).".

(3) TREATMENT OF REFERENCES TO DEFINITIONS.—Any reference in a law, regulation, or other document of the United States to the meaning or definition given to the term "small business concern owned and controlled by socially and economically disadvantaged individuals", "small business concern owned and controlled by women", "small business concern owned and controlled by veterans", or "qualified HUBZone small business concern" in section 8(d)(3) of the Small Business Act (15 U.S.C.

637(d)(3)) (as in effect on the day before the date of the enactment of this Act) shall be treated as a reference to the meaning or definition given such term in section 3 of the Small Business Act (as amended by this Act).

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108TH CONGRESS
1ST SESSION

H. R. 1716

To amend title 38, United States Code, to improve educational assistance programs of the Department of Veterans Affairs for apprenticeship or other on-job training, and for other purposes.

IN THE HOUSE OF REPRESENTATIVES

APRIL 10, 2003

Mr. SMITH of New Jersey (for himself, Mr. EVANS, Mr. BROWN of South Carolina, and Mr. MICHAUD) introduced the following bill; which was referred to the Committee on Veterans' Affairs, and in addition to the Committee on Armed Services, for a period to be subsequently determined by the Speaker, in each case for consideration of such provisions as fall within the jurisdiction of the committee concerned

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A BILL

To amend title 38, United States Code, to improve educational assistance programs of the Department of Veterans Affairs for apprenticeship or other on-job training, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE; REFERENCES TO TITLE 38, UNITED STATES CODE.

(a) SHORT TITLE.—This Act may be cited as the "Veterans Earn and Learn Act".

1 (b) FINDINGS.—Congress makes the following find-
2 ings:
3 (1) Educational assistance programs for vet-
4 erans for apprenticeship and on-job training of the
5 Department of Veterans Affairs assist employers to
6 hire and retain skilled workers.
7 (2) These programs establish a link between
8 training afforded to servicemembers while serving in
9 the Armed Forces and training available in civilian
10 settings for purposes of occupational licensing and
11 credentialing.
12 (3) These programs develop a more highly edu-
13 cated and productive work force.
14 (c) REFERENCES TO TITLE 38, UNITED STATES
15 CODE.—Except as otherwise expressly provided, whenever
16 in this Act an amendment or repeal is expressed in terms
17 of an amendment to, or repeal of, a section or other provi-
18 sion, the reference shall be considered to be made to a
19 section or other provision of title 38, United States Code.
20 **SEC. 2. MODIFICATION OF BENEFIT ENTITLEMENT**
21 **CHARGES FOR CERTAIN ON-JOB TRAINING**
22 **PROGRAMS.**
23 (a) VETERANS' EDUCATIONAL ASSISTANCE AND
24 SURVIVORS' AND DEPENDENTS' EDUCATIONAL ASSIST-

1 ANCE.—Section 3687 is amended by adding at the end
2 the following new subsection:
3 "(e)(1) For each month that an individual (as defined
4 in paragraph (3)) is paid a training assistance allowance
5 under subsection (a), the entitlement of the individual
6 shall be charged at a percentage rate (rounded to the near-
7 est percent) that is equal to the ratio of—
8 "(A) such training assistance allowance for the
9 period of months involved, to
10 "(B) the applicable monthly educational assist-
11 ance allowance payable to the individual for such pe-
12 riod of months.".
13 "(2) For any month in which an individual fails to
14 complete 120 hours of training, the entitlement otherwise
15 chargeable under paragraph (1) shall be reduced in the
16 same proportion as the monthly training assistance allow-
17 ance payable is reduced under subsection (b)(3).
18 "(3) In this section, the term 'individual' means—
19 "(A) an eligible veteran for purposes of chapter
20 34 of this title who is entitled, under chapter 30 or
21 34 of this title, as the case may be, to monthly edu-
22 cational assistance allowances payable under section
23 3015(e) of this title, or
24 "(B) an eligible person for purposes chapter 35
25 of this title, who is entitled, under section 3510 of

1 this title, to monthly educational assistance allow-
2 ances payable under section 3532(a) of this title
3 as the case may be.".
4 (b) EFFECTIVE DATE.—The amendment made by
5 subsection (a) shall apply with respect to months begin-
6 ning on or after the date that is 1 year after the date
7 of the enactment of this Act.

8 **SEC. 3. INCENTIVE PAYMENT FOR EARLY COMPLETION OF**
9 **APPRENTICESHIP TRAINING.**

10 (a) MONTGOMERY GI BILL.—(1) Section 3032(c) is
11 amended by adding at the end the following new para-
12 graph:
13 "(4)(A) In the case of an individual who successfully
14 completes a full-time program of apprenticeship before en-
15 titlement to monthly educational assistance allowance pay-
16 able under this subsection for that program is exhausted,
17 the Secretary shall pay to the individual a lump-sum
18 amount equal to the difference between—
19 "(i) the total amount of educational assistance
20 allowances that could have been paid to the indi-
21 vidual under this subsection for the successful com-
22 pletion of that program, and
23 "(ii) the amount of educational assistance al-
24 lowance paid to the individual for the program under
25 this subsection.

1 "(B) In the case of a lump sum payment paid to an
2 individual under subparagraph (A), the individual's enti-
3 tlement under this chapter (and chapter 34 of this title,
4 if applicable) shall be charged at the applicable rate under
5 paragraph (3).".

6 (2) Paragraph (1) of such section is amended by
7 striking "Except as provided in paragraph (2)" and in-
8 serting "Subject to the succeeding provisions".

9 (b) POST-VIETNAM ERA VETERANS' EDUCATIONAL
10 ASSISTANCE.—(1) Section 3233 is amended by adding at
11 the end the following new subsection:

12 "(e)(1) In the case of an individual who successfully
13 completes a full-time program of apprenticeship before en-
14 titlement to monthly benefit payment payable under this
15 section for that program is exhausted, the Secretary shall
16 pay to the individual a lump-sum amount equal to the dif-
17 ference between—

18 "(A) the total amount of monthly benefit pay-
19 ments that could have been paid to the individual
20 under this section for the successful completion of
21 that program, and

22 "(B) the amount of monthly benefit payments
23 paid to the individual for the program under this
24 section.

1 "(2) In the case of a lump sum payment paid to an
2 individual under paragraph (1), the individual's entitle-
3 ment under this chapter shall be charged at the applicable
4 rate under subsections (c) and (d)."

5 (2) Subsection (a) of such section is amended by
6 striking "Except as provided in subsection (b)" and insert-
7 ing "Subject to the succeeding provisions".

8 (c) VETERANS' EDUCATIONAL ASSISTANCE AND SUR-
9 VIVORS' AND DEPENDENTS' EDUCATIONAL ASSIST-
10 ANCE.—Section 3687, as amended by section 2(a), is fur-
11 ther amended by adding at the end the following new sub-
12 section:

13 "(f)(1) In the case of an individual (as defined in sub-
14 section (e)(3) who successfully completes a full-time pro-
15 gram of apprenticeship before entitlement to monthly edu-
16 cational assistance allowance payable for that program is
17 exhausted, the Secretary shall pay to the individual a
18 lump-sum amount equal to the difference between—

19 "(A) the total amount of educational assistance
20 allowances that could have been paid to the indi-
21 vidual under subsection (a) for the successful com-
22 pletion of that program, and

23 "(B) the amount of educational assistance al-
24 lowance paid to the individual for the program under
25 subsection (a).

1 "(2) In the case of a lump sum payment paid to an
2 individual under paragraph (1), the entitlement of the in-
3 dividual under chapter 30, 34, or 35 of this title, as the
4 case may be, shall be charged at the applicable rate under
5 subsection (e).".

6 (d) SELECTED RESERVE MONTGOMERY GI BILL.—
7 (1) Section 16131(d) of title 10, United States Code, is
8 amended by adding at the end the following new para-
9 graph:

10 "(4)(A) In the case of an individual who successfully
11 completes a full-time program of apprenticeship before en-
12 titlement to monthly educational assistance allowance pay-
13 able under this subsection for that program is exhausted,
14 the Secretary shall pay to the individual a lump-sum
15 amount equal to the difference between—

16 "(i) the total amount of educational assistance
17 allowances that could have been paid to the indi-
18 vidual under this subsection for the successful com-
19 pletion of that program, and

20 "(ii) the amount of educational assistance al-
21 lowance paid to the individual for the program under
22 this subsection.

23 "(B) In the case of a lump sum payment paid to an
24 individual under subparagraph (A), the individual's enti-

1 tlement under this chapter shall be charged at the applica-
2 ble rate under paragraph (3).".
3 (2) Paragraph (1) of such section is amended by
4 striking "Except as provided in paragraph (2)" and in-
5 serting "Subject to the succeeding provisions of this sub-
6 section".
7 (e) EFFECTIVE DATE.—The amendments made by
8 this section shall apply to programs of training beginning
9 on or after the date of the enactment of this Act.

10 **SEC. 4. INCREASE IN BENEFIT FOR INDIVIDUALS PUR-**
11 **SUING APPRENTICESHIP OR ON-JOB TRAIN-**
12 **ING AND RELATED POSTSECONDARY CLASS-**
13 **ROOM EDUCATION TRAINING.**

14 (a) MONTGOMERY GI BILL.—Section 3032(c), as
15 amended by section 3(a), is further amended by adding
16 at the end the following new paragraph:
17 "(5)(A) In the case of an individual pursuing a full-
18 time program of apprenticeship or other on-job training
19 under this chapter who, as a requirement of such program,
20 is enrolled in a course of classroom instruction approved
21 under subchapter I of chapter 36 of this title, notwith-
22 standing the preceding provisions of this subsection, the
23 amount of the monthly educational assistance allowance
24 payable to the individual for each month (or fraction
25 thereof) the individual is enrolled in such course is the

1 amount payable under section 3015 of this title to an indi-
2 vidual pursuing a program of education on a full-time
3 basis.

4 "(B)(i) Subject to clause (ii), in the case of an indi-
5 vidual pursuing a full-time program of apprenticeship or
6 other on-job training under this chapter who has volun-
7 tarily enrolled in a course of classroom instruction ap-
8 proved under subchapter I of chapter 36 of this title that
9 is related to such program, notwithstanding the preceding
10 provisions of this subsection, the amount of the monthly
11 educational assistance allowance payable to the individual
12 under this subsection shall be increased for each month
13 (or fraction thereof) the individual is enrolled in such
14 course by an amount equal to the applicable reduced rate
15 established by the Secretary under section 3015 of this
16 title for an approved program of education pursued on less
17 than a full-time basis.

18 "(ii) In no case may the amount of the monthly edu-
19 cational assistance allowance payable to the individual
20 under clause (i) exceed the amount payable under such
21 section 3015 to an individual pursuing a program of edu-
22 cation on a full-time basis.

23 "(C)(i) In the case of a monthly educational assist-
24 ance allowance paid to an individual under subparagraph
25 (A) for a month, the individual's entitlement under this

1 chapter for that month shall be charged at the rate that
2 otherwise would apply but for this subsection.
3 "(ii) In the case of a monthly educational assistance
4 allowance paid to an individual under subparagraph (B)
5 for a month, the charge to the individual's entitlement for
6 that month shall be increased proportionately in accord-
7 ance with the increase in payment under subparagraph
8 (B).
9 "(iii) Any such charge to the individual's entitlement
10 shall be reduced proportionately in accordance with the
11 reduction in payment under paragraph (2).".
12 (b) POST-VIETNAM ERA VETERANS' EDUCATIONAL
13 ASSISTANCE.—(1) Section 3233, as amended by section
14 3(b), is further amended by adding at the end the fol-
15 lowing new subsection:
16 "(f)(1) In the case of an individual pursuing a full-
17 time program of apprenticeship or other on-job training
18 under this chapter who, as a requirement of such program,
19 is enrolled in a course of classroom instruction approved
20 under subchapter I of chapter 36 of this title, notwith-
21 standing the preceding provisions of this section, the
22 amount of the monthly benefit payment payable to the in-
23 dividual for each month (or fraction thereof) the individual
24 is enrolled in such course is the amount payable under

1 section 3231 of this title to that individual pursuing a pro-
2 gram of education on a full-time basis.

3 "(2)(A) Subject to subparagraph (B), in the case of
4 an individual pursuing a full-time program of apprentice-
5 ship or other on-job training under this chapter who has
6 voluntarily enrolled in a course of classroom instruction
7 approved under subchapter I of chapter 36 of this title
8 that is related to such program, notwithstanding the pre-
9 ceding provisions of this section, the amount of the month-
10 ly benefit payment payable to the individual under this
11 section shall be increased for each month (or fraction
12 thereof) the individual is enrolled in such course by an
13 amount equal to the applicable reduced rate established
14 by the Secretary under section 3231 of this title for an
15 approved program of education pursued on less than a
16 full-time basis.

17 "(B) In no case may the amount of the monthly ben-
18 efit payment payable to the individual under subparagraph
19 (A) exceed the amount payable under section 3231 of this
20 title to an individual pursuing a program of education on
21 a full-time basis.

22 "(3)(A) In the case of a monthly benefit payment
23 paid to an individual under paragraph (1) for a month,
24 the individual's entitlement under this chapter for that

1 month shall be charged at the rate that otherwise would
2 apply but for this section.
3 "(B) In the case of a monthly benefit payment paid
4 to an individual under paragraph (2) for a month, the
5 charge to the individual's entitlement for that month shall
6 be increased proportionately in accordance with the in-
7 crease in payment under paragraph (2).
8 "(C) Any such charge to the individual's entitlement
9 shall be reduced proportionately in accordance with the
10 reduction in payment under paragraph (2).".
11 (2) Section 3231(a)(2) is amended—
12 (A) by striking "(2) Except as provided in
13 paragraph (5)(E) of this subsection and in sub-
14 section (e) of this section" and inserting "(2)(A) Ex-
15 cept as provided in subparagraph (B), paragraph
16 (5)(E),"; and
17 (B) by adding at the end the following new sub-
18 paragraph:
19 "(B) The Secretary shall prescribe regulations for ap-
20 propriately reduced rates of the amount of the monthly
21 payment otherwise applicable under subparagraph (A) for
22 programs of educational or vocational assistance pursued
23 on less than a full-time basis.".
24 (c) VETERANS' EDUCATIONAL ASSISTANCE AND SUR-
25 VIVORS' AND DEPENDENTS' EDUCATIONAL ASSIST-

1 ANCE.—Section 3687, as amended by section 3(c), is fur-
2 ther amended by adding at the end the following new sub-
3 section:

4 "(g)(1) In the case of an individual (as defined in
5 subsection (e)(3)) pursuing a full-time program of appren-
6 ticeship or other on-job training who, as a requirement
7 of such program, is enrolled in a course of classroom in-
8 struction approved under subchapter I, notwithstanding
9 the preceding provisions of this section, the amount of the
10 monthly training assistance allowance payable to the indi-
11 vidual for each month (or fraction thereof) the individual
12 is enrolled in such course is the amount of educational
13 assistance allowance payable under section 3015(e) of this
14 title or under section 3532(a) of this title, as the case may
15 be, who is pursuing a program of education on a full-time
16 basis.

17 "(2)(A) Subject to subparagraph (B), in the case of
18 an individual pursuing a full-time program of apprentice-
19 ship or other on-job training, as the case may be, who
20 has voluntarily enrolled in a course of classroom instruc-
21 tion approved under subchapter I that is related to such
22 program, notwithstanding the preceding provisions of this
23 section, the amount of the monthly training assistance al-
24 lowance payable to the individual under this section shall
25 be increased for each month (or fraction thereof) the indi-

1 vidual is enrolled in such course by an amount equal to
2 the applicable reduced rate established by the Secretary
3 under section 3015 of this title, or section 3532(a), as the
4 case may be, for an approved program of education pur-
5 sued on less than a full-time basis.

6 "(B) In no case may the amount of the monthly ben-
7 efit payment payable to the individual under subparagraph
8 (A) exceed the amount of educational assistance allowance
9 payable to the individual under section 3015(e) of this or
10 under section 3532(a) of this title, as the case may be,
11 who is pursuing a program of education on a full-time
12 basis.

13 "(3)(A) In the case of a monthly benefit payment
14 paid to an individual under paragraph (1) for a month,
15 the entitlement of the individual under chapter 30, 34, or
16 35 of this title for that month shall be charged at the rate
17 that otherwise would apply but for this section.

18 "(B) In the case of a monthly benefit payment paid
19 to an individual under paragraph (2) for a month, the
20 charge to the entitlement of the individual under chapter
21 30, 34, or 35 of this title for that month shall be increased
22 proportionately in accordance with the increase in pay-
23 ment under paragraph (2).

1 "(C) Any such charge to the entitlement of the indi-
2 vidual shall be reduced proportionately in accordance with
3 the reduction in payment under paragraph (2).".

4 (d) SELECTED RESERVE MONTGOMERY GI BILL.—
5 Section 16131 of title 10, United States Code, as amended
6 by section 3(d), is further amended by adding at the end
7 the following new paragraph:

8 "(5)(A) In the case of an individual pursuing a full-
9 time program of apprenticeship or other on-job training
10 under this chapter who, as a requirement of such program,
11 is enrolled in a course of classroom instruction approved
12 under subchapter I of chapter 36 of title 38, notwith-
13 standing the preceding provisions of this subsection, the
14 amount of the monthly educational assistance allowance
15 payable to the individual for each month (or fraction
16 thereof) the individual is enrolled in such course is the
17 amount payable under subsection (b) to an individual pur-
18 suing a program of education on a full-time basis.

19 "(B)(i) Subject to clause (ii), in the case of an indi-
20 vidual pursuing a full-time program of apprenticeship or
21 other on-job training under this chapter who has volun-
22 tarily enrolled in a course of classroom instruction ap-
23 proved under subchapter I of chapter 36 of title 38 that
24 is related to such program, notwithstanding the preceding
25 provisions of this subsection, the amount of the monthly

1 educational assistance allowance payable to the individual
2 under this subsection shall be increased for each month
3 (or fraction thereof) the individual is enrolled in such
4 course by an amount equal to the applicable reduced rate
5 established by the Secretary under subsection (b) for an
6 approved program of education pursued on less than a
7 full-time basis.

8 "(ii) In no case may the amount of the monthly edu-
9 cational assistance allowance payable to the individual
10 under clause (i) exceed the amount payable under sub-
11 section (b) to an individual pursuing a program of edu-
12 cation on a full-time basis.

13 "(C)(i) In the case of a monthly educational assist-
14 ance allowance paid to an individual under subparagraph
15 (A) for a month, the individual's entitlement under this
16 chapter for that month shall be charged at the rate that
17 otherwise would apply but for this subsection.

18 "(ii) In the case of a monthly educational assistance
19 allowance paid to an individual under subparagraph (B)
20 for a month, the charge to the individual's entitlement for
21 that month shall be increased proportionately in accord-
22 ance with the increase in payment under subparagraph
23 (B).

1 "(iii) Any such charge to the individual's entitlement
2 shall be reduced proportionately in accordance with the
3 reduction in payment under paragraph (2).".
4 (e) EFFECTIVE DATE.—The amendments made by
5 this section shall apply with respect to months beginning
6 on or after the date that is 1 year after the date of the
7 enactment of this Act.

8 **SEC. 5. AUTHORITY FOR COMPETENCY-BASED APPREN-**
9 **TICESHIP PROGRAMS.**

10 (a) IN GENERAL.—Section 3672(c) is amended—
11 (1) by striking "(1)" and "(2)" and inserting,
12 "(A)" and "(B)" respectively;
13 (2) by inserting "(1)" after "(c)"; and
14 (3) by adding at the end the following new
15 paragraphs:
16 "(2) The period of a program of apprenticeship may
17 be determined based upon a specific period of time (com-
18 monly referred to as a 'time-based program'), based upon
19 the demonstration of successful mastery of skills (com-
20 monly referred to as a 'competency-based program'), or
21 based upon a combination thereof.
22 "(3)(A) In the case of a competency-based program
23 of apprenticeship, in determining the period of such a pro-
24 gram, the Secretary shall take into consideration the ap-
25 proximate term of the program recommended in registered

1 apprenticeship program standards recognized by the Sec-
2 retary of Labor.
3 "(B) The sponsor of a competency-based program of
4 apprenticeship shall provide notice to the Secretary of any
5 such standards that may apply to the program and the
6 proposed approximate period of training under the pro-
7 gram.
8 "(4) The Secretary of Labor shall notify the Sec-
9 retary upon the successful completion of a program of ap-
10 prenticeship by a veteran, eligible veteran, or eligible per-
11 son, as the case may be.".
12 (b) INCREASED USE OF APPRENTICESHIPS.—Section
13 3672(d)(1) is amended by adding at the end the following
14 new sentence: "The Secretary of Labor shall provide such
15 assistance and services to the Secretary, and to State ap-
16 proving agencies, to increase the use of apprenticeships.".
17 (c) ON-JOB TRAINING.—Section 3677 is amended by
18 adding at the end the following new subsection:
19 "(d)(1) The sponsor of any program of training on
20 the job shall submit notice to the Secretary upon the suc-
21 cessful completion of the program by the veteran, eligible
22 veteran, or eligible person, as the case may be.
23 "(2) The term 'training on the job' includes training
24 commonly referred to as 'on-job learning'.".

1 (d) FUNDING FOR DEPARTMENT COMPUTER SYSTEM
2 MODIFICATIONS.—From amounts appropriated to the De-
3 partment of Veterans Affairs for fiscal year 2004 for read-
4 justment benefits, the Secretary of Veterans Affairs shall
5 use an amount not to exceed $3,000,000 to modify com-
6 puter systems and to develop procedures required to carry
7 out the amendments made by subsection (a) and sections
8 2, 3, and 4.

9 **SEC. 6. PILOT PROGRAM TO PROVIDE ON-JOB BENEFITS**
10 **TO TRAIN DEPARTMENT OF VETERANS AF-**
11 **FAIRS' CLAIMS ADJUDICATORS.**

12 Section 3677, as amended by section 5(c), is further
13 amended by adding at the end the following new sub-
14 section:

15 "(e)(1) The Secretary shall conduct a pilot program
16 under which, the Secretary shall operate a program of
17 training on the job under this section for a period (not-
18 withstanding subsection (c)(2)) of up to three years in du-
19 ration to train employees of the Department to become
20 qualified adjudicators of claims for compensation, depend-
21 ency and indemnity compensation, and pension.

22 "(2) Amounts of educational assistance, monthly ben-
23 efit payments, and training assistance allowance under
24 chapters 30, 31, 32, 34, and 35 of this title, as the case

1 may be, shall be payable to such employees during each
2 month of training under the program.
3 "(3)(A) Not later than 3 years after the implementa-
4 tion of the pilot project, the Secretary shall submit to Con-
5 gress an initial report on the pilot project. The report shall
6 include an assessment of the usefulness of the program
7 in recruiting and retaining of personnel of the Department
8 as well as an assessment of the value of the program as
9 a training program.
10 "(B) Not later than 18 months after the date on
11 which the initial report under subparagraph (A) is sub-
12 mitted, the Secretary shall submit to Congress a final re-
13 port on the pilot project. The final report shall include
14 recommendations of the Secretary with respect to continu-
15 ation of the pilot project and with respect to expansion
16 of the types of claims for which the extended period of
17 on the job training is available to train such employees.
18 "(4) The pilot project shall terminate 5 years after
19 the date of the implementation of the project.".

20 **SEC. 7. REQUIREMENT FOR COORDINATION OF DATA**
21 **AMONG THE DEPARTMENTS OF VETERANS**
22 **AFFAIRS, DEFENSE, AND LABOR WITH RE-**
23 **SPECT TO ON-JOB TRAINING.**

24 Section 3694 is amended—

1 (1) by striking "In carrying out" and inserting
2 "(a) IN GENERAL.—In carrying out"; and
3 (2) by adding at the end the following new sub-
4 section:
5 "(b) COORDINATION OF INFORMATION AMONG THE
6 DEPARTMENTS OF VETERANS AFFAIRS, DEFENSE, AND
7 LABOR WITH RESPECT TO ON-JOB TRAINING.—At the
8 time of a servicemember's discharge or release from active
9 duty service, the Secretary of Defense shall furnish to the
10 Secretary such pertinent information concerning each reg-
11 istered apprenticeship pursued by the servicemember dur-
12 ing the period of active duty service of the servicemember.
13 The Secretary, in conjunction with the Secretary of Labor,
14 shall encourage and assist States and private organiza-
15 tions to give credit to servicemembers for the registered
16 apprenticeship program so pursued in the case of any re-
17 lated apprenticeship program the servicemember may pur-
18 sue as a civilian.".

19 **SEC. 8. TECHNICAL AND CONFORMING AMENDMENTS.**

20 (a) DEFINITION OF TRAINING ESTABLISHMENT.—
21 Section 3452(e) is amended by striking "or any State ap-
22 prenticeship agency, or any State board of vocational edu-
23 cation, or any joint apprenticeship committee, or the Bu-
24 reau of Apprenticeship and Training established pursuant
25 to the Act of August 16, 1937, popularly known as the

1 "National Apprenticeship Act" (29 U.S.C. 50 et seq.),"
2 and inserting "any State board of vocational education,
3 any Federal or State apprenticeship registration agency,
4 any joint apprenticeship committee established pursuant
5 to the Act of August 16, 1937, popularly known as the
6 'National Apprenticeship Act' (29 U.S.C. 50 et seq.),".

7 (b) CLARIFICATION OF APPLICABLE APPRENTICE-
8 SHIP STANDARDS.—(1) Section 3672(c), as amended by
9 section 5(a), is amended in subparagraph (A) by inserting
10 "apprenticeship" before "standards".

11 (2) Section 3672(d)(1) is amended by striking "of
12 programs of training on the job (including programs of
13 apprenticeship)" and inserting "of apprenticeship and on
14 the job training programs".

15 (c) JOB TRAINING AND PLACEMENT FUNCTIONS OF
16 THE DEPARTMENT.—(1) Section 4102A, as amended by
17 section 4(a) of the Jobs for Veterans Act (Public Law
18 107–288; 116 Stat. 2038), is amended by striking "Octo-
19 ber 1, 2002" in subsection (c)(2)(B)(ii) and inserting "Oc-
20 tober 1, 2003".

21 (2) The amendment made by paragraph (1) shall
22 take effect as if included in the enactment of section 4(a)
23 of the Jobs for Veterans Act (Public Law 107–288; 116
24 Stat. 2038).

○

Opening Statement
The Honorable Michael H. Michaud
Ranking Democrat – Subcommittee on Benefits
House Committee on Veterans Affairs
April 30, 2003

Good morning Mr. Chairman. Thank you for holding this hearing to discuss these very important and timely pieces of legislation. The three bills before us today: H.R. 1460, *the Veterans Entrepreneurship Act of 2003*; H.R. 1712, *the Veterans Federal Procurement Opportunity Act of 2003*; and H.R. 1716, *the Veterans' Earn and Learn Act*, all represent efforts to enforce and enhance veterans' small business opportunities, provide quality job training and business education programs, and assist service-disabled veterans reenter the workforce.

The first hearing I attended as a member of the House of Representatives examined, in part, the issue of veteran small business owners and their participation – or lack thereof – in the federal procurement and contracting process. In that hearing, it was brought to this Committee's attention that agencies are failing to meet congressionally mandated small business procurement goals. This record of poor performance unfortunately includes, the Department of Veterans Affairs (VA). In fiscal year 2002, VA engaged in contracts with service-disabled veteran small business firms at the disturbingly low level of approximately 0.5 percent (0.5%), while the established goal was 3 percent. Clearly, the VA must improve its efforts.

Unlike some of the Administration witnesses testifying today, I do not believe that more flexibility or "competitive sourcing" alone will solve the many challenges that veteran small business owners face with respect to the federal procurement process. Indeed, greater flexibility without accountability appears to lead to a declining level of contracts for small businesses. I would like to see this trend reversed sooner rather than later. Accordingly, I am pleased to be here today to receive testimony and discuss these measures, which attempt to be responsive to many of the problems raised in that first hearing. I am fortunate enough to sit on the House Small Business Committee, as well as this Committee, and I have a great interest in these bills.

I look forward to working as a member of both committees and with my colleagues from both sides of the aisle to improve small business opportunities for veterans and service-disabled veterans.

Before we begin, I want to extend a warm welcome to a fellow freshman lawmaker in this 108th Congress, Congressman Renzi. I welcome all of the witnesses today, and thank you for your hard work. The insight provided by your testimony will help to guide us on these important issues.

Thank you Mr. Chairman

Statement of Honorable Lane Evans
Ranking Democratic Member
Committee on Veterans Affairs
Before the Subcommittee on Benefits
Hearing on April 30, 2003

Thank you, Mr. Chairman. Four years ago, I cosponsored H.R. 1568 with Congressman Bob Stump and Congressman Jim Talent – a bill that eventually became Public Law 106-50. With that law, Congress indicated a level of performance for Federal agencies contracting with service-disabled, veteran-owned, small business owners. Other goals were set in law for socially and economically disadvantaged business concerns, woman-owned business concerns and HUB zone businesses. Our goal was on target – the need was great – our bill was well received. Unfortunately, this law was not robustly enforced and many of our goals were not achieved. In Public Law 106-50 there are no incentives for success, there are no disincentives for failure.

After four years, federal contracting with service-disabled, veteran-owned small businesses has fallen from a government wide average of one-quarter of one percent to its current rate of one-tenth of one percent. The statutory goal is three percent of all contracts – the executive branch must increase its performance by *three thousand percent* to achieve this goal!

Congress must be taken seriously when it establishes goals for government – we must give federal contracting officers the means to achieve those goals. The trend should show steady improvement from the original high benchmark, not retrograde motion. The time for excuses and "further study" has passed. Congress should require executive branch compliance or we should consider repealing our small business goals so as not to be collectively embarrassed by the abysmal performance we see when agencies disregard our laws. I think the small business goals are correct – they are right and reasonable – they must be enforced now and not studied, reviewed, talked about, explained away, or tabled.

I introduced H.R. 1712 to get results for small business owners seeking contracts with federal agencies. This is aggressive legislation to waken a slumbering bureaucracy intent on preserving the status quo. The current performance trend indicates that the time to act is now. Agencies are

granted incentives and disincentives. Prime contractors are held accountable through incentives and disincentives. The bill empowers federal contracting officers with the means to achieve their statutorily specified small business procurement goals. This bill will achieve the results Congress intended with P.L 106-50. When Congress last spoke on this topic, no one heeded its guidance. The kinder, gentler approach in P.L. 106-50 did not achieve our goal. Congress must be heard.

H.R. 1712 is designed with numerous checks and balances to facilitate outcomes still desired by Congress. It helps veterans, woman-owned businesses, HUB-zone businesses, and socially and economically disadvantaged individuals by enhancing contracting opportunities with the federal government by authorizing the use of set-asides. It provides an unprecedented advantage for low-income, service-disabled veterans by creating a new development program permitting sole-source contracting based only on economic data, which excludes any earnings based on military retirement pay or on service-connected disability compensation.

H.R. 1712 does not impinge on the interests of other small business owners. Double, triple and quadruple counting is prohibited by federal agencies. A business owner may apply under all eligible categories, but the agency awarding the contract may count that contract under only one category. This prevents double counting from embellishing results.

Additionally, this bill raises the requirement for total small business contracts government-wide from 23 percent to 28 percent. This will more than accommodate the addition of a new category -- veteran-owned businesses.

Additionally, H.R. 1712 reauthorizes the Veterans' Corporation as well as establishes competitive credits for prime contractors who develop and implement subcontracting plans for specified small business concerns.

I thank the Chairman and urge all of my colleagues to support H.R. 1712, and the other bills before the subcommittee today.

Statement of Representative Rick Renzi (R-AZ)
Before the
Subcommittee on Benefits
House Committee on Veterans' Affairs
H.R. 1460
"The Veterans Entrepreneurship Act of 2003"
April 30, 2003

Mr. Chairman, thank you for holding this hearing today to learn how we can improve the business opportunities of disabled veterans. Last month, I introduced H.R. 1460, the Veterans Entrepreneurship Act of 2003, a measure to help veterans create, manage, and grow their own small businesses. I am pleased to have as original cosponsors on the bill full committee Chairman Smith and Ranking Member Evans, Benefits Subcommittee Chairman Brown and Ranking Member Michaud, Small Business Committee Chairman Manzullo and my distinguished colleague from Colorado, Mr. Beauprez.

We firmly believe Congress is obligated to provide veterans a full opportunity to participate in the economic system that their military service has helped to sustain. Veterans are a unique national resource and we need to engage their distinctive skills and abilities in our economy.

One of the first hearings of this Committee that I attended was on the state of veterans' employment and how well federal programs are serving our veterans. I was disappointed to learn that while Congress had made improvements in helping veterans receive access to capital, Federal contracts and government procurement information for those who own their own businesses, disabled veteran small business owners are not fully participating in the system. In fact, in testimony from the Administration, we heard that the government-wide 3% statutory goal established in Public Law 106-50 has yet to be met and that contracts let to veteran-owned businesses has *decreased* over the past two years. H.R. 1460 would give veterans and the federal government the tools needed to ensure that we meet that 3% statutory goal.

First, this measure would allow veterans to use Department of Veterans Affairs (VA) education benefits to enroll in a non-degree, non-credit business course offered by a Small Business Development Center (SBDC) and the National Veterans Small Business Development Corporation. The Small Business Administration helps fund 1,000 SBDCs in the United States; Puerto Rico, U.S. Virgin Islands, Guam, and American Samoa. SBDCs are operated in partnership with colleges and universities or governmental entities. This section would improve access to pre-entrepreneurship

training and skills building for veterans and certain others, as well. Disabled veterans, dependent spouses and children of certain disabled or deceased veterans, and members of the Guard and Reserve, also would be eligible.

Second, the bill would clarify that disabled veterans enrolled in school under a VA vocational rehabilitation program may establish self-employment in a small business enterprise as a vocational goal. The bill recognizes that self-employment is a legitimate rehabilitation goal. It intends to discontinue any current VA practices that could require a disabled veteran to establish that he or she is unable to be employed in another job before being permitted to benefit from the essential entrepreneurship services VA's vocational rehabilitation program currently furnishes. These services include necessary equipment, supplies, and other needs associated with starting a small business. It should be noted that VA still could establish certain controls, so that aspiring disabled veterans would have the best chance of succeeding as small business owners. This section of the bill is especially important for disabled veterans who desire to start and grow home-based small businesses.

Third, the bill would give federal agency contracting officers the discretionary authority to create sole source contracts for disabled veteran-owned businesses up to $5 million for manufacturing awards and $3 million for non-manufacturing awards. It also would furnish contracting officers discretionary authority to restrict certain contracts to disabled veteran-owned small businesses if at least two such concerns are qualified to bid on the contract. This section of the bill is designed simply to create a ``level playing field" for those individuals who have been wounded or injured in defending our freedoms.

As a small business owner, my instincts tell me that the more successful veteran-owned businesses are those employing veterans. We have a tendency to assilmilte with those with whom we have served side by side and trust with your life. That tells me that not only should there be a preference given to those business owners because of the hard-fought sacrifice and the suffering they have endured, but also that in helping them, we are helping other veterans. It is my hope that in creating a set aside for disabled veterans that it will encourage more veterans to start their own businesses.

I also know that the smaller business sector is the backbone of our economy and where many jobs are created. Our former servicemembers undeniably are engaging and resourceful individuals. H.R. 1460 gives them additional tools to help realize the American dream of entrepreneurship.

STATEMENT OF HONORABLE LEO S. MACKAY, JR., PH.D.

DEPUTY SECRETARY OF VETERANS AFFAIRS

BEFORE THE HOUSE COMMITTEE ON VETERANS' AFFAIRS

SUBCOMMITTEE ON BENEFITS

APRIL 30, 2003

Mr. Chairman and Members of the Subcommittee, thank you for providing me the opportunity to testify before you this morning on three measures affecting Department of Veterans Affairs education and vocational rehabilitation programs and small-business opportunities for veterans. The three bills on today's hearing agenda include: H.R. 1460, the "Veterans Entrepreneurship Act of 2003"; H.R. 1716, the "Veterans Earn and Learn Act"; and H.R. 1712, the "Veterans Federal Procurement Opportunity Act of 2003."

Before I discuss the bills the Subcommittee is considering today, I would like to note that, although the Budget Enforcements Act's pay-as-you-go requirements and discretionary spending caps expired on September 30, 2002, the Administration supports the extension of these budget enforcement mechanisms in a manner that ensures fiscal discipline and is consistent with the President's budget. As you know, these measures would affect direct spending and receipts and, therefore, the support VA expresses for most of the provisions of the bills is contingent on accommodating the provisions within the overall budget submitted by the President.

I note also that, as the number of laudable acquisition preference programs increase, the Government must ensure that it uses insofar as possible open competition among qualified firms, to ensure that the Government acquires through our free market system with taxpayer dollars the best possible goods and services at the lowest possible price.

H.R. 1460 – "Veterans Entrepreneurship Act of 2003"

Mr. Chairman, section 2 of H.R. 1460 would amend provisions of title 38, United States Code, to permit veterans to use VA educational assistance benefits to enroll in non-degree, non-credit business "entrepreneurship" courses offered by small business development centers or offered by the National Veterans Small Business Development Corporation. Specifically, section 2 of the bill would provide that State approving agencies may approve non-credit courses of business education that enable or assist persons to start or enhance small business enterprises. "Qualified providers" of such entrepreneurship courses would include small business development centers, as defined by section 21 of the Small Business Act, and the National Veterans Business Development Corporation. A person would not be considered by VA as already qualified for the objective of a program of education offered by a qualified provider of an entrepreneurship course solely because he or she is the owner or operator of a business. These amendments apply to courses approved by State approval agencies after the date of enactment of the Act.

Veterans would receive several benefits from such courses. Some veterans are not willing or able to complete a degree program. This program offers a viable alternative to a complete degree program for those wishing to start a small business. Moreover, veterans who take advantage of these courses are more likely to succeed as small-business entrepreneurs. The potential for positive effects on the economy, with enhanced competition and creativity within the marketplace, is significant. The bill's provision for oversight of these courses by State Approving Agencies should ensure program quality. While we support the goals of this provision, it is not included in the President's Budget and an offset would have to be found. We will be pleased to work with the Subcommittee to find an offset for this important provision.

Enactment of this section would result in an estimated cost of $1.5 million in fiscal year 2004 and a ten-year total cost of $32 million.

Section 3 of H.R. 1460 would amend 38 U.S.C. § 3104 to provide that, for purposes of pursuing a program of vocational rehabilitation under chapter 31 of title 38, United States Code, a disabled veteran may establish "self-employment" in a small business enterprise as a vocational goal without regard to any requirement of unemployability.

Current law permits us to serve veterans with serious service-connected disabilities who require self employment and/or homebound training in order to achieve an acceptable level of vocational rehabilitation. We are also able to provide limited assistance to other veterans with employment handicaps.

Mr. Chairman, last month the Department established a new advisory committee, the Vocational Rehabilitation and Employment (VR&E) Task Force, and charged it with conducting an independent review of the VR&E program. Among other responsibilities, it will evaluate eligibility criteria for vocational rehabilitation services under VA's program, and report its recommendations to the Secretary. We are asking the Task Force to evaluate the change in law proposed by section 3 of H.R. 1460, and will be furnishing you our official views once we have the benefit of that advice.

Enactment of this section would result in a cost of $750,000 in fiscal year 2004 and a ten-year total cost of $101 million.

Section 4 of H.R. 1460 would authorize a contracting officer to make sole source awards to small business concerns owned and controlled by service-disabled veterans (SDVBs) if such business is determined to be capable of performing the contract, award can be made at a fair price, there is no

reasonable expectation that two or more SDVBs would submit offers, and certain dollar thresholds are not exceeded. It would also authorize contracting officers to restrict competition to SDVBs if there is a reasonable expectation that at least two SDVBs will submit offers and award can be made at a fair market price. The Administrator of the Small Business Administration would have the authority to appeal contracting officers' decisions not to award a contract opportunity to SDVBs to the Secretary of the department or agency head. This law would not supercede any other preference under law for prison-made (Federal Prison Industries) products or products made by the blind or disabled (JWOD).

The provision of a set-aside is an unusually strong measure that inhibits open market functioning. It is only appropriate in this instance due to the singular worthiness of service-disabled veterans for preferential treatment. Its use here would not be meant to establish a general precedent.

VA supports section 4 of H.R. 1460. Providing these veterans business opportunities is altogether consistent with VA's mission to serve our Nation's veterans and will help VA and the Nation honor its commitment to them.

We estimate the total cost associated with enactment of H.R. 1460 to be $2.25 million for fiscal year 2004 and $133 million over ten years.

H.R. 1716 – "Veterans Earn and Learn Act"

Mr. Chairman, H.R. 1716 would amend title 38, United States Code, to improve VA educational assistance programs for apprenticeship and other on-job training.

Section 2 of the bill would modify the computation of on-job training and apprenticeship benefit entitlements under chapters 34 and 35 of title 38, United States Code, to be the same as the entitlement charged under chapters 30 and

32, of that title, as well as under the chapter 1606, title 10 U.S.C. program. This would provide needed uniformity in calculating use of entitlement for such training regardless of the benefit chapter under which a student is eligible, resulting in greater equity for veterans.

Section 3 of the bill would establish an incentive payment for program participants who finish their apprenticeship training early by requiring VA to pay the trainee a lump-sum payment for the months of VA entitlement remaining that would have ordinarily been needed to complete the apprenticeship.

Section 4 of the bill would increase the monthly VA benefit for trainees who simultaneously pursue apprenticeships or on-job training and related classroom instruction (whether or not the trainee was pursuing the academic instruction as a requirement of the apprenticeship or voluntarily under the trainee's own initiative). Currently, education benefits for apprenticeship and on-the-job training start at 75 percent of the benefit rate payable for full-time institutional training and these job training benefits decrease in stages as the individual progresses through the training program. This section would pay the full-time institutional rate for periods when the individual is in required classroom courses while also in the job training program. It will also allow individuals who voluntarily enroll in related courses to receive an increase based on the combined training, but not to exceed the full-time institutional rate.

Section 5 of the bill would codify VA's authority to pay benefits for competency-based apprenticeships. It would require VA to take into consideration the approximate term of the program recommended in registered apprenticeship program standards recognized by the Secretary of Labor. Apprenticeships offered in industries that choose not to register with the Secretary of Labor, and that are approved for veterans' training by a state approving agency, would continue to be available. It would also authorize VA to

use up to $3 million to develop the computer systems and procedures needed to carry out the above provisions of the bill. Current law permits approval of only time-based, fixed length apprenticeships. The 1990's saw a steady move away from time-based apprenticeships toward competency-based apprenticeships. This change would bring approval of apprenticeships into the 21st century.

Section 6 of the bill would require VA to establish a pilot program to furnish on-the-job benefits to claims adjudicators training in its disability compensation, dependency and indemnity (DIC), and pension programs. The pilot program would permit on-the-job training programs of up to 3 years to be approved for claims adjudicators who handle VA's Compensation and Pension programs. VA supports this program for claims adjudicators. Based on our past experience, the duration of this type of training would be approximately two years.

Section 7 of the bill would require coordination of information among the Departments of Veterans Affairs, Defense, and Labor with respect to on-job training. The Secretary of Defense would be required to furnish to the Secretary of Veterans Affairs information concerning each registered apprenticeship pursued by the servicemember during his or her active duty service. It would also require the Secretary of Veterans Affairs, in conjunction with the Secretary of Labor, to encourage and assist states and private organizations to accord credit to servicemembers for skills in any related apprenticeship the servicemember may pursue in civilian life. We believe such level of coordination would be beneficial so that veterans can receive full credit for their military training and not have to unnecessarily repeat training they received while on active duty.

We estimate the cost associated with enactment of H.R. 1716 to be $47.7 million for fiscal year 2004 and $548.4 million over ten years. Unless an offset is

found, VA cannot support this legislation.

H.R. 1712 – "Veterans Federal Procurement Opportunity Act of 2003"

Mr. Chairman, H.R. 1712 would require the Administrator of the Small Business Administration (SBA) to establish a development program for small business concerns owned and controlled by service disabled veterans similar to the Section 8(a) program for small business in general, where SBA executes a contract with an agency and subcontracts the work to the small business. The bill reauthorizes the National Veterans Business Development Corporation, first created in 1999, and adds reporting and planning requirements such as 5 year strategic and financial plans. The Corporation was created to expand the provision of and improve access to technical assistance regarding entrepreneurship for the Nation's veterans.

The bill sets a Government-wide goal of 28 percent for prime contracts awarded to small business concerns. It further breaks that goal down to 3 percent for veteran-owned, 3 percent for service-disabled-veteran-owned, 3 percent for HUBZone, 5 percent for socially and economically disadvantaged, and 5 percent for women-owned. Double counting of small businesses that meet more than one criterion is prohibited. Beginning in Fiscal Year 2004, for any agency that failed to meet the goals, funding would be restricted in the following fiscal year for awards solely to the specific subcategories of small businesses (whether prime contracts or approved subcontracting plans). This would be phased in for the various categories of small businesses between FY's 2004 and 2008.

The bill would allow an agency to restrict competition to specific categories of small businesses to meet the procurement goals. The bill would require in negotiated procurements that agencies include evaluation factors regarding small business subcontracting plans.

VA supports the provisions of section 4 of H.R. 1712 that would establish a goal of 3 percent for award of contracts to veteran-owned small businesses. As you may be aware, VA has established its own higher internal goal for award to veterans. However, I am concerned with other provisions of section 4 and section 5 that would raise the small business goal, prohibit double counting of acquisitions, restrict the use of appropriations, and mandate the use of certain evaluation factors in negotiated acquisitions. The Government is already struggling to meet its current goals, and raising those goals would not be beneficial. Prohibiting double counting would have the effect of raising the thresholds further and making it that much more difficult for agencies to meet their goals. Furthermore, the provisions of section 4 that place restrictions on the use of funds in the case of agency failure to meet goals could create a de facto quota system for award of contracts to socioeconomic groups. In implementing the various provisions of the legislation that make classifications based on race and gender, the Government would afford equal protection of the laws as required by the Due Process Clause of the Fifth Amendment to the Constitution. The appropriation restrictions, and the evaluation factor mandate, remove the flexibility agencies need to be able to successfully carry out their missions.

Mr. Chairman, that concludes my testimony.

UNITED ASSOCIATION
of Journeymen and Apprentices of the
Plumbing and Pipe Fitting Industry of
the United States and Canada

Founded 1889

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Testimony respectively submitted on H.R. 1716 Veterans Earn and Learn Act

By: George H. Bliss, III
United Association Director of Training
and
Chairman of The Building and Construction
Trades Department Apprenticeship and
Training Committee

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Good Morning, my name is George H. Bliss, III. I am the United Association Training Department Director and the Chairman of the Building and Construction Trades Department Apprenticeship and Training Committee.

Thank you for the opportunity to present this information. The United Association of Plumbers, Pipefitters and Sprinklerfitters is proud to support the fine men and women of our armed forces. As evidence of our gratitude for their service to our nation, it is our intention to do all that we can to assist those leaving the military and returning to civilian life. To that end, the United Association and other building trades unions have recently developed a program designed to provide training and career opportunities to qualified veterans. This program is known as our Helmets-to-Hard Hats initiative, and we believe it is a strong adjunct to our nation's existing veterans' programs, such as the Transitional Assistance Program (TAP) and the GI-to-Jobs program.

While we support most of the proposed changes to the GI bill, we want to take this time to raise a few concerns. We appreciate the courtesy granted to us to present our thoughts regarding this proposal, and hope that you will in turn take these into consideration when acting on the final legislation.

Today, the apprenticeship system in the United States, and especially that found in the unionized building trades, offers the finest skills training in the world. This excellent training leads to employment that provides high wages and generous benefits. This training is now available in more than 850 occupations to veterans making the transition into the private sector, not only through TAP and the GI-to-Jobs programs, but also through our own Helmets-to-Hard Hats program.

This is accomplished through the United States Military Apprenticeship Program, known as USMAP. The program is part of an ongoing effort to develop a bridge between military occupations and private sector occupations.

The benefits of this effort are two fold: One, it allows departing veterans who have participated in or completed an apprenticeship program under USMAP to have direct entry into registered apprenticeship programs such as those found in the building trades. Secondly, the program offers private industry employer sponsors such as our signatory contractors access to some of our nation's most highly motivated and dedicated workers.

Unfortunately, today only the Navy, Marines and Coast Guard are participating in USMAP. It is our belief that both veterans and the private sector would benefit if the Army and Air Force would participate in this program as well.

The United Association's National Apprenticeship Program recognizes the great value that military personnel can bring to our industry. These loyal and hardworking veterans bring experience, leadership and skills that all of our employers want and need in a workforce. Because we recognize that our veterans have proven track records of commitment and excellence on the job, we have included in our own apprenticeship standards a provision for direct entry into our programs by military personnel covered under USMAP. In addition, we give credit for those skills that are directly related to our industry that these veterans acquired while serving our country. Thus, they have an opportunity, depending on experience, to move quickly through our traditional five-year program, since they may be able to enter as second, third or even fourth year apprentices. They also receive college credits for both their work experience and their training, through our college degree program. The credits earned in this degree program are conferred either by a community college or through a nationally recognized university, depending on which curriculum the apprentice chooses to pursue.

While our UA programs are certain to continue to benefit both industry and workers, we recognize that apprenticeship training is a long-term strategy and represents a commitment on the part of both employers and workers.

Many industries—and most especially the construction industry—are cyclical in nature, with periods of high employment often followed by periods of low employment. We believe that veterans' apprenticeship benefits should not be withheld or suspended due to downturns in the economy that create interruptions in apprentice training.

The current requirement for veterans to receive apprenticeship benefits is 120 hours per month of classroom and on-the-job training. While in many parts of the country, that is not a difficult obligation to fulfill, there are still areas where the "up-and-down" nature of construction employment could make that requirement difficult to meet at times. It is our position that the requirement should be lowered to 100 hours per month, so that no veteran is left behind. After all, these men and women have served their nation with courage and dedication. They should be given every opportunity now to build lives that are productive, secure and hold the promise of greater prosperity in the future. It is what they fought to protect and they deserve to have a full share in the American dream.

We also believe that we must look to the future, and give special consideration to those young people who are entering the armed forces today, or who are contemplating doing so very soon. They are asked to elect to have certain veterans' benefits at the time they are inducted into the service, but are they really prepared to make such important, long-term decisions? These are usually young people, perhaps just out of high school, who have very little workplace experience. Many of them are hoping to acquire skills and training while in the military, but they may not know at the time they join up what opportunities will arise in the course of their service. For example, they may, while going through basic training, discover an aptitude for certain mechanical skills that they did not know they possessed. They should not be precluded from expanding these skills later on, after their discharge, simply because of their youth and inexperience years earlier.

One of the great benefits of our all-volunteer armed forces is the opportunity it provides to generations of young people to develop not only certain technical skills, but also the discipline, maturity and sense of responsibility that sets them apart from those who have not shared the extraordinary experience of military service. Many young people today struggle to develop the same work ethic that is integral to life in the service of our nation, and it is often this very quality that makes veterans so appealing to employers in the private sector. The men and women leaving the service today are remarkable individuals, who have demonstrated a commitment and courage that deserves to be rewarded. It is my belief that we have a fundamental obligation to ensure that these service people find ample opportunities for success in the private sector, just as they did in the military arena. Moreover, after the success of Operation Iraqi Freedom, we have shown the world that the United States has the finest fighting force in the world. It is now time to show the world that we also have the finest workforce in the world as well.

The United Association is pleased to support the proposed changes to the GI bill, but we urge you to consider the recommendations we have suggested in this presentation. It will strengthen the bill itself and will ensure that the courageous men and women of our military are able to make the transition to civilian life more easily and confidently. We will continue to offer these individuals every chance to be part of our organization and to have access to the extraordinary training that our apprenticeship programs provide. We know that those who elect to be part of the UA will find a world of opportunity opened to them. They are the backbone of this nation, and we are proud to do our part to repay the courage and sacrifice so many have made on our behalf.

STATEMENT FOR
THE RECORD BY
WILLIAM D. STEPHENS
CO-CHAIR, APPRENTICESHIP & ON-THE-JOB TRAINING COMMITTEE
AND
CHAD SCHATZ
SECRETARY
NATIONAL ASSOCIATION OF STATE APPROVING AGENCIES
BEFORE THE
SUBCOMMITTEE ON BENEFITS
COMMITTEE ON VETERANS AFFAIRS
UNITED STATES HOUSE OF REPRESENTATIVES
APRIL 30, 2003

Introduction

Mr. Chairman and members of the Subcommittee, we are pleased to appear before you today on behalf of the National Association of State Approving Agencies to provide support for and discuss the provisions of H.R. 1716 (Veterans Earn and Learn Act). State Approving Agencies have been an integral part of the administration of the various GI Bills since shortly after the inception of the original GI Bill in June of 1944. It has been our distinct pleasure and honor to have the opportunity to contribute to the success of these programs. A major component of the GI Bills is Apprenticeship/On-the-Job Training. Basically, the law and regulations concerning Apprenticeship/On-the-Job Training have remained the same since World War II. It is time for an update.

Analysis of HR 1716

We are very pleased with all sections of this bill. Section 1 has a truly outstanding summary of the benefits of Apprenticeship/On-the-Job Training. It does: assist employers in hiring and retaining skilled workers, provide a link between training afforded service members and training available in civilian settings for licensing and credentialing, and develop a highly educated and productive work force.

Section 2 standardizes the method which entitlement is used for all Chapters of the GI Bill. Without this change, some Chapters are charged using a method, which places certain eligible individuals at a disadvantage. It is time to fix this inequity.

Concerning Section 3 and 5, the reality is that competency based apprenticeship programs are a viable training method. We have seen these in the automotive industry. In Pennsylvania, there is a training establishment (Advanced Auto Technologies in Ruffsdale, Pennsylvania) which has a training program for Automobile Mechanics. The normal time to complete this program is 8,000 hours (or four years). This program has 21 distinct skill sets, which the apprentice is required to master.

It is possible that the veteran currently enrolled will be able to complete the training in less than four years. Section 3 of this bill provides for a "lump sum" payment for individuals who complete competency based Apprenticeship early. This ensures that no one will be placed at a disadvantage by completing an approved Apprenticeship training program early.

Section 4 provides for increased payments for individuals enrolled in a training program, which includes classroom training. If the classroom training is also approved (such as Police Academy, Fire Academy, etc.,) then the individual will receive the higher benefit. The benefit will not exceed the overall maximum amount. This will remedy the problem of having two eligible individuals (with the same entitlement) in the same classroom receiving different benefit amounts.

In addition to the approval of competency-based Apprenticeship programs, Section 5 provides for the Secretary of Labor to furnish assistance to DVA and SAAs in increasing the use of registered apprenticeship programs. Some states have outstanding working relationships between the SAA and the registering agency. There are a couple of states, which have not been

able to develop effective working relationships with their registering agency. There is no question that the sharing of information will be beneficial to all concerned.

Section 6 provides for a pilot program for a three-year On-the-Job Training program for Adjudicators at DVA Regional Processing Offices. This is an excellent area to use for testing whether the approvable length of an On-the-Job Training program should be expanded to beyond the current limit of 24 months.

Section 7 provides for the exchange of data between Department of Defense, Department of Labor and Department of Veterans Affairs to assist with licensing, certification and credentialing requirements. This exchange of data should assist everyone with their outreach efforts.

Outreach Efforts

As you are aware, State Approving Agencies (SAAs) are responsible for the approval and supervision of Apprenticeship/On-the-Job Training programs so eligible veterans, reservists, dependents can use their earned benefits. There are many individuals who are not aware that they can use their benefits in an Apprenticeship/On-the-Job Training program. They believe that the GI Bill can only be used for college or other educational institutions. We have been working with the Department of Veterans Affairs, the Department of Labor and Department of Defense to conduct various outreach efforts to insure veterans, reservists, dependents are aware of all of their choices in using their GI Bill benefits. Recent usage rates identify only 4.2% of the individuals using their GI Bill benefits are enrolled in Apprenticeship/On-the-Job Training programs. We have been working to increase that amount. As a side note, we can remember several years ago when usage in training programs was less than 2%. The following is a sample of what SAAs have been doing:

In Pennsylvania, working with the Pennsylvania Advisory Council for Military/Veterans Education (PACMVE), the SAA conducts an active outreach program that includes:

- A "Welcome Home Packet" provides information (a letter from the Governor, a directory of agencies that assist veterans, information concerning apprenticeship/on-the-job training, information concerning the Transition Assistance Program, and a pre-paid post card for the veteran to request additional information) to each returning veteran. This project began in 1990 and has provided information to over 103,000 returning veterans.
- Three informational pamphlets (one for education and two for apprenticeship/on-the-job training) are distributed extensively.
- Mass mailings to County Veterans Affairs Directors, Service Organizations, National Guard members, and selected employers.
- A Veterans Day Ceremony is held in the Department of Education building. Approximately 150 people attend each year. In 2002, special recognition was given Department of Education employees called to active duty.
- A booth at the Pennsylvania Farm Show dedicated exclusively to veterans education/issues. The booth (which included information concerning: G. I. Bill benefits, Apprenticeship/On-the-Job Training program, health care, disability benefits, home loan benefits, etc.) is operational for the entire Farm Show week. Many different organizations (Department of Defense 50th Anniversary Committee for the Korean War, counselors from DVA vocational rehabilitation, various service organizations, local DVA work study students, etc.,) assist the SAA with this booth.
- The SAA works closely with the Veterans Employment Representatives and other Department of Labor personnel to participate in various Job Fairs, training sessions, and other outreach activities. In addition, both the Veterans Employment Representative training programs are approved for on-the-job training benefits.
- The SAA works closely with Bureau of Apprenticeship and Training personnel who support the Pennsylvania State Apprenticeship Council. This close working relationship has benefited both organizations. The most successful component of this close working relationship is the two-year registered apprenticeship program for Corrections Officer, which is approved for veteran's benefits. This is the largest registered and (approved for veterans benefits) training program in Pennsylvania. Some county prisons are also approved for veterans benefits, and SAA staff members assist DVA officials in approving training programs at federal corrections institutions.

- SAA staff members conduct presentations at the Transition Assistance Programs at Willow Grove Naval Air Station, 99th Army Reserve Center at Oakdale, New Cumberland Army Depot and Carlisle Barracks.

In Missouri, outreach is specifically designed to increase participation in on-the-job and apprenticeship training opportunities for VA eligible trainees. The SAA has aggressively pursued outreach to increase usage.

- Economic impact: The outreach effort includes identification of eligible trainees and orientation for prospective training establishments in the public and private sector.
  Since September 1, 1996, this effort has yielded 580 new and additional programs, yielding dramatic economic impact, benefiting over 777 eligible trainees. The economic impact of one veteran receiving an average annual benefit of $5,608 will impact the economy by approximately $16,824, according to the Missouri Economic Development Office.
  Computing approximate benefits and economic impact from approvals written since September 1, 1996, and participant numbers, a figure of $10,173,636 is developed.
- Beyond the impressive impact this program has on economic development through the course of on-the-job training, benefits of well-trained workers and greater stability and enhanced performance within crafts and trades are achieved, there are other benefits. The Missouri Army National Guard, the Missouri Air Force National Guard and the MSAA have teamed to engage in broader outreach activities. Guard recruiters receive orientation training on OJT/Apprenticeship benefits and approval criteria through the SAA to provide accurate program information. The Guard uses the VA work-study program to improve program awareness to prospective trainees and employers
- The SAA and the Missouri Army National Guard have teamed up to produce compact disc, video and audiotapes on OJT/Apprenticeship. Copies are routinely distributed to strategic points of contact, including public service announcements.
- The SAA networks with the US Department of Labor, Veterans Employment and Training Services.
- Presentations to various organizations (area Chambers of Commerce, recruiting stations, law enforcement training centers, etc.) are conducted.
- The SAA has also used the "Add-A-Stop" program. As time permits, staff that are enroute to or from a scheduled visit to an approved institution/establishment stop at a non-approved location to discuss the Apprenticeship/On-the-Job Training program. This does not increase travel costs and has provided excellent results.
- Approval of "teacher" on-the-job training programs has recently began. The Missouri SAA is also actively involved in the "Troops to Teachers" program.
- Other outreach efforts include press releases, various pamphlets, posters, participation at various job fairs, etc.

In Texas, the SAA also has an active outreach effort that includes:

- The SAA has a mailing campaign to inform veterans of their benefits of their benefits. This includes a booklet concerning Apprenticeship/On-the-Job Training. In FY 2002, 21,569 packets were mailed.
- The SAA recently designed and distributed a pamphlet entitled "Earn While You Learn" at Job Fairs, Local Workforce Centers, TAP briefings, and other venues. This pamphlet has a special section concerning Apprenticeship/On-the-Job Training.
- The SAA works with the local Workforce Boards and the Texas Commission in the distribution of material.
- The SAA also conducts presentations with various organizations (Apprenticeship and Training Association meetings, etc.,)

In West Virginia, the SAA has increased Apprenticeship/OJT utilization by 44% during the past year by coordination with the Bureau of Apprenticeship and Training. Additionally, this year the SAA has instituted the traveling "road show" to promote the use of Apprenticeship and On-the-Job Training programs. This includes workshops/presentations at such events as: Joint Union & Management Conference, State Sheriff's Association Conference, State City Police

Chiefs Association Conference, EMT statewide Conference, and the State Fire Chief's Association, Conference.

Other SAAs have active outreach efforts. There are many opportunities for veterans/reservists/dependents to use their earned benefits while enrolled in training programs. SAAs are continually seeking new and innovative outreach projects to insure that everyone is aware of their opportunities.

Recommendations of the National Association of State Approving Agencies

It is with these beliefs and insights that we support the provisions of H.R. 1716. In addition, we would also request that when the time is appropriate, consideration be given to modifying the current payment formula (percentage) provided for eligible individuals enrolled in training programs. Currently the percentages are: 75% (of the amount they would receive if attending an educational institution) for the first 6 months, 55% for the next six months and 35% for the remainder of the program. NASAA recommends these percentages increase to: 100% for the first six months, 75% for the next six months and 50% for the remainder of the program.

Closing

We encourage the leadership and members of this Committee to take a firm and aggressive stand in promoting the enactment of the provisions of H.R. 1716.

Thank you Mr. Chairman and members of the Subcommittee for the opportunity to address you today. We would be pleased to respond to any questions that you have.

Testimony before

Subcommittee on Benefits

House Committee on Veteran's Affairs

On

H.R. 1460
Veteran's Entrepreneurship Act of 2003

And

H.R. 1716
Veteran's Federal Procurement Opportunity Act of 2003

April 30, 2003

Ann Sullivan

Women Impacting Public Policy
www.wipp.org

Mr. Chairman and Members of the Subcommittee, my name is Ann Sullivan. I am pleased to appear today on behalf of Women Impacting Public Policy (WIPP). WIPP is a bipartisan organization of 430,000 women and minority business members nationwide. Thank you for inviting us to comment on H.R. 1460 and H.R. 1712.

First, let me say that WIPP applauds any legislation that establishes programs for small businesses to compete in the federal contracting arena, as is the case with the legislation the Subcommittee is considering today. We believe that the barriers to federal contracting for small businesses are great and those companies that face economic and social barriers deserve special consideration when trying to enter that arena.

But, on behalf of the women business owners WIPP represents, we say "be careful what you wish for." We are referring to the statute, Public Law 106-554, which established a program which would allow federal contracting officers to restrict competition for any contract to women owned companies if the following conditions are met:

(1) 51% ownership by women who are economically disadvantaged;

(2) the contracting officer has a reasonable expectation that two or more small, women-owned companies will bid on the contract;

(3) a contract is for procurement of goods or services is shown to be underrepresented by the SBA Administrator;

(4) the anticipated award does not exceed $5 million for an industrial or manufacturing code or $3 million for any other contract;

(5) the contract award can be made at a fair and reasonable price.

The Statute requires that a federal, state or national certifying entity approved by the Administrator must certify that the business is woman owned. In order to identify industries in which small, women-owned businesses are underrepresented in federal procurement contracting, the Statute requires the SBA Administrator to conduct a study to determine those industries.

That law was passed in the year 2000. It has yet to be implemented. Over one year ago, the SBA declared the study completed to identify industries underrepresented as unsatisfactory. Just last month, the SBA told the Small Business Committee that it

intended to complete a "study to study the study" in the next seven months at the cost of $150,000. So, we are really talking about implementation four years after passage of the law, should in fact, the study be accepted.

Mr. Chairman, the bills you are considering today would establish a much stronger program for service disabled veterans with regard to federal contracting, including sole source contracts and penalties for federal agencies failing to meet their goals than the women-owned program. If the Administration has been unwilling to implement the women-owned program, we believe it will indeed be an uphill battle not only for passage but also implementation of the law.

Our recommendation would be to not include a study in the legislation.

The government-wide woman-owned goal established in 1994 is 5%. When P.L. 106-554 was passed, 1/3 of all businesses were owned by women and forty percent were deemed able to do business with the federal government. Now, forty percent of all new businesses are owned by women and the capabilities have vastly expanded. Yet, the federal government has never met that 5% target – the woman owned percentage is at 2.49 percent government-wide. Just recently, Women Impacting Public Policy conducted a survey of our membership, which indicated 95% of the businesses are willing and qualified to bid on federal contracts.

In closing, Women Impacting Public Policy believes it is important that all small businesses be treated equally with regard to procurement programs. We urge the Subcommittee to work with all small business groups who are seeking to increase federal procurement opportunities whether it be HubZone, Woman Owned, SBD or Veteran. We believe all of these groups should work together to increase the federal procurement dollars to small business.

Thank you.

TESTIMONY

OF

JOHN K. LOPEZ, SDV, CHAIRMAN
ASSOCIATION FOR SERVICE DISABLED VETERANS
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WASHINGTON, DC 20002

TO

COMMITTEE ON VETERANS AFFAIRS
U.S. HOUSE OF REPRESENTATIVES
ONE HUNDRED EIGHTH CONGRESS
334 CANNON HOUSE OFFICE BUILDING
WASHINGTON, DC 20515

APRIL 30, 2003; 10:00 A.M.

HR 1460
THE VETERANS ENTREPRENEURSHIP ACT OF 2003
AND
HR 1712
THE VETERANS FEDERAL PROCUREMENT ACT OF 2003

MR. CHAIRMAN, DISTINGUISHED MEMBERS OF THE COMMITTEE IT IS A PLEASURE FOR ME TO APPEAR TODAY TO PROVIDE THE ASSOCIATION FOR SERVICE DISABLED VETERANS (ASDV) VIEWS CONCERNING HR 1460, THE VETERANS ENTREPRENEURSHIP ACT OF 2003 AND HR 1712, THE VETERANS FEDERAL PROCUREMENT ACT OF 2003.

I APPLAUDE THE WISDOM OF THE SPONSORS AND CO-SPONSORS OF THESE IMPORTANT LEGISLATIVE INITIATIVES AND THE COMMITTEE, FOR HOLDING TODAYS HEARING.

I RESPECTFULLY REQUEST THAT THIS STATEMENT IN ITS ENTIRETY BE ENTERED INTO THE RECORD.

FOR FAR TOO LONG OUR NATIONS VETERANS, PARTICULARLY SERVICE DISABLED VETERANS, HAVE BEEN EXCLUDED FROM FEDERAL PROGRAMS THAT FACILITATE SMALL BUSINESS DEVELOPMENT AND FEDERAL CONTRACTING. **PRESENTLY MANDATED PROGRAMS HAVE NOT ASSISTED ALL BUSINESSES EQUALLY.**

ASDV IS DEDICATED TO THE DEVELOPMENT OF SELF-EMPLOYMENT AND MANAGED EMPLOYMENT OPPORTUNITIES FOR THOSE MEN AND WOMEN WHO INCURRED DISABLING INJURIES WHILE SERVING OUR NATION.

WE VIEW HR 1460 AND 1712 AS BEING MUTUALLY SUPPORTING AND BOTH HAVE GREAT MERIT.

THE HR 1460 ESTABLISHMENT OF SELF EMPLOYMENT AS A GOAL AND ENTREPRENEURSHIP TRAINING AS A BENEFIT VIA THE DEPARTMENT OF VETERANS AFFAIRS REHABILITATION SERVICE, WILL PROVIDE ALL DISABLED VETERANS AN OPPORTUNITY TO RECEIVE SUPPORT THE PROCUREMENT SERVICES AND PROFESSIONAL TRAINING TO ASSIST THEM TO ACHIEVE SUCCESS.

HOWEVER, WE BELIEVE THAT DISABLED VETERANS SHOULD BE ALLOWED TO PARTICIPATE IN THE BROAD RANGE OF ENTREPRENEURIAL EDUCATION OPPORTUNITIES OFFERED IN ALL

INSTITUTIONS OF HIGHER EDUCATION AND SUGGEST THAT OPPORTUNITIES FOR THIS IMPORTANT TRAINING NOT BE LIMITED TO THE U.S. SMALL BUSINESS ADMINISTRATION, "SMALL BUSINESS DEVELOPMENT CENTERS".

THOUGH THIS IS AN EXCELLENT RESOURCE, WE DO NOT BELIEVE THAT DISABLED VETERANS SHOULD BE RESTRICTED IN ACCESS TO EDUCATIONAL ASSISTANCE AND OPPORTUNITIES.

WE ARE PLEASED TO SEE THAT THE ADMINISTRATION, AS CONTAINED IN THE DEPARTMENTS FY 04 BUDGET SUBMISSION, WILL SUBMIT LEGISLATION TO MODIFY THE MONTGOMERY G.I. BILL TO ENABLE VETERANS TO BE REIMBURSED FOR CERTAIN SELF-EMPLOYMENT TRAINING PROGRAMS.

WE ARE ALSO PLEASED THAT THE SPONSORS OF HR 1460 TOOK INTO CONSIDERATION THE RECOMMENDATIONS TO UTILIZE SOLE SOURCE AND RESTRICTED COMPETITION PROCUREMENT PROGRAMS FOR SERVICE DISABLED VETERANS OWNED SMALL BUSINESSES.

I RESPECTFULLY SUGGEST THAT FOR HR 1460 TO BE MOST EFFECTIVE, THE LANGAUGE ADDRESSING PROCUREMENT PROGRAMS COULD BE MODIFIED. ATTACHED TO THIS TESTIMONY IS SUGGESTED LANGUAGE FOR CONSIDERATION BY THE COMMITTEE.

I SUBMIT THAT THIS PROPOSED LANGUAGE WILL ALSO STRENGHTEN AND ENHANCE THE LANGUAGE IN HR 1712 THAT ESTABLISHES AN ENHANCED VETERANS BUSINESS DEVELOPMENT PROGRAM WITHIN THE SMALL BUSINESS ADMINISTRATION.

WE ALSO FIRMLY BELIEVE THAT THE COMMITTEE SHOULD CAREFULLY CONSIDER ESTABLISHING A "NATIONAL VETERANS/ SERVICE DISABLED VETERAN BUSINESS CERTIFICATION PROGRAM" ADMINISTERED BY THE DEPARTMENT OF VETERANS AFFAIRS, IN CORDINATION WITH THE DEPARTMENT OF DEFENSE (DoD) CENTRAL CONTRACTOR REGISTRY.

WE BELIEVE SUCH A CERTIFICATION PROGRAM COULD BE ESTABLISHED WITH MINIMUM COSTS AND WITH AVAILABLE SYSTEMS AND TECHNOLOGY.

HOWEVER, MR. CHAIRMAN, I ALSO FEEL **VERY STRONGLY** THAT AMERICA'S VETERANS AND SERVICE DISABLED VETERANS, YOUNG MEN AND WOMEN WHO EARNED THEIR BENNEFITS IN SERVICE TO THIS GREAT NATION SHOULD NOT BE SUBJECTED TO "PROVING THAT THEIR INJURIES CREATE ECONOMIC DISADVANTAGE", AS PROPOSED IN HR 1712.

VETERANS PLACED AT RISK FOR DEATH, DISABILITY AND TORTURE SHOULD NOT BE SUBJECTED TO ARTIFICIAL BARRIERS TO PARTICIPATION IN THE ECONOMIC SYSTEM THEY SACRIFICED TO PRESERVE. THEY ANSWERED YOUR CALL AND MADE A PERSONAL SACRIFICE, A GREATFUL NATION SHOULD EAGERLY PROVIDE THEM OPPORTUNITY, NOT SUBJECT THEM TO **DEMEANING BUREAUCRATIC PROCESSES.**

WE ARE PLEASED THAT THE COMMITTEE IS CONCERNED WITH FEDERAL AGENCY NON COMPLIANCE, WITH GOALS THAT CONGRESS SPECIFIED IN PUBLIC LAW 106-50. GOALS INTENDED TO PROVIDE SERVICE DISABLED VETERANS INCREASED GOVERNMENT CONTRACTING OPPORTUNITIES.

I COMPLIMENT CONGRESSMAN EVANS FOR HIS FORESIGHT IN INCLUDING PUNITIVE PENALTIES FOR NON – COMPLIANCE IN HR 1712 AND CHAIRMAN SMITH, CONGRESSMAN RENZI AND CHAIRMAN MANZULLO FOR THEIR INSIGHT IN RECONIZING THAT SELF EMPLOYED ASSISTANCE IS A REHABILITATION BENEFIT, JUST AS IS EDUCATION AND TRAINING, MEDICAL CARE AND HOME OWNERSHIP ASSISTANCE.

MR. CHAIRMAN, MEMBERS OF THE COMMITTEE, I AGAIN EXTEND MY ADMIRATION AND MY COMPLIMENTS TO YOU FOR YOUR UNDERSTANDING OF THE DIFFICULTIES CONFRONTING OUR SERVICE DISABLED VETERANS IN ESTABLISHING SMALL BUSINESSES AND ACTIVELY PARTICIPATING IN FEDERAL PROCUREMENT PROGRAMS.

WE ENCOURAGE AND REQUEST YOUR SUPPORT FOR PASSAGE OF HR 1460 AMENDED AND 1712. THESE TWO BILLS ARE MUTUALLY SUPPORTING AND WILL SERVE TO OPEN DOORS THAT HAVE RESTRICTED VETERAN OWNED BUSINESS OPPORTUNITIES FOR THE PAST FIFTY YEARS.

ATTACHMENT (A): HR 1460 PROCUREMENT LANGUAGE

HR 1460 CONSIDERATIONS

The sole source contract language as currently written for Service Disabled Veteran Owned Businesses in HR 1460 is similar to the HUB ZONE sole source program. It is extremely difficult for a contracting officer to determine that only one service disabled veteran owned business can perform a contract. This is a long shot. Very few dollars go to the HUB ZONE sole source program. In sum, the current language would result in only a token, paper solution with no real results.

SOLUTION:

Create a Service Disabled Veteran Owned Business Development Program (Competitive Reserve).

Proposed Changes:

Delete all current language in SEC. 36. (a) and replace with the following language:

1) 1) "A program similar to 8(a) sole source where service disabled veteran owned firms can be selected to perform a Government contract up to a threshold of $3,000,000 and compete among service disabled veteran owned firms over a threshold of $3,000,000."

EXAMPLE #1

(Informal Competition) Threshold of $3,000,000 or less – Sole Source.

A Federal construction contract of $2,000,000 is bid. Five service disabled veteran firms are being considered. One firm is picked among the five based on capability, past performance etc. – assumes a fair market price. After selection of the firm, the Government enters in a sole source contract with that firm.

EXAMPLE #2

(Formal Competition) Threshold over $3,000,000 – Competitive.

A Federal construction contract of $4,000,000 is bid. To use this part of the program, the contracting officer must have a reasonable expectation of receiving at least two offers from service disabled veteran owned firms. The awardee is picked based on capability, past performance etc. – assumes fair market value. This would be considered limited competition among service disabled owned firms.

Additional Changes:

1). Add to SEC. 36. (b) Insert language immediately following "After Restricted Competition" that shall read: "Set-asides (both sole source and competitive) for small businesses owned and controlled by service disabled veterans shall take precedence over all other small business program set-asides."

2). Immediately following the language on line 9, currently ending with "fair market price," insert language that reads: "in accordance with the following order of consideration:"

1) Service Disabled Veteran Owned Firms
2) 8(a) or HubZones
3) Small Business
4) Full and Open Competition

Statement of

Donald Wilson
President, Association of Small Business Development Centers

April 30, 2003

Before the
U.S. House of Representatives Subcommittee on Veterans' Benefits

Chairman Brown, Ranking Member Reyes, and members of the House Subcommittee on Veterans' Benefits, I am Donald Wilson, President and CEO of the Association of Small Business Development Centers (ASBDC). ASBDC's members are the 58 State, Regional and Territorial Small Business Development Center (SBDC) programs comprising America's Small Business Development Center Network. SBDC programs are located in all 50 states, the District of Columbia, Puerto Rico, The Virgin Islands, Guam and American Samoa. The SBDC network is the federal government's largest small business management and technical assistance program with nearly 1,000 service centers nationwide serving more clients than all other U.S. Small Business Administration programs combined.

On behalf of the ASBDC, and the nearly 6,000 dedicated men and women serving small businesses through America's Small Business Development Center Network, I would like to thank you, Mr. Chairman, for inviting the Association to testify at this important hearing on HR 1460, The Veterans Entrepreneurship Act of 2003. I will direct most of my comments to HR 1460, the Veterans Entrepreneurship Act of 2003.

I want to commend Congressman Renzi for introducing HR 1460. We believe this is important legislation for our nation's veterans and for our economy. I also want to commend those who joined Congressman Renzi as principal co-sponsors of HR 1460, including you, Mr. Chairman, Subcommittee Ranking Member Michaud, Committee Chairman Smith, Committee Ranking Member Evans, Congressman Beauprez and House Small Business Committee Chairman Manzullo.

Mr. Chairman, as this Subcommittee knows so well, our nation's veterans throughout our nation's history have fought to preserve this nation and its freedoms -- personal, political and economic. Today in places all over the globe, future veterans are in harm's way to protect our national security and the freedoms we hold so dear.

For those who have borne the battle, who have served in our armed forces, it is extremely important that they be afforded every opportunity to prosper economically in this free society with its free market economy that they invested so much to protect. It is " all together fitting and proper" that Congress should strive to encourage those veterans who desire to be entrepreneurs. It is appropriate that Congress should seek to remove any impediments that may exist in our veterans programs that might deter a veteran who is an aspiring entrepreneur from seeking to achieve his or her goals.

Mr. Chairman, currently the small business sector of our economy accounts for 52% of the nation's gross domestic product. Fifty-one percent of non-farm private sector workers are employed by small businesses. Ninety-nine percent of employers today are small business owners. Small business in the last decade accounted for roughly 70% of the new jobs created in our economy.

Despite the fact that entrepreneurship is so critically important to our economic well being, there are very few opportunities for Americans to learn how to start and operate a small business. Entrepreneurship is not taught in our primary schools and only a tiny percentage of our secondary schools offer any type of entrepreneurship programs. Very few of our vocational or technical schools offer entrepreneurship programs. Fortunately, a number of our nation's collegiate business schools in the last decade have begun to offer entrepreneurship curricula. However, these programs are not accessible to most Americans. It is amazing that with one out of each 10 adult Americans seeking to start a business, according to recent research by the Ewing

Kaufmann Foundation and Babson College, there are very limited opportunities for Americans to learn how to start and manage a business.

Congress sought to address some of these problems 23 years ago when it enacted legislation creating the Small Business Development Center program. America's Small Business Development Center Network last year alone provided face-to-face counseling of at least and hour and group training of at least two hours to over 650,000 existing business owners and aspiring entrepreneurs. Of that number, 8% were self-declared veterans. And we are confident that we serve many, many more veterans who simply do not self-identify as veterans. Overall the national SBDC program offered some type of business assistance last year to an estimated additional 1.25 million or more individuals. Since the program's inception, the national SBDC program has offered counseling and training assistance to over 10 million Americans.

Our success is somewhat extraordinary. Roughly 60% of our pre-venture clients go on to start businesses. Various studies indicate that roughly 80% of our startup clients who have had five hours of counseling or longer remain in business five years later. The average survival rate for a small business startup is roughly 20%. SBDC long-term counseling clients increase sales at a rate three times that of the average U.S. business. SBDC long term counseling clients created 1.20 jobs for every 0.125 jobs created by the average U.S. business.

SBDC counselors find that veterans are often particularly suited for a career in entrepreneurship. Veterans are often highly disciplined. They are used to long hours and adverse circumstances. They are used to being exposed to risk. Many veterans have finely honed leadership skills and understand personnel management. All of these attributes can be vitally important in the entrepreneurial arena.

Recognizing this, we believe it is extremely important that this committee address the issue of access by veterans to entrepreneurial training. ASBDC has worked cooperatively in recent years with numerous veterans groups through its membership in the Task Force for Veterans' Entrepreneurship. ASBDC to my knowledge was the first non-veterans group to publicly urge enactment of Public Law 106-50, the Veterans Entrepreneurship and Small Business Development Act. A meaningful number of SBDC state directors are veterans and a significant number of SBDC service center directors and counselors are veterans. Many SBDCs service centers work with the Department of Defense in their transition programs offering introductory information regarding entrepreneurship as a possible career option.

Unfortunately, Veterans Administration programs and the G.I. Bill have historically been designed to assist veterans to find employment working for others. If the Kauffman foundation figures are correct regarding the percentage of Americans desirous of starting their own businesses, at least 10% of veterans are likely aspiring entrepreneurs.

SBDC and others offer quality non-degree courses in entrepreneurship. Nationally known curricula such as Fasttrac and NextLevel are offered at most SBDCs. These courses are also available at other venues. These comprehensive courses are on average about 13 weeks long requiring three hours of classroom work every week. Unfortunately, many individuals who need these courses and want them are deterred from taking them because they can cost, depending on circumstances, in the range of $500 to $700. SBDCs over the years have worked very hard to find private sector assistance to provide partial scholarships for these programs, recognizing their value to aspiring entrepreneurs as well as existing business owners.

ASBDC believes that allowing veterans to use their Montgomery G.I. Bill benefits to enroll in qualified non-degree business management courses would greatly expand opportunities for entrepreneurial success for our nation's veterans. We commend the authors of this legislation for insuring that disabled veterans, dependent spouses and children of disabled veterans or deceased veterans, as well as members of the National Guard and Reserves, are all eligible.

We also fully support the provisions of HR 1460 allowing disabled veterans enrolled in school under a VA vocational rehabilitation program to establish self-employment in a small business enterprise as a vocational goal. Clearly, self-employment is a legitimate vocational goal and should be recognized as such. With today's technologies it has become much more practical for the disabled to operate home-based businesses. ASBDC is currently exploring with the Department of Veterans Affairs the most effective ways to address the entrepreneurial

counseling needs of disabled veterans in their homes using computers for real time, face-to-face counseling.

Mr. Chairman, as the Department of Labor has repeatedly reported, when unemployment goes up, self-employment goes up. For veterans who have had difficulty finding employment and for those who have an entrepreneurial bent, owning a small business may offer the most practical road to financial stability and independence. ASBDC and the 6,000 members of the SBDC national network commend this Subcommittee for holding this hearing today and for allowing ASBDC to be a participant. We commend HR 1460 to you and urge its passage.

At this time Mr. Chairman I would be pleased to try and respond to any questions you or members of this committee may have.

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Ref: H.R. 1460, H.R. 1712, H.R. 1716

Mr. Chairman:

I would first like to thank the committee for allowing me to speak on behalf of bills H.R. 1460, the Veterans Entrepreneurship Act of 2003, H.R. 1712, the Veterans Federal Procurement Opportunity Act of 2003, and H.R. 1716, the Veterans Earn and Learn Act of 2003.

My name is Lieutenant James Krempasky, I am 39 years old, and I am a retired, service-connected, disabled veteran. Not by choice mind you. I got this way serving my country on active duty from January 1982 until my medical retirement in November of 1993. After 32 total surgeries, of which 27 surgeries were to my knees, it is not important to reflect how I became disabled, But like many other disabled veterans, sacrificed body and limbs for the service and protection of our country. These detriments to our bodies occurred under uncontrollable circumstances despite how we wish the outcome could have been. Disabled veterans are already placed at a disadvantage in society because of our disabilities. Because of our disabilities, we are often look upon as not being able to "keep up" or provide the same service that other non-disabled employees can provide. This is even greater in the free business enterprise system and corporate America. This is why disabled veterans are eager to proved their worthiness to be assets to

society and the free enterprise system.

Consequently, this is why I started my own business several years ago. Corporate America rudely informed me that my disabilities were a liability to corporate America's business system, so I was excused to go home and be unemployed. In order to provide for my family and to stay away from the poverty level, I formed my company, "Western Fire Incorporated".

Western Fire specializes in supplying a new technology of environmentally safe firefighting suppression foams and decontamination foams for fire protection and terrorism defense. Based on current events in our country and the world one would assume that our products would be highly sought after. And they are to an extent. But like so many other small businesses, having to compete on the same scale as large businesses, make it virtually impossible to secure procurement opportunities. We do not have deep pockets and market position to compete for business opportunities, or provide the financial means to pay for necessary testing that is required to bring new technology, that is being asked for in the industry, to market. For example, I spent last summer at all the major forest fires in the south and northwest. Fire professionals have specifically asked for fire suppression foams that are environmentally safe, non-toxic, non-corrosive, bio-degradable, and really work at putting out fires. My company has this technology, and has used this technology in real fire situations, but has struggled to get approval from the required federal agencies because of the enormous cost associated with the testing and certification processes. Western Fire was particularly cited for our work in saving many homes and businesses in last years Rodeo/Chediski fire in Arizona. But because of the lack of proper certification, our fire suppression foam was pulled from the fire-line by the federal agency who took over the fire, and many homes and businesses were lost because of it. Not to mention of course the enormous benefits in firefighter safety that comes with the use of our state-of-the-art fire suppression foams. We are now able to drop fire suppression chemicals near water sources, unlike before, to save trapped firefighters that are in danger of being overrun by a fire storm. This saves lives, instead of unnecessary deaths that have resulted in previous fire seasons. Because of our technology, we are 100 times more

effective than traditional fire suppression chemicals that have been in the industry for the last 40 years. Small business owners need help in bringing new technology to industry that benefits mankind. Another example why there needs to be different levels of business procurement is brought to light this way; college basketball teams do not compete in the professional basketball arena. Each has their own respective league in which they compete. No one would expect the college team to be competitive in a more advanced league. The same is true for small businesses. We are not designed to compete in the fortune 500 business arena. Procurement leagues need to be developed to address business concerns at all levels. That is why these measures are so critically important. These measures would level out the procurement opportunities to safely spread the opportunities so that all levels of business are represented in the procurement activities.

These measures would allow veterans to use VA education benefits to enroll in non-degreed, non-credited business courses offered by Small Business Development Centers (SBDC) and the National Veterans Small Business Development Corporation. The Small Business Administration (SBA) helps to fund thousands of Small Business Development Centers across the United States. These development centers would improve access to pre-entrepreneurship training and skills building that are necessary for success in small business. Additionally, there should be a way to fund research and development projects that have merit in providing a solution to a problem that exists in America, such as the enormous forest fire seasons with no real credible answer. I have the answer, but not the means to bring the solution to market. These bills would clarify that disabled veterans could enroll in school under a VA vocational rehabilitation program and establish self-employment in a small business enterprise as a vocational goal. Thus providing lasting self-esteem. Currently this is not the case. The Veterans Administration could still establish certain controls, so that aspiring disabled veterans would have the best chance of succeeding as small business owners. Furthermore, these bills would give federal agency contracting officers the discretionary authority to create sole source contracts for disabled veteran-owned businesses manufacturing and non-manufacturing awards. Again, leveling out the playing field for procurement opportunities with the different levels of businesses. This is especially important for me and my company "Western Fire", that is an

established business struggling to compete in all facets of procurement activities.

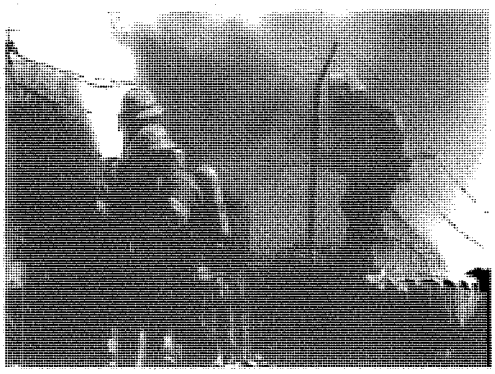
These measures are crucial for service-disabled veteran success. It allows for a better, systematic, balanced approach to help small business concerns owned and controlled by service-disabled veterans to share in the procurement activities and opportunities of government. And additionally, rewards the sacrifices of disabled veterans injured in the service of their country that struggle on a daily basis with self-esteem, and self-reliance while engaged in business entrepreneurship by providing the means to share a part of the total procurement opportunities available.

Each one of these bills will help a service-disabled veteran in business to achieve success, gain self-respect self-reliance, and add benefits to society and the industry's they serve. That is why I ask for you to support these veteran initiatives. Thank you.

Tucson, AZ

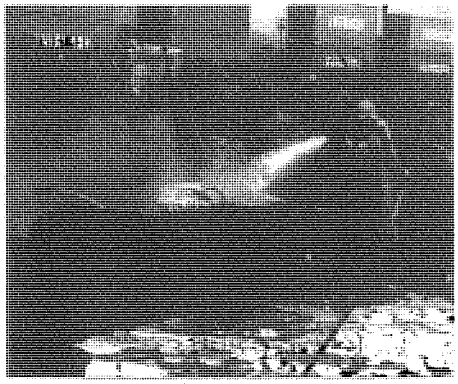
Tire Fire started by sparks from railroad onto brush

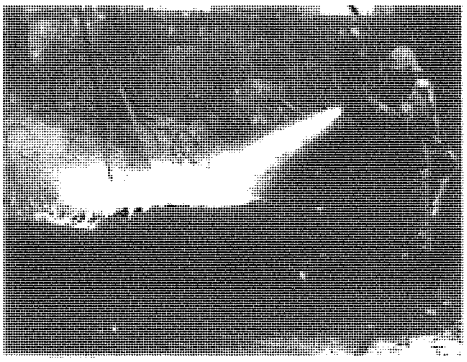
April 1, 2003



Initial Attack

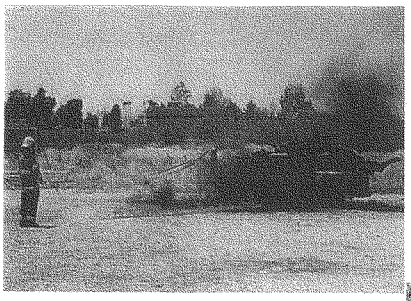
Mopping Up



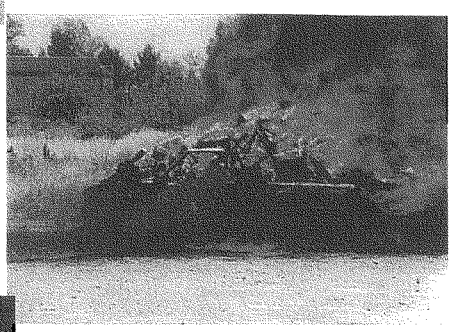


Almost Out and COLD

Crash Rescue Training

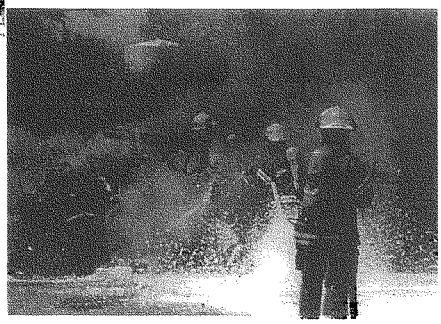


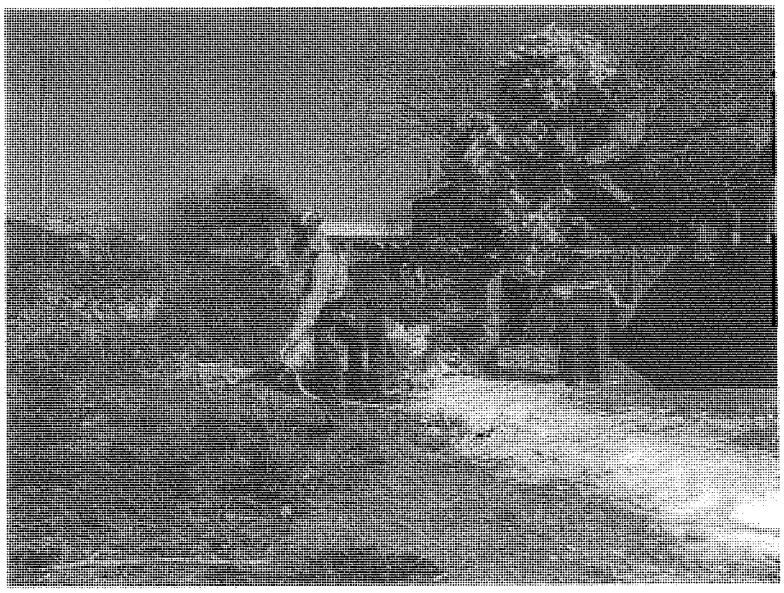
Fire lead used to light a "hot fire". We placed a rock on the roof of the car to represent a downed pilot.



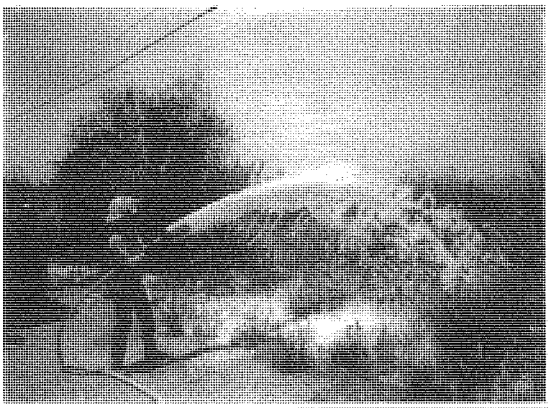
Fire must be "controlled" before it can be put out.

Retrieval of the rock.





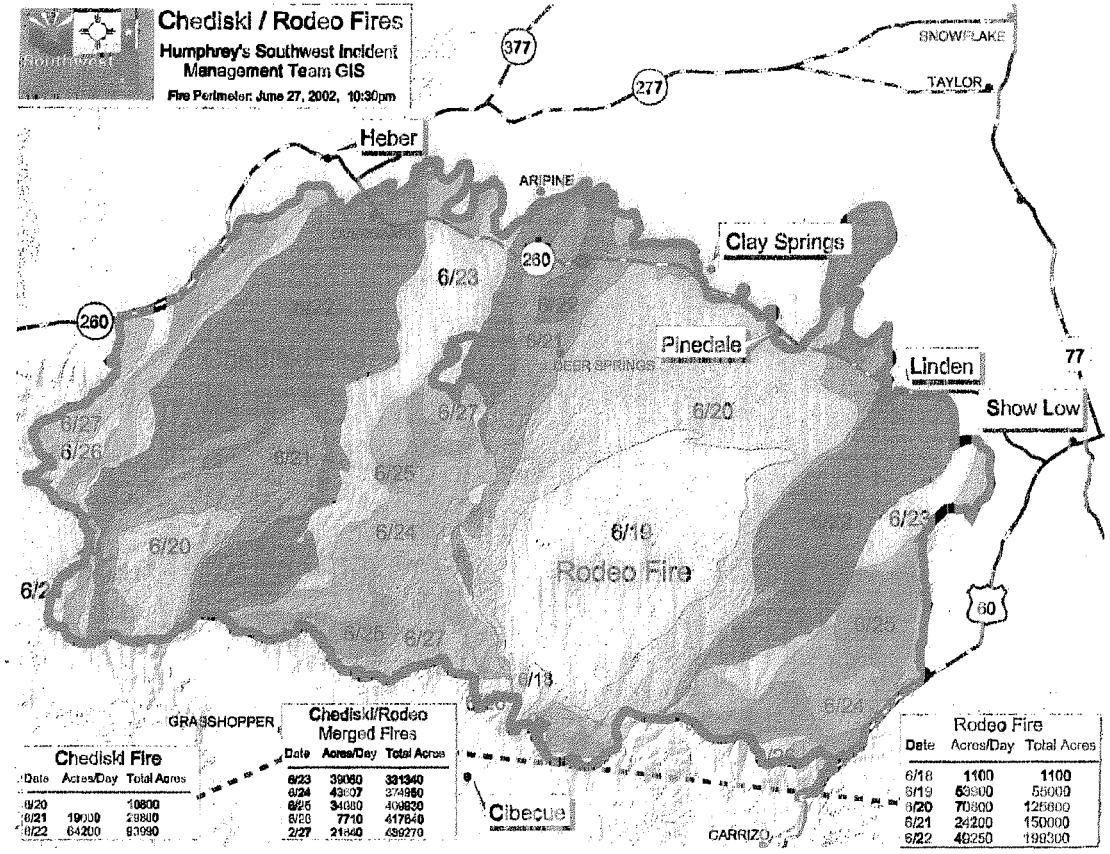
Pretreat for structure protection



Creating a "Wetline"

Cooling "hot spots" faster with AB

Mopping up a fire so it can be cold trailed sooner.



Chediski Fire

Date	Acres/Day	Total Acres
6/20		10800
6/21	19000	29800
6/22	64200	93990

Chediski/Rodeo Merged Fires

Date	Acres/Day	Total Acres
6/23	39060	331340
6/24	43607	374950
6/25	34880	409830
6/26	7710	417540
6/27	21840	439270

Rodeo Fire

Date	Acres/Day	Total Acres
6/18	1100	1100
6/19	53900	55000
6/20	70800	125800
6/21	24200	150000
6/22	49250	199300

STATEMENT
of

HI Tech Services, Incorporated

Presented by

Robert G. Hesser

President and Chief Executive Officer

Before the
House Committee on Veterans' Affairs
Subcommittee on Benefits

Regarding

H.R. 1460, the Veteran's Entrepreneurship Act of 2003
and
H.R. 1712, the Veterans Federal Procurement Opportunity Act of 2003

April 30, 2003

Good Afternoon, Chairman Brown, Ranking Democrat Michaud, and your distinguished colleagues on this panel. My name is Bob Hesser; I currently serve as President of HI Tech Services, Incorporated dba **HITS**, a Virginia "C" Corporation. I thank you for this opportunity to appear here today to present my views regarding a vital veterans issue of providing veteran-owned and service-disabled veteran-owned small business an equal opportunity to compete for Federal government procurements

My testimony concerns H.R. 1460 and H.R. 1712, as they will impact veteran-owned and service-disabled veteran-owned small businesses. An attachment to my testimony addresses each section in more detail. Section 4, H.R. 1460 will not be necessary if H.R. 1712 is passed. I believe the thoroughness of H.R. 1712 will provide guidance to federal contracting officers, other federal employees, and prime contractors so necessary since passage of P.L. 106-50, The Veterans Entrepreneurship and Small Business Development Act of 1999.

Since passage of P.L. 106-50, (August 17, 1999) I have attended over sixty small business conferences, met with over one hundred government officials, met with most of the top fifteen Federal government prime contractors, and worked with several veteran-owned and service-disabled veteran-owned small businesses. I am an active member of the Task Force for Veterans Entrepreneurship (TFVE), as well as a member of veteran services organizations. I make this point because I want it to be clear that my knowledge and experience is beyond personal experience in establishing HITS. My perspective is assuredly different from those without the same experiences. This testimony is my personal viewpoint and does not represent any other organization or person.

I want to make FIVE points within my verbal testimony.

1. Thus far, P.L. 106-50, insofar as procurement opportunity is concerned, has provided nothing but a guinea stamp to veteran and service-disabled veteran-owned small businesses.

2. As a retired U. S. Navy Master Chief with eight subsequent years as a Government employee replacing two major IT systems through the Federal procurement system, with seven years working with 8(a) firms, and three years establishing HITS I firmly believe that the proposed legislation is sorely needed. Contracting Officers and federal managers must have ALL the tools they need or P.L 106-50's purpose will never be realized.

3. Large Businesses rarely achieve subcontracting goals. H.R. 1712 will result in improved achievement of prime and subcontracting goals for all groups (8(a), SDB, WOB, HUBZone, VOB, and SDVOB). I believe H.R 1712 addresses the provisions in Section 4 of H.R. 1460.

4. Any legislative change made to the Small Business Act and thus Federal Acquisition Regulations Part 19, will provide little improvement upon Federal procurement from small business, as long as the General Services Administration (GSA) has the ability to exempt FAR Part 19 from GSA Schedule contracts. During Fiscal Year 2002, GSA Schedule Sales equaled $22,070,586,590. GSA Schedule spending rose from 7 percent to 31 percent of total procurement dollars from 1997 through 2002, while full and open competition spending decreased from 57 percent to 41 percent. ("GSA Spending is On the Rise," Federal Computer Week, April 4, 2003.) GSA can no longer be allowed to dance around the Small Business Act.

5. I do not know how many procurement dollars went to small business. I do not think anybody knows. Statistics from the Federal Procurement Data Center are the best available. I highly suspect their accuracy because many of the same procurement dollars are counted as 8(a), veteran, and service-disabled veteran owned. From personal experience, I know that the few contract actions my company had during 2002 are only 50% accurate. If these few transactions are inaccurate, I cannot trust the others. Contracting officers do typically report more than one category per transaction.

Closing

Mr. Chairman, we need congressional support now. I have shared my opinions with you today because I, as well as many of my fellow veterans and service-disabled veteran business associates, believe we have a right to a fair and equitable playing field. I support the combining of H.R. 1712 and H.R. 1460 as stated. We desperately need this legislation. Without this legislation, we actually have nothing. I want to point out again, that P.L. 106-50, insofar as procurement opportunity is concerned, has provided nothing but a guinea stamp to service-disabled veteran-owned small businesses.

Thank you for the opportunity to appear here today to share my views on these issues so vital to the well being of America's veterans. I request that my written testimony be made part of the record. I will be happy to answer any questions.

Attachment A – Robert G. Hesser, Testimony on April 30, 2003, House Committee on Veterans' Affairs - Subcommittee on Benefits

H.R. 1460, the Veteran's Entrepreneurship Act of 2003

H.R. 1460, Section 2 would allow veterans to use VA education benefits to enroll in a non-degree, non-credit business course in order to obtain pre-entrepreneurship training and skills building. This is a great idea to make up the loss veterans experience during their active duty. Rarely does active duty service provide business on-the-job training. When a veteran enters the business environment after active duty he/she begins with a disadvantage. Section 2 will help level the playing field.

I highly support Section 3. Today, when a service-disabled veteran wants to open a business to become self-sufficient or to supplement their insufficient income they are penalized because they lose their Vocational Rehabilitation support. Often the VA Rehabilitation program is the only support they have beyond the meager financial support from VA Compensation they cannot survive financially, without it. Until the service-disabled veteran has reached a level of reasonable success in their business endeavor, they must be allowed to continue in the VA Rehabilitation program.

Section 4 provides a tool to federal contracting officers to utilize service-disabled veteran-owned small business as a sole source purchase. The provisions in Section 4 do not distinguish between a service-disabled veteran-owned small business owned and operated by an individual with significant net worth and those with a disadvantaged net worth. The Small Business Act makes a distinction between those individuals considered economically disadvantaged and those who are not. A SDB is socially disadvantaged and a SDB 8(a) is socially and economically disadvantaged. In August 1997, the Small Business Administration modified the non-competitive rule by changing the $5,000,000 and $3,000,000 MINIMUM contract value to a $5,000,000 and $3,000,000 MAXIMUM contract value. I believe the purpose behind this change was because a small percentage of SDB 8(a) firms were receiving the largest percentage of SDB 8(a) non-competitive dollars with the majority receiving none. Further restrictions were put on 8(a) non-competitive awards through changes to 13 CFR Section 124.519. These rules established that any 8(a) firm, after December 31, 1997, receiving over $100,000,000 during the life of their program couldn't receive further non-competitive awards. This was another indication that some 8(a) firms were more successful than desired by the program. I believe that Section 4 of H.R. 1460 will not alone provide the tools necessary to provide an even playing field to service-disabled veteran-owned small businesses. Section 4 alone will give an unfair advantage to economically strong service-disabled veteran-owners. Section 4 criteria are contained within H.R. 1712. H.R. 1712 has provisions that distinguish between economically disadvantaged service-disabled veteran-owned firms and service-disabled veteran-owned small businesses that are not.

H.R. 1712, the Veterans Federal Procurement Opportunity Act of 2003

Section 2 of H.R. 1712 will establish a program ***similar*** to the program established for eligible section 8(a) participants. It also distinguishes between the service-disabled economically disadvantaged veteran and the service-disabled veteran needing additional opportunities but not those offered by a program similar to eligible section 8(a) participants. Such an action will provide the tools proposed within H.R. 1460, Section 4.

H.R. 1712 Section 4 addresses agency goals. On February 5, 2003, the Administrator for Federal Procurement Policy testified before the Committee on Veterans Affairs. During that testimony, detailed statistics from the Federal Procurement Data System (FPDS) were provided. Those statistics represented the Administration's evaluation as to the percentage of procurement dollars awarded to veteran-owned small businesses and service-disabled veteran-owned small businesses. I believe those statistics are the most accurate available to the Federal government. I also believe they are highly inaccurate. My beliefs are based on limited factual research and on verbal conversations with many government small business and contracting officer employees. The practice of counting procurement dollars against two or more procurement goals is almost standard practice. Some contracting officers adamantly believe it is required. If this is true, then all procurement goal attainment figures are suspect. H.R. 1712 Section 4(a)'(g)(9), DOUBLE COUNTING PROHIBITED is necessary to ensure this does not happen.

H.R. 1712, Section 4(a)`(g)(10) RESTRICTION ON USE OF FUNDS IN CASE OF FAILURE TO ACHIEVE GOALS – will assist contracting officers in enforcing rules that have existed for years. Federal Acquisition Regulations (FAR), Subpart 19.708(b)(2) requires insertion of clause 52.219-16, Liquidated Damages-Subcontracting Plan for all solicitations and contracts requiring the subcontract clause. However, enforcement by the contracting officer can be influenced by forces beyond the contracting officer sphere of influence within a particular agency. It is extremely rare that Liquidated Damages are assessed. It is also rare that all subcontracting goals are met. The proposed Section 4 will provide the contracting officer a must follow rule not subject to the subjectivity in FAR 52.219-16.

H.R. 1712, Section 5(c) REQUIRED PENALTY FOR MATERIAL BREACH – coupled with Section 4(a)`(g)(10) will give contracting officers, as well as prime contractors, reason for ensuring subcontract plans are given the attention necessary to ensure success of the programs.

FAR 52.219-10 Incentive Subcontracting Program has existed for years. It is in all solicitations and contracts. Incentive awards are not normal. With H.R. 1712 in place subcontract plans should be met, agencies will benefit because they met their goals, and monetary incentives should increase.

H.R. 1712 will be difficult to implement because we Americans do not always appreciate change. We do support fairness for all. H.R. 1712 will benefit all small business firms not just 8(a), SDB, WOB, HUB Zone, VOB, and SDVOB firms. I believe H.R. 1712 will create a procurement environment that can only end in a WIN-WIN result.

GSA Schedule Contracts Deplete the Advantage of Small Business Legislation

I want to address the present FAR rules concerning GSA Schedules. The federal government has changed the way it does business. GSA Schedule buying is the most visible.

Large businesses use the GSA Schedule extensively for product and service sales. Many agencies have issued Blanket Purchase Agreements (BPA's) covering the entire time of the schedules which is 5-years with extensions up to 10-years. The BPA's are agreements that the agency will use the specified schedule for a specified period and specified requirements. If an agency requires a product or service not available on the existing schedule GSA now allows the agency to add the line items on the BPA.

GSA Schedule revenue is dominated by large business. Domination in the Information Technology area is staggering. FAR 8.04 exempts FAR 19 from GSA Schedule contracts. The GSA Solicitation for a GSA Schedule does reference FAR Part 19 clauses on subcontracting plans by stating "for reference purposes." This reference is a recent change. P.L. 106-50 provisions do not have the same status in GSA Schedules as it does in all other contracts within the Federal government. Final passage of H.R. 1712 and/or H.R. 1460 will also not have the same status with GSA. I recommend this problem be addressed through legislation. Procurement dollars that should be going to small business are making large business larger because of FAR 8.04.

Attachment B – Robert G. Hesser, Testimony on April 30, 2003, House Committee on Veterans' Affairs - Subcommittee on Benefits

Robert G. Hesser

In 1963, Mr. Robert G. "Bob" Hesser joined the Navy where he received his first introduction to computers. During his 21 years of service, Mr. Hesser gained extensive knowledge of the IT industry and received his MBA in Computer Information Systems. On May 1, 1984, he was transferred to the Service Disabled Retirement List as a Master Chief Cryptologic Technician (E-9).

After leaving the Navy, Mr. Hesser spent the next 6-years working with Naval Sea Systems Command as an IT Manager. While there, some of his most significant contributions were his efforts and leadership in the Nation-wide automation of Navy Commands. In 1984, he began his active support of individuals with disabilities and assisted them in finding employment within the federal government.

Mr Hesser then spent two years working with U.S. Department of Agriculture (USDA) where he was responsible for automating 129 locations by replacing a minicomputer system with the first Frame Relay microcomputer Wide Area Network under FTS2000. Because of his previous work with disabled persons, he was selected to represent USDA on several federal committees for identifying accommodations for the disabled and agency compliance with the American Disability Act (ADA). He defined the hardware and software used to establish the USDA Disabilities Accommodation Center, Washington, D.C..

In 1993, he left the government and formed HI Tech Services (HITS) to provide consulting services to business and government with a strong focus on assisting Small Disadvantaged Business 8(a) firms. He was given opportunity to apply his extensive background and knowledge in IT to assist small IT companies to obtain success.

Mr. Hesser currently provides extensive support for Service Disabled Veterans and is an active member in the Task Force for Veterans Entrepreneurship (TFVE).

Attachment C – Robert G. Hesser, Testimony on April 30, 2003, House Committee on Veterans' Affairs - Subcommittee on Benefits

Federal Contracts Statement

April 30, 2003

HI Tech Services, Incorporated (HITS) is registered as a Virginia "C" Corporation. HITS is primarily a Federal and States Information Technology System Integration company. A five year GSA Schedule 70 (GS-35F-0509K) was awarded to HITS on July 7, 2000.

HITS has contracted with several Federal agencies for IT products and services, both open-purchase and GSA Schedule sales.

10/15/2001	**Export Import Bank**	**60,324**
01/17/2002	**Office Secretary of Defense**	**259,816**
02/07/2002	**Office Secretary of Defense**	**1,5014**
05/30/2002	**NRC**	**1,6331**
06/05/2002	**DIA**	**3,7411**
10/10/2002	**VA Topeka KS**	**962**
10/28/2002	**PEO EIS Ft Detrick**	**10,995**
11/27/2002	**99CS Nellis AFB**	**14,030**
12/19/2002	**COMSUBGRU 8**	**2,745**
01/10/2003	**COMSUBGRU 8**	**17,412**
02/14/2003	**Office of Secretary of Defense**	**368**
03/06/2003	**US Courts Detroit MI**	**56,952**
04/09/2003	**US Courts Memphis TN**	**94,580**

For Further Information, Contact:
Bob Hesser
President
HI Tech Services, Inc.
12262 Streamvale Circle
Herndon, VA 20170
Telephone (703) 318-8819

Statement of

Charles Henry
President/CEO of the National Veterans Business Development Corporation

Before the
Subcommittee on Benefits
Committee on Veterans Affairs
United States House of Representatives

With Respect To

***The Veterans Entrepreneurship Act of Act of 2003* (H.R. 1460), *the Veterans Federal Procurement Opportunity Act of 2003* (H.R. 1712), and *the Veterans Earn and Learn Act* (H.R. 1716)**

Washington, D.C.

April 30, 2003

Mr. Chairman, Ranking Member and Members of the Subcommittee, thank you for holding this hearing and for the opportunity to present our views on the following legislative proposals: *the Veterans Entrepreneurship Act of Act of 2003* (H.R. 1460), *the Veterans Federal Procurement Opportunity Act of 2003* (H.R. 1712), and *the Veterans Earn and Learn Act* (H.R. 1716). The National Veterans Business Development Corporation (the Corporation) supports the majority of the provisions in these bills. However, we do have concerns. I will address them now, in greater detail.

H.R. 1460 - *The Veterans Entrepreneurship Act of Act of 2003*

We strongly support the provisions of H.R. 1460 and see this as a major step forward in providing Service-Disabled Veterans an opportunity for self-employment through the Veterans Affairs Vocational Rehabilitation Program. To do so will be good for Service-Disabled Veterans and our Nation's economy. The skills, training and motivation these individuals have gained through their service to our Nation make them well suited to become successful business owners. In this way, they'll serve our Country, twice. We would, however, like to see Congress expand this initiative to all Veterans through changes to GI educational benefit bills or some other suitable vehicle. All

Veterans should have the opportunity to use their service related benefits to help advance their careers as independent business owners.

We support the concept of sole source or restricted competition procurements to Service-Disabled Veteran owned businesses. We believe this will help the dismal performance of Federal Agencies and prime contractors to identify and contract with reasonable, responsive and responsible Service-Disabled Veteran businesses. We also believe this provision should be extended to all qualified Veteran business owners as an entitlement and tribute to their self-less service to our Nation. We believe it would provide solid, tangible proof of the true value we put on the public service of our military members.

H.R. 1712 - *The Veterans Federal Procurement Opportunity Act of 2003*

We support H.R. 1712, in part. We have particular reservations concerning the portion on reauthorization of the National Veterans Business Development Corporation. The $1 million in funding in FY '05 and again in FY'06 is appreciated by the Corporation. Additional funding can greatly assist our programs to assist Veterans. We are creating local information and assistance centers, as required by PL 106-50 [Sec. 33(f)]. One million dollars will allow us to place community based veteran organizations in only ten U.S. cities, for one year. Alternatively, $1 million dollars will allow us to provide entrepreneurial training to only 475 of our nation's 24 million Veterans. We want to do much more, and while we are actively seeking private funds for these efforts, we request the Government consider funding half our efforts in these key programs until private sources are identified. We believe $6 million dollars for FY '04 and $6 million for FY'06 is necessary to minimally meet the intent of the Veteran Entrepreneurial and Small Business Development Act of 1999.

The proposed legislation also saddles the Corporation with new reporting procedures that are directed by Sec. 3(g)(1)(2)(3) and (4). On the surface these requirements may seem benign but they set a precedent that runs counter to the independence and entrepreneurial spirit intended by the law and expected of the Corporation. The Congress has created a unique and daring public-private venture with

the establishment of the Corporation. This experiment may well become the model for future congressional initiatives that combine worthwhile public-private efforts that provide necessary services to our taxpayers at great benefit to our Nation. The Corporation is not a federal agency. We agree that accountability must be maintained and that the successful business processes must be measurable. However, the process must also be reasonable and flexible and need not be dictated in great detail by public law. We currently provide the Congress and the President an Annual Report to ensure they are well informed on our accomplishments in providing Veterans, including Service Disabled Veterans with opportunities to create and expand their business ventures. We, of course, also stand ready to report on any specific programmatic funds appropriated.

Another portion of the legislation in Sec. 3 extends the Advisory Committee on Veterans' Business Affairs to October 1, 2009 instead of the original date of termination of October 1, 2004, at which time their duties transfer to the Corporation. The extension is requested presumably due to the delayed appointment of their membership as per Sec. 203(h) of P.L. 106-50. While I believe this Committee, properly formed and appointed, can initially be of value to the Administrator of the SBA, we believe its powers and responsibilities should revert to the Corporation on October 1, 2004, consistent with the current dictates of P.L. 106-50, Sec. 203(h). By waiting until October 1, 2009, it potentially inhibits the efforts of both the Corporation and the Advisory Committee by setting up two organizations with nearly identical missions. It also creates duplicate work by requiring two annual reports to Congress and the President on virtually the same issues. Extending this Committee for six years before transferring its responsibilities is an inordinate amount of time when the Corporation can provide more unity of effort if the Committee's responsibilities transferred on 1 October 2004 as Congress originally intended.

This legislative proposal also provides a set aside for Veterans and Service-Disabled Veterans. Contracting activity between the Veterans' community and Federal Government and prime contractors remains a significant problem. P.L. 106-50 was established with the hopes of providing greater business opportunities for Veterans, including Service-Disabled Veterans who are small business owners. However, the three

percent contracting goal set by Congress has not provided any significant contracting activity for Veterans. The Corporation supports making the three percent goal a set-aside to allow contracting officers to better reach qualified, responsible, responsive Veteran business owners.

H.R. 1716 - *The Veterans Earn and Learn Act*

We support the *The Veterans Earn and Learn Act* (H.R. 1716) and the potential it has to improve the job opportunities for service members as they leave the military. I personally benefited from this sort of program by using my Veteran educational benefits while in the Service and I advocate for any initiative that reduces educational, certification or licensure barriers for our transitioning service members.

In closing, again, I want to thank the Chair, Ranking Member and the entire Subcommittee for their concern for our Veterans and Service Disabled Veterans.

STATEMENT OF ANGELA B. STYLES

ADMINISTRATOR FOR FEDERAL PROCUREMENT POLICY

BEFORE THE

SUBCOMMITTEE ON BENEFITS

COMMITTEE ON VETERANS AFFAIRS

UNITED STATES HOUSE OF REPRESENTATIVES

APRIL 30, 2003

Chairman Brown and Members of the Subcommittee, I am pleased to be here today to discuss H.R. 1460, the Veterans Entrepreneurship Act of 2003, and H.R. 1712 the Veterans Federal Procurement Opportunity Act of 2003. I welcome the opportunity to collaborate with you on these very important issues. The bills contain a variety of provisions related to small business programs but today I would like to focus my comments on veterans in the federal procurement process.

Both bills would establish mechanisms for creating opportunities for participation by veterans in federal contracting. H.R. 1460 would authorize sole source awards to service-disabled veteran-owned small businesses up to $5 million for manufacturing contracts and $3 million for non-manufacturing contracts. The legislation would also establish a set-aside for competition limited to just these businesses. H.R. 1460 focuses on setting-aside contracts for small businesses owned and controlled by service-disabled veterans, whereas H.R. 1712 would be broad reaching in its effect on all federal small business procurement programs. For example, H.R. 1712 would increase the overall small business procurement goal from 23 percent to 28 percent and require every agency to have agency-specific goals at least equal to the cumulative, government-wide small business procurement goals prescribed in the Small Business Act. H.R. 1712 would also alter the manner in which achievements against these goals are measured and impose inflexible contracting restrictions on agencies if they don't meet any of these goals. We support the procurement provisions of H.R. 1460. We oppose H.R. 1712.

The federal government has done an abysmal job of providing federal contracting opportunities for our veterans. On February 5, 2003, I testified before the Committee on agency implementation of section 502 of Public Law 106-50, the Veterans Entrepreneurship and Small Business Development Act of 1999. That law sets a 3 percent government-wide goal for participation by small businesses owned and controlled by service-disabled veterans in federal contracting and subcontracting. As I testified then, the statistics from the Federal Procurement Data System reflected that agencies were not doing a good job of meeting veterans procurement goals.

As an the initial step to rectify this situation, I issued a memorandum to all agencies reminding them of their goals and asking them to focus their attention on this segment of the commercial market. To assist in locating veteran-owned small businesses, agencies were informed that the Department of Veterans Affairs is creating the VETBIZ Vendor Information Pages which will identify about five thousand veteran-owned businesses. Attached to my testimony is a copy of that memo. We hope this memo is an effective first step in solving the problem. I would also like to emphasize that this is just a first step.

Friday of last week, I talked to Frank Ramos, the Director of the Small and Disadvantaged Business Utilization Office of the Defense Department. We agreed to establish an interagency working group to address several issues that may be directly impacting veteran-owned small business participation in the federal procurement system. Although we have not yet identified members, we plan on addressing a wide-range of issues, including proper identification of veteran-owned small businesses already participating in the federal procurement system. There are a host of other issues this group can identify and address. This interagency group will work under the leadership of my office and the newly established Federal Acquisition Council. In the near term, we will be establishing short-term and long-term plans for the veteran-owned small business community and the small business community. On Monday of this week, I also addressed these issues with the newly established Small Business Procurement Advisory Council.

I believe we have the recognition and understanding from small business offices within agencies that these numbers must improve. I also believe that two ongoing initiatives will have a significant impact on contracting opportunities available for veteran-owned small business in the executive branch: contract bundling and competitive sourcing. We are increasing federal contracting opportunities for small businesses by eliminating unnecessary contract bundling.

Substantially fewer small businesses are receiving federal contracts, and as a result, the federal government is suffering from a smaller supplier base. To aggressively resolve this problem, the Administration has unveiled a strategy to address contract bundling. With successful implementation of this strategy, we will have reduced a significant barrier to entry and, in doing so, allowed veteran-owned and other small businesses to bring their innovation, creativity, and lower costs to the federal marketplace. We are also in the process of revising the rules governing competition for commercial activities between public and private sources. This would help small businesses which, on average, receive more than 60 percent of the awards made to private sector firms through the OMB Circular A-76 public-private competition process.

The contract bundling and competitive sourcing initiatives promote access to the federal marketplace through competition and provide the framework for delivery of better value for agencies and the taxpayer. I have encouraged restructuring of the current system to allow for greater participation for small and first-time contractors to the federal marketplace. In this context, the Administration strongly supports open competition among qualified firms in the awarding of government contracts. Open competition for government contracts under our free market system ensures that American taxpayers receive the best possible value at the lowest possible price.

Unfortunately, the statutes, judicial interpretations, and regulations have in the small business arena become so confusing and difficult for our procurement people that I am concerned about the ramifications of creating new statutory preference programs. Given the confusing state

of small business requirements, and the difficulty in reconciling each program, our contracting people have become overburdened. I sense an increasingly negative culture toward small business that could be exacerbated by additional statutory requirements. I am also concerned that the procurement preferences that would be created by H.R. 1460 might not achieve the long-term increase in contract awards to firms owned by service-disabled veterans that both the Committee and the Administration would like to see. Statutory changes could provide a quick short-term fix without consideration of long-term ramifications. However, recognizing the need to provide agencies with additional tools for contracting with service-disabled veteran-owned small businesses, we support section 4 of H.R. 1460.

I would also like to point out the extraordinary nature of this proposed preference program for service-disabled veteran-owned small businesses. It is only with extreme caution and reservation that this Administration would support the creation of a new procurement preference program. However, in recognition of the extraordinary sacrifice that service-disabled veterans have made for their country, we support the creation of this preference program. In every other conceivable instance, the Administration's preference will be to err towards open competition among qualified firms. Only through open competition using our free market system can we ensure that we are receiving the highest quality goods and services at the lowest price.

The addition of statutory tools must go hand-in-hand with significant implementation efforts. We need to encourage and train our contracting people to recognize the positive benefits and value of actively including small businesses and particularly veteran-owned small businesses in our procurement process. Often forgotten in the rush to fill agency needs are the small businesses that can provide many of our agency needs for goods and services. Often times, it is these small businesses alone that bring innovation, creativity and a new perspective to the federal marketplace. It is these businesses that often bring the best value solution to our federal agencies.

There is no question that this Administration is committed to ensuring that veterans are provided every opportunity to fully integrate themselves in their communities upon return from service, and I am personally committed to ensuring that we continue to focus agency performance on improving contracting opportunities for veterans. We must demonstrate to our service personnel that we support them in all that they do and appreciate the sacrifices they have made on our behalf. I look forward to our continued collaboration on veterans issues.

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

OFFICE OF FEDERAL
PROCUREMENT POLICY

M-03-11

April 29, 2003

MEMORANDUM FOR THE HEADS OF DEPARTMENTS AND AGENCIES

FROM: Angela B. Styles
Administrator

SUBJECT: Participation of Veterans in Federal Contracting

The purpose of this memorandum is to encourage agencies to focus contracting efforts on small businesses owned and operated by veterans, including service-disabled veterans. This Administration is committed to ensuring that veterans are provided every opportunity to fully integrate themselves in their communities upon return from service. We must demonstrate to our service personnel that we support them in all that they do, and that we fully appreciate the sacrifices they have made on our behalf. This will be an especially urgent tasking within the next couple of months.

Section 502 of Public Law 106-50, the Veterans Entrepreneurship and Small Business Development Act of 1999, sets a 3 percent government-wide goal for participation by small businesses owned and controlled by service-disabled veterans in federal contracting and subcontracting. The law is implemented through goaling letters issued to agencies by the Small Business Administration (SBA). Individual agency goals are calculated as the result of a negotiation between SBA and a procuring agency based on what is intended to realistically reflect the potential of small businesses to perform contracts and subcontracts of the agency.

A recent review of agency progress in meeting these negotiated goals reflects that we are not doing a very good job. A summary of each agency's progress for fiscal year 2001 and the first three quarters of fiscal year 2002 is attached. While low numbers are not surprising for the first year after a statutory goal is established, decreasing numbers indicate that we have issues that must be resolved. Although these goals may not be easy to accomplish, we must do better. To assist agencies in locating veteran-owned small businesses, the Department of Veterans Affairs is creating the VETBIZ Vendor Information Pages at www.vetbiz.gov.

This Administration is committed to providing small business opportunities in our federal procurement system, particularly opportunities for the very people that have fought and suffered for the principles behind our competitive enterprise system. We appreciate the work of agencies that have met their goals. We are asking each agency to take another look at ways to provide opportunities for small businesses owned and operated by veterans who are able and willing to supply quality goods and services at competitive prices. We must strive to meet the needs of our veterans today and tomorrow.

Attachment

PERCENTAGE OF PRIME CONTRACTS AWARDED TO SERVICE-DISABLED VETERAN-OWNED AND VETERAN-OWNED SMALL BUSINESSES

	FY 2001		FY 2002 (First 3 Quarters)	
AGENCY	Service-Disabled Veteran-Owned Small Businesses (%)	Veteran-Owned Small Businesses (%)	Service-Disabled Veteran-Owned Small Businesses (%)	Veteran-Owned Small Businesses (%)
Executive Office of the President	0	0.44	0.00	0.00
Department of Agriculture	0.1	0.26	0.19	0.60
Department of Commerce	0.09	0.04	0.02	0.27
Department of Defense	0.34	0.11	0.08	0.32
Department of Education	0.03	0.13	0.00	0.50
Department of Energy	0.01	0.06	0.00	0.50
Department of Health & Human Services	0.13	0.91	0.12	0.89
Department of Housing & Urban Development	0.11	0.22	0.18	0.11
Department of the Interior	0.03	0.64	0.16	1.05
Department of Justice	0.01	0.2	0.06	0.14
Department of Labor	0	0.49	0.00	0.57
Department of State	1.17	2.84	0.52	0.46
Department of Transportation	0.16	1.14	0.55	1.15
Department of the Treasury	0.44	0.85	0.59	1.01
Department of Veterans Affairs	0.22	2.1	0.51	1.96
Agency for International Development	0	0	0.00	0.00
American Battle Monuments Commission	0	0	0.00	0.00
Broadcasting Board of Governors	0	1.97	0.00	3.08
Commission on Civil Rights	0	0		
Commodity Futures Trading Commission	0	0	0.00	0.00
Consumer Product Safety Commission	5.06	1.4	7.64	0.07
Corp for National & Community Service	0	0		
Defense Nuclear Facilities Safety	0	0		
Environmental Protection Agency	0	0.05	0.00	0.04
Equal Employment Opportunity Commission	0.26	0	0.00	0.08
Federal Communications	0	0		
Federal Election Commission	0	0	0.00	0.00
Federal Emergency Management Agency	0	1.06	0.00	1.00
Federal Energy Regulatory Commission	0	0	0.00	0.00
Federal Maritime Commission	0	0	0.00	0.00
Federal Mediation and Conciliation Service	0	0	0.00	0.00

PERCENTAGE OF PRIME CONTRACTS AWARDED TO SERVICE-DISABLED VETERAN-OWNED AND VETERAN-OWNED SMALL BUSINESSES

	FY 2001		FY 2002 (First 3 Quarters)	
AGENCY	**Service-Disabled Veteran-Owned Small Businesses (%)**	**Veteran-Owned Small Businesses (%)**	**Service-Disabled Veteran-Owned Small Businesses (%)**	**Veteran-Owned Small Businesses (%)**
Federal Mine Safety & Health Review	0	0		
Federal Trade Commission	0.8	5.34	0.12	1.24
General Services Administration	0.05	0.51	0.06	0.60
International Trade Commission	0	1.41	0.00	0.44
J.F. Kennedy Center for the Performing Arts	3.64	0.16	0.00	0.21
National Aeronautics and Space Administration	0	0.14	0.12	0.09
National Archives and Records Administration	0	0.26	0.00	0.00
National Endowment for the Arts	0	0	24.43	0.46
National Endowment for the Humanities	0	0	0.00	0.00
National Gallery of Art	0	0	0.00	0.00
National Labor Relations Board	0	0	0.00	0.00
National Mediation Board	0	0	0.00	0.00
National Science Foundation	0	0.04	0.01	0.01
National Transportation Safety Board	0	0	0.00	0.00
Nuclear Regulatory Commission	0	0.08	0.05	0.51
Occupational Safety and Health Rev	0	0		
Office of Personnel Management	0.02	0.01	0.00	0.03
Peace Corps	2.36	0		
Railroad Retirement Board	4.13	4.77	6.43	3.17
Securities and Exchange Commission	0	0	0.00	0.00
Selective Service System	0.91	8.79	0.00	0.86
Small Business Administration	0.1	0.74	0.00	1.02
Smithsonian Institution	0	0	0.00	0.00
Social Security Administration	0.23	2.13	0.45	0.71
United States Holocaust Memorial Museum	0	0		
United States Soldiers and Airmen's Home	0	3.8	0.00	0.00
United States Trade and Development Agency	0	0	0.00	0.00

SUBCONTRACTS (WHOLE DOLLARS) AWARDED TO SERVICE-DISABLED VETERAN-OWNED AND VETERAN-OWNED SMALL BUSINESSES IN FY 2001

REPORTING AGENCY	Veteran-* Owned Small Businesses	Service-Disabled Veteran-Owned Small Businesses
Executive Office of the President	0	0
Agency for International Development	0	0
Agriculture, Department of	2,969,814	559,329
Interior, Department of the	1,117,865	428,355
Justice, Department of	6,934,516	87,159
Labor, Department of	924,218	8,415
State, Department of	0	0
Treasury, Department of the	2,209,629	122,648
Office of Personnel Management	0	0
Social Security Administration	1,106	11
Nuclear Regulatory Commission	162,443	162,443
Veterans Affairs, Department of	17,990,728	526,708
General Services Administration	29,789,589	2,225,443
Federal Emergency Management Agency	28,207	0
Environmental Protection Agency	1,367,374	895,988
Transportation, Department of	3,221,736	795,331
Health and Human Services, Department of	560,127	845
National Aeronautics and Space Administration	34,239,859	3,783,826
Housing and Urban Development, Department of	504,493	171,533
National Archives and Records Administration	10,317	0
Energy, Department of	7,827,912	78,202
Federal Energy Regulatory Commission	0	0
Education, Department of	0	0
Broadcasting Board of Governors	0	0
Defense, Department of	497,822,430	64,652,483
Grand Totals	**607,682,363**	**74,652,719**

*For the purposes of this chart only — veteran-owned dollars include service-disabled and other veteran-owned small businesses.

STATEMENT OF

BLAKE ORTNER, ASSOCIATE LEGISLATIVE DIRECTOR

PARALYZED VETERANS OF AMERICA

BEFORE THE

HOUSE COMMITTEE ON VETERANS' AFFAIRS

SUBCOMMITTEE ON BENEFITS

ON H.R. 1460, THE VETERANS ENTREPRENEURSHIP ACT OF 2003,

H.R. 1712 , THE VETERANS FEDERAL PROCUREMENT OPPORTUNITY ACT

OF 2003, AND H.R. 1716, THE VETERANS EARN AND LEARN ACT

APRIL 30, 2003

Chairman Brown, Ranking Member Michaud, members of the Subcommittee, Paralyzed Veterans of America (PVA) is pleased to present our views on the three pieces of legislation before you today, H.R. 1460, the "Veterans Entrepreneurship Act of 2003", H.R. 1712 , the "Veterans Federal Procurement Opportunity Act of 2003", and H.R. 1716, the "Veterans Earn and Learn Act." PVA thanks you, Mr. Chairman for addressing the serious challenges facing veteran entrepreneurs and those seeking to pursue additional education and training.

PVA is the only national veterans' service organization, chartered by Congress to represent and advocate on behalf of our members and all Americans with spinal cord injury or disease. All of PVA's members, in each of the fifty states and Puerto

Rico, are veterans with spinal cord injury or dysfunction. These veterans suffer from catastrophic injury and disease and face challenges every day in their quest to survive and function fully in society.

H.R. 1460, the Veterans Entrepreneurship Act of 2003

Paralyzed Veterans of America thanks Mr. Renzi for introducing H.R. 1460. Entrepreneurship training is an incredibly valuable process for veterans, especially disabled veterans, as they reenter civilian society. This is especially true for those with catastrophic disabilities who often have difficulty and face multiple challenges in the normal workplace. Though the Americans With Disabilities Act lowered many barriers and opened doors to those with disabilities, many of these barriers still remain. The opportunity to gain training that will make our disabled veterans self-employable will truly help individuals that have already proven that they have the drive, determination and willingness to do more and succeed during military service. Allowing these same individuals to use the many talents developed during military service through entrepreneurship training will bring benefits to themselves and to America through increased individual and small business taxes. It is a win for everyone.

PVA is also glad to see the legislation pursue non-traditional sources of training programs such as the National Veterans Business Development Corporation while at the same time maintaining sufficient definitions to preclude entities not able to deliver on their program promises.

The Veterans Entrepreneurship Act of 2003 also provides for procurement improvements that will allow new small businesses owned by service-disabled veterans to gain access to government contracts. Perhaps the most difficult time for a small business is at its beginning. Allowing sole source contracts to service-disabled veteran-owned businesses will give them the jump start needed to develop their business. This opportunity is not a hand-out and is only available to those businesses that can successfully provide the contracted services and

provide them at a fair and reasonable price. But these provisions will only be successful if contracting officers are encouraged to provide contracts to service-disabled veteran-owned businesses at the goal provided for in P.L. 106-50, the "Veterans Entrepreneurship and Small Business Development Act of 1999." To date the performance of federal agencies has been dismal. We ask the support of this subcommittee to provide encouragement through legislation that these contracting officers need to support our veterans. The provisions provided by H.R. 1712, the Veterans Federal Procurement Opportunity Act should help.

H.R. 1712 , the Veterans Federal Procurement Opportunity Act of 2003

Mr. Chairman, we would like to offer our special thanks to House Veterans Affairs Committee Ranking Member Evans for introducing H.R. 1712, the Veterans Federal Procurement Opportunity Act. As I have stated above, the introduction of legislation to support our disabled veterans business owners is welcomed, but if there is no requirement to provide contracts to these businesses, then it is simply an empty gesture, albeit with good intentions. H.R. 1712 puts some teeth behind the rhetoric. PVA fully supports this legislation and would like to highlight some key provisions and concerns.

PVA particularly welcomes the modification of the Small Business Act (15 U.S.C. 631 et seq.) identified in Section 2 of the legislation which excludes amounts received for a veterans service-connected disability when determining whether a veteran is economically disadvantaged.

PVA also welcomes Section 3, the Reauthorization of Programs of the National Veterans Business Development Corporation. We are encouraged by the continuing support for the veterans corporation by the subcommittee. However, in appropriating funds for the corporation, we would ask that the appropriation for FY 2005 and 2006 be earmarked for programs developed by the corporation. This funding could especially support the Community Based Outreach Programs and the Educational Training Programs. Earmarking the funding would directly benefit

the programs provided by the corporation and encourage the corporation's own self-sufficiency as envisioned by P.L. 106-50. PVA fully supports the Veterans Corporation, but also looks forward to it becoming the self-sustaining private corporation envisioned in Section 202 of P.L. 106-50. This would benefit the corporation as well as the veterans they endeavor to assist. PVA also would ask the subcommittee to carefully consider the reporting criteria placed on the corporation to insure that resources that should be used to help veteran business owners do not need to be directed into administrative overhead. We welcome the oversight of the corporation, but in the rapidly changing business environment, goals or plans for 5 years in the future may serve only as general guides that can lose their meaning shortly after being created.

PVA greatly welcomes the requirements for specific procurement goals for veterans businesses. In addition, the prohibition against "double counting" is a welcome provision. Though the double counting may benefit some classes of veterans and provide an easy method for a contracting officer to meet his agencies goals, it is deceptive and does not give a clear picture of procurement for an agency. In addition, PVA applauds language requiring a restriction on the use of funds for agencies that do not meet their goal. The only way to force agencies to meet their obligations to veterans is with an enforcement mechanism. The goals placed on agencies have been failures. Procurement officers have provided numerous excuses and justifications for their lack of responsiveness. Unless a stronger requirement is mandated, these contracting officers will continue to ignore the intent of Congress. PVA welcomes the inclusion of penalties for material breach of the legislation for those who would attempt to violate this act.

H.R. 1716, the Veterans Earn and Learn Act

PVA would like to thank House Veterans Affairs Committee Chairman Smith for his forward thinking legislation. The idea of a lump-sum payment of benefits for those who complete training programs early only makes good sense. The ability to encourage veterans to move on to gainful employment benefits both the veteran

and society. The faster the veteran can begin to earn an income and pay taxes, the faster that veteran's self-esteem and confidence will be increased. In addition, the lump-sum payment will provide funds to become established if the veteran needs to relocate to find higher paying jobs in his new discipline. PVA also welcomes the recommendation for the Secretary to increase the use of apprenticeships. Though we do not want to remove the opportunities for those who wish to pursue educational programs, for many veterans this may not be the best pursuit for them. Apprenticeship programs can more quickly return veterans to the workforce, often at professional jobs providing a higher initial income and living wage. This is particularly important with today's veterans who are often older and have families.

PVA also applauds provisions for the pilot program identified in Section 6 to provide on-job benefits to train Department of Veterans Affairs' claims adjudicators. Increasing the limit for on-the-job training to 3 years for claims adjudicators may allow the Secretary to increase the number of adjudicators and help reduce the unacceptable backlog of claims currently facing VA.

PVA also welcomes provisions of Section 7 to share information among the Departments of Veterans Affairs, Defense and Labor with respect to on-job training. It is illogical that veterans departing military service are unable to immediately pursue employment in fields which they trained during military service. PVA understands the needs for states and private organizations to regulate professional activities in their jurisdictions. But it simply doesn't make sense that veterans trained as professionals must be retrained to meet bureaucratic paperwork requirements. We hope that the Departments will work closely with the Professional Certification Advisory Board to insure that our veterans face as few impediments to gainful employment as possible to speed their reintegration into the civilian workforce.

Veterans face many challenges as they leave military service. They have lost time to their peers who chose not to serve America. We must do whatever we can to allow them to catch up, whether it is in training, apprenticeship programs or small business opportunities. Those with disabilities face even greater challenges in both employment and often in daily living. Congress must do all they can to provide for these veterans who have sacrificed for this nation. With the current threat of budget cuts aimed at veterans, PVA hopes that the Subcommittee will convince your colleagues that veterans have already made sacrifices and should not subsequently have their benefits sacrificed for other programs or priorities. We thank those members of Congress who are supporting legislation providing methods and techniques to open new avenues for veterans and disabled veterans' employment and business opportunities. PVA knows that there will again be obstacles placed in the way of this legislation. PVA fully supports you and will provide whatever support to help pass these valuable benefits for our nation's veterans and our citizens with disabilities.

Mr. Chairman, I thank you and the Subcommittee for its efforts to provide for our veterans. I would be happy to answer any questions that you might have.

Information Required by Rule XI 2(g)(4) of the House of Representatives

Pursuant to Rule XI 2(g)(4) of the House of Representatives, the following information is provided regarding federal grants and contracts.

Fiscal Year 2002

Court of Appeals for Veterans Claims, administered by the Legal Services Corporation—National Veterans Legal Services Program—$179,000 (estimated).

Fiscal Year 2001

Court of Appeals for Veterans Claims, administered by the Legal Services Corporation—National Veterans Legal Services Program—$242,000.

Fiscal Year 2000

General Services Administration—Preparation and presentation of seminars regarding implementation of the Americans With Disabilities Act, 42 U.S.C. §12101, and requirements of the Uniform Federal Accessibility Standards—$30,000.

Federal Aviation Administration—Accessibility consultation--$12,500.

Court of Appeals for Veterans Claims, administered by the Legal Services Corporation—National Veterans Legal Services Program—$200,000.

STATEMENT OF
BRIAN E. LAWRENCE
ASSISTANT NATIONAL LEGISLATIVE DIRECTOR
OF THE
DISABLED AMERICAN VETERANS
BEFORE THE
COMMITTEE ON VETERANS' AFFAIRS
SUBCOMMITTEE ON BENEFITS
UNITED STATES HOUSE OF REPRESENTATIVES
APRIL 30, 2003

Mr. Chairman and Members of the Subcommittee:

I am pleased to present the views of the Disabled American Veterans (DAV) on the three bills under consideration today.

The DAV appreciates the Subcommittee's bipartisan efforts to expand entrepreneurial opportunities for disabled veterans. The 1.2 million members of our organization are veterans who became disabled by injuries or illness during military service to our nation. Disabled veterans seeking a viable livelihood face far greater challenges and a higher unemployment rate than nearly any other category of citizens in the United States.

Despite federally mandated provisions to assist disabled veterans in overcoming barriers to gainful employment, many employers remain unable to accommodate some of the most severely disabled for a variety of reasons. For example, some veterans require frequent medical treatments that prohibit them from maintaining regular working hours. These veterans often choose to operate their own businesses where they need not conform to the demands of a set schedule. Many other disabled veterans choose entrepreneurship as a form of livelihood as a matter of preference.

It is our duty as a grateful nation to ensure that those who have sacrificed so dearly in the name of freedom have the opportunity and support needed for self-sufficiency. In addition to improving the lives of disabled veterans and their families, we are fortifying our Gross Domestic Product and economic vitality. Small businesses create millions of new jobs and generate billions of dollars annually.

Therefore, the return on investment into small businesses owned and operated by disabled veterans makes these bills beneficial on a dual level. The secondary benefit is that they provide an economic stimulus. The primary and moral reasons are that they help those disabled during military service, to pursue a life of happiness and productivity. Said another way, enactment of these bills would help disabled veterans share in the American dream they fought to defend.

H.R. 1460

Congressman Rick Renzi, along with Chairman Smith, Ranking Member Evans, Mr. Brown, Mr. Manzullo, Mr. Beauprez, and Mr. Michaud as original cosponsors, introduced H.R. 1460, the Veterans Entrepreneurship Act of 2003.

On February 5 of this year, the DAV submitted testimony to the Full Committee on the state of veterans' employment. Therein, we stated that we would welcome and support legislation allowing a service-disabled veteran enrolled in a vocational rehabilitation program to pursue self-employment goals and receive assistance from the Department of Veterans Affairs (VA) in establishing a small business, without having to establish that he or she is unemployable in the regular job market. Additionally, we stated that veterans should be able to use GI Bill education benefits to pay for non-degree business education programs.

We are very pleased that this bill seeks to establish such provisions. This progressive bill would permit the use of VA education benefits to enroll in non-degree, non-credit business courses offered by a Small Business Development Center and the National Veterans Business Development Corporation.

The bill would also allow disabled veterans to use VA vocational rehabilitation benefits to pursue self-employment as an occupational goal, and it would not require such veterans to first illustrate that they are unemployable in other occupations prior to enrolling in entrepreneurship courses through vocational rehabilitation.

The bill would additionally authorize federal agency contracting officers to create sole source contracts for disabled veteran-owned businesses, up to $5 million for manufacturing awards and $3 million for non-manufacturing awards. We believe giving contracting officers this discretionary authority will be beneficial to both disabled veterans and Federal agencies.

Sole source contracts can be awarded to firms owned by disabled veterans without some of the preliminary measures required for contracts that are not authorized to be sole source. Contracting officers could more efficiently accomplish their mission by seeking to do business with disabled veteran run operations. As a result, disabled veterans would likely see an increased number of contracts.

For newly established businesses, one contract can be the difference between success and failure. Disabled veterans who successfully establish their own businesses are able to contribute to Federal revenue by paying taxes; disabled veterans who have no options other than to draw VA Individual Unemployability compensation cannot contribute to revenue, and Federal spending is increased. From an economic standpoint, it is clearly advantageous to our society to provide disabled veterans sufficient opportunity to become self-employed.

More importantly, however, this bill will help disabled veterans lead productive, rewarding lives. Despite the bill's attractiveness from an economic standpoint, the true meaning and impetus for this legislation comes from our gratitude for the sacrifices made by disabled veterans and their families.

The DAV appreciates and supports this bill.

H.R. 1712

Ranking Member Evans, along with Mr. Filner, Mr. Michaud, and Ms. Hooley, as original cosponsors, introduced H.R. 1712, the Veterans Federal Procurement Act of 2003. Again, the DAV is quite pleased to see provisions within this bill that are reflective of our testimony on the state of veterans' employment.

In our testimony, we noted that the procurement goal established by Public Law 106-50, the Veterans Entrepreneurship and Small Business Development Act Of 1999, had not been met.

This bill re-establishes that goal, but also provides incentives and flexibility for Federal agencies to meet the objective that 3 percent of Federal contracts will be awarded to small businesses that are owned and operated by service-disabled veterans. Among the incentives are avoidance of a penalty to be assessed to prime contractors for failing to meet goals, and a restriction on the use of funds by an agency in the subsequent year after failing to meet its small business subcontracting goals.

Federal agencies would also have greater flexibility to meet procurement goals with authorization of set-aside authority. Certain contracts could be reserved for the exclusive purpose of awarding contracts to disabled veteran owned businesses. Additionally, such businesses would be re-defined by this bill to mean any firm owned by a veteran with a disability rated at 10 percent or more. Currently, the definition of a disabled veteran owned business is one that is owned and operated by a veteran with a disability rated at 20 percent or more. The DAV concurs with this amendment.

This bill would expand entrepreneurial opportunities for disabled veterans without reducing procurement opportunities of other special groups. This would be accomplished by increasing the overall Government-wide goal for participation by small business concerns from 23 to 28 percent.

Further adherence to the intent of Public Law 106-50 would be created by this bill through the elimination of prime contractors' ability to count a small business in more than one category when reporting efforts to comply with preference requirements. For instance, a Federal agency contracting with a business owned by a female disabled veteran should not be able to indicate that it has contracted with a female owned business, and then in another procurement category, count the same contract again as a disabled veteran owned account. Such reporting procedures, referred to in lay terms as "double counting", are misleading. The DAV commends the effort to eliminate this practice.

The DAV commends the efforts of the Subcommittee to form greater compliance with the procurement goal created by Public Law 106-50. Alone, a goal is little more than a noble

gesture. With proper incentives in place, agencies will more likely strive to reach the goal, and the initial intent of increasing the number of contracts to veteran-owned firms is more likely to be fulfilled.

H.R. 1712 would extend funding authorization for the National Veterans Business Development (Vets Corps) Corporation by $1 million annually in fiscal years (FY) 2005 and 2006 and extends authorization for the Advisory Committee on Veterans Business Affairs through September 2009. The DAV commends the recognition and support for the important role the Vets Corps fulfills in helping veterans become self-employed. However, we recommend that any additional funds authorized for FY05 and FY06 be earmarked specifically for direct service programs to assist veterans in establishing their own business.

H.R. 1712 would establish a development program for disabled veterans that is similar to the program established for eligible 8(a) participants under sections 637 (a) and 636 (j) of 15 U.S.C., to assist business owners who are socially and economically disadvantaged. This bill allows the presumption that disabled veterans are inherently socially impaired, and therefore, must only demonstrate economical impairment to qualify for this program. Disabled veterans' income from VA compensation or military retirement pay would not be considered in determining whether such veterans are economically disadvantaged.

The DAV fully supports this bill.

H.R. 1716

Chairman Smith, along with Ranking Member Evans, Mr. Brown, and Mr. Michaud as original cosponsors, introduced H.R. 1716, the Veterans Earn and Learn Act.

As with H.R. 1460 and H.R. 1712, this legislation illustrates that the Subcommittee and the Full Committee are receptive and responsive to the advocacy of the DAV and other veterans' service organizations. The Veterans Earn and Learn Act contains provisions reflective of suggestions made in our testimony on the state of veterans' employment, and it contains further provisions reflective of the progressive thinking and research that went into improving VA educational assistance programs for apprenticeship or on-the-job training (OJT). Certainly, this bill will benefit many members of the DAV.

H.R. 1716 defines the purposes for VA's OJT and apprenticeship programs. These purposes include:

- helping employers hire and retain skilled workers
- establishing a link between military and civilian training for purposes of occupational licensing and credentialing
- developing a more highly educated and productive workforce

H.R. 1716 would modify benefit entitlements computation to help veterans conserve entitlement while participating in OJT or apprenticeship programs, leaving remaining entitlement

available for further educational pursuits. It would also establish an incentive, consisting of a lump sum payment of any remaining entitlement, for participants who finish their apprenticeship training early.

This bill would increase the monthly payment for trainees who simultaneously pursue apprenticeships and related post-secondary classroom education training. Currently, the amount VA pays for simultaneous training cannot exceed the full-time classroom rate, which is $900 per month.

H.R. 1716 would require the VA to establish a pilot program to furnish OJT benefits to claims adjudicators training in disability compensation, dependency and indemnity compensation, and pension programs. This measure would be dually beneficial to veterans. It would provide career- seeking veterans an established path to Federal employment, and it would increase the number of VA employees who are veterans. Having spent over 8 years as a DAV National Service Officer, it is my observation that most veterans would prefer that their claims for disability compensation be handled and decided by people who have served in the military, and who are familiar with the hazardous conditions and circumstances inherent to many military occupations. The VA would also benefit from this provision as it would increase VA's ability to recruit and retain former servicemembers who have established that they are dependable and patriotic.

This bill would also help coordinate information among VA and the Departments of Defense and Labor, in an effort to accord credit to veterans with military job skills that are transferable to civilian occupations. Such credit could be used in licensing or credentialing procedures necessary in the pursuit of related civilian careers.

Summary

On behalf of the 1.2 million members of the DAV, I thank you for the opportunity to present our views on these commendable bills. The Subcommittee's efforts to improve VA benefits illustrate to our nation's disabled veterans that their dedicated service and sacrifices are not forgotten. Clearly, the DAV's mission to improve the lives of disabled veterans is shared by the Subcommittee. We appreciate your efforts and look forward to working together on future issues.

DISCLOSURE OF FEDERAL GRANTS OR CONTRACTS

The Disabled American Veterans (DAV) does not currently receive any money from any federal grant or contract.

During fiscal year (FY) 1995, DAV received $55,252.56 from Court of Veterans Appeals appropriated funds provided to the Legal Service Corporation for services provided by DAV to the Veterans Consortium Pro Bono Program. In FY 1996, DAV received $8,448.12 for services provided to the Consortium. Since June 1996, DAV has provided its services to the Consortium at no cost to the Consortium.

National Service and Legislative Headquarters • 807 Maine Avenue, S.W. • Washington, D.C. 20024-2410 • Phone (202) 554-3501 • Fax (202) 554-3581

STATEMENT OF
PETER S. GAYTAN, PRINCIPAL DEPUTY DIRECTOR
VETERANS AFFAIRS AND REHABILITATION COMMISSION
BEFORE THE
SUBCOMMITTEE ON BENEFITS
COMMITTEE ON VETERANS' AFFAIRS
UNITED STATES HOUSE OF REPRESENTATIVES
ON
H.R. 1460, THE VETERANS ENTREPRENEURSHIP ACT OF 2003; H.R. 1712, THE VETERANS FEDERAL PROCUREMENT OPPORTUNITY ACT OF 2003 AND H.R. 1716, THE VETERAN'S LEARN AND EARN ACT.

APRIL 30, 2003

Mr. Chairman and Members of the Subcommittee:

Thank you for the opportunity to present The American Legion's views on H.R. 1460, the Veterans Entrepreneurship Act of 2003; H.R. 1712, the Veterans Federal Procurement Opportunity Act of 2003 and H.R. 1716, the Veteran's Learn and Earn Act. We commend the subcommittee for holding a hearing to discuss these important issues.

Small business is the backbone of the American economy and has been one of the driving forces behind past economic growth. It will continue to be a major factor as we progress into the new millennium. According to the Small Business Administration (SBA), small business represents 99 percent of all businesses, and employs over half of the American work force, creating two-thirds of the new jobs in this country. The American Legion recognizes the benefits of American entrepreneurship, not only for the overall American economy but also for the transitioning service-member seeking to develop their own business.

H.R. 1460 "The Veterans Entrepreneurship Act of 2003"

H.R. 1460 allows veterans to use Department of Veterans Affairs (VA) educational benefits to enroll in a non-degree, non-credit business course offered by a Small Business Development Center (SBDC) and the National Veterans Small Business Development Corporation. In addition, it clarifies that disabled veterans enrolled in school under a VA vocational rehabilitation program may establish self-employment in a small business enterprise as a vocational goal and would give Federal agency contracting officers the discretionary authority to create sole source contracts for disabled veteran-owned businesses up to $5 million for manufacturing awards and $3 million for non-manufacturing awards.

Section 2. Authorization for State Approving Agencies to Approve Certain Entrepreneurship Courses

This section seeks to allow State approving agencies to recognize entrepreneurship courses by qualified entrepreneurship course providers as eligible under the definition of program of education. Entrepreneurship courses are non-credit, non-degree courses in business that enable

or assist veterans to start or enhance a small business. It is unfair to limit earned educational benefits to veterans who may not be seeking a traditional secondary education. The American Legion fully supports allowing qualified veterans to use their earned educational benefits when seeking business education through recognized entrepreneurship courses.

Section 3. Establishment of Self-Employment as a Vocational Goal for Veterans Receiving Vocational Rehabilitation

This section would establish self-employment as a vocational goal for veterans enrolled in vocational rehabilitation to establish self-employment as a vocational goal. In June 1999, The American Legion testified before this Subcommittee that 30 percent of small businesses are veteran-owned and that, unlike other SBA constituency groups, veterans have earned the right to quality entrepreneurship services because of their sacrifices and service to the nation. We reaffirm this position today and fully support this provision.

Section 4. Procurement Program for Small Business Concerns Owned and Controlled by Service-Disabled Veterans

This section would allow government contracting officers to award sole source contracts to qualified service-connected disabled veterans of up to $5 million for manufacturing contracts and $3 million for other contracts. Contracting officers would further be given discretionary authority to restrict competition, by limiting the bidder's list to firms owned or controlled by qualified service-connected disabled veterans. The American Legion supports this initiative. More than any other group, those veterans who have sacrificed their health and well being in service to the nation deserve the opportunity to successfully transition to the civilian workforce.

H.R. 1712 "The Veterans Federal Procurement Opportunity Act of 2003"

H.R. 1712 amends the Small Business Act to establish a development program for small business concerns owned and controlled by qualified service-connected disabled veterans, to reauthorize the programs of the National Veterans Business Development Corporation, and to establish a government-wide procurement goal for small business concerns owned and controlled by veterans.

Section 2. Development Program for Small Business Concerns Owned and Controlled by Qualified Service-Disabled Veterans

This section amends 15 U.S.C. § 631 to establish a development program for small businesses owned and controlled by qualified service-connected disabled veterans.

According to the SBA's most recent report to Congress (issued February 2003), of 495,680 total clients trained in FY2001 only 32,561 or 6.6 percent were veterans. The American Legion reaffirms support for the Small Business Administration's Office of Veterans Business Development. Too often service-connected disabled veterans, who own and/or are considering starting a small business, are unaware of the programs offered through the Small Business Administration (SBA) that will assist them in their endeavors.

Mr. Joseph B. Carr, Vietnam veteran, Purple Heart recipient and small business owner, in Norfolk Va., never took advantage of the opportunities afforded him through SBA as a combat

injured service-connected disabled veteran. Unaware of the veterans specific programs through the SBA, Mr. Carr acquired a conventional bank loan to open his business and in 1999 sought an additional bank loan to expand his business. Injured in combat during the Vietnam War, Mr. Carr is qualified to seek small business loans and expansion loans through the SBA. However, poor coordination of services and a lack of outreach prevented this service-connected disabled veteran from utilizing a much needed and well-deserved benefit. The need to improve oversight of concerns and outreach to service-connected disabled veteran business owners is paramount. Creating a development program for small business concerns owned and controlled by service-disabled veterans would help to ensure that veterans, like Mr. Carr who have sacrificed to ensure the freedoms and liberties of this great country, do indeed benefit from the small business opportunities available to them through the SBA. The American Legion fully supports Section 2 of H.R. 1712.

Section 3. Reauthorization of Programs of the National Veterans Business Development Corporation and The Advisory Committee on Veterans Affairs

This section reauthorizes programs of The Veterans Corporation, formerly the National Veterans Business Development Corporation (NVBDC). The American Legion notes that the authorization is $2 million for each of FY 2003 and FY 2004 and $1 million for FY 2005 and FY 2006. NVBDC was established by P.L. 106-50 with an initial authorization of $2 million in the first year and $4 million in the second, third and fourth years, dropping back to $2 million in the fifth and final year. After the fifth year, the Corporation was to have been self-funded from private donations and no longer eligible for Federal funds. The delay in establishing the Corporation has made necessary the need for additional funding as proposed in Section 3 of H.R. 1712. The American Legion supports funding proposals in Section 3. As well as, the additional mandates for more detailed reporting requirements and the development of new 5 year strategic and business plans. The American Legion fully supports The Veterans Corporation.

Section 4. Establishment of Government-wide Procurement Goal for Small Business Concerns Owned and Controlled By Veterans; Authorization of Restricted Competition to Achieve Goals

This section of H.R. 1712 adds qualified veterans and qualified service-connected disabled veterans to the list of specified small business categories for a certain percentage of Federal procurement contracts: For qualified (nonservice-connected disabled) veterans, the goal is 3 percent of government-wide prime contract procurement; qualified service-connected disabled veterans (service connected at 10 percent or higher) the set aside is 3 percent of all government prime contracts and applicable sub-contracts. Public Law 106-50, "*The Veterans Entrepreneurship and Small Business Development Act of 1999*" included veteran small businesses within Federal contracting and subcontracting goals for small business owners and within goals for the participation of small businesses in Federal procurement contracts. It requires the head of each Federal agency to establish agency goals for the participation, by small businesses owned and controlled by service-connected disabled veterans, in that agency's procurement contracts. Agency compliance with P.L. 106-50 has been minimal and H.R. 1712 would codify the 3 percent set aside for these two categories and provide consequences for agencies not meeting these goals. The American Legion is disappointed with the lack of compliance with the 3 percent requirement mandated in P.L. 106-50.

Statistics from the Federal Procurement Data System (FPDS) show that during FY 2001 service-connected disabled veteran-owned small businesses were awarded 9053 contract actions for a total of $554,554,000; this represents approximately .24 percent of the total dollars awarded by Federal agencies during that period. During FY 2001, service-connected disabled veteran-owned small businesses received $74,652,719 in subcontracts. For the first three quarters of FY 2002, FPDS reports that service-connected disabled veteran-owned small businesses were awarded 2,735 contract actions for a total of $143,611,000; this represents approximately .10 percent of the total dollars awarded by Federal agencies during that period. With regard to other veteran-owned small businesses, FPDS reports that in FY 2001, these small businesses were awarded 79,419 contract actions for a total of $564,463,000; this represents approximately .244 percent of the total dollars awarded by Federal agencies during that period. During the same period, veteran-owned small businesses received $533,029,664 in subcontracts. For the first three quarters of FY 2002, veteran-owned small businesses were awarded 27,562 contract actions for a total of $526,055,000; this represents approximately .366 percent of the total dollars awarded during that period. While The American Legion is encouraged by what appears to be a significant increase from 2001 to 2002 for veteran-owned small businesses, these numbers fall far short of the "set asides" enjoyed by other specified small business categories. These categories include businesses in historically underutilized business zones (HUBZone), women-owned businesses and businesses owned by socioeconomically disadvantaged groups.

The American Legion encourages Congress to require a reasonable "set asides" of Federal procurements and contracts for businesses owned and operated by veterans. We are pleased to see this proposed legislation adding veterans, especially service-connected disabled to the list of specified small business categories receiving 3 percent set asides. The American Legion fully supports Section 4 of H.R. 1712 and suggests granting the highest priority to veteran-owned businesses adversely impacted by the Department of Defense (DoD) Base Closure and Realignment Commission (BRAC) recommendations.

H.R. 1716 "The Veteran's Earn and Learn Act"

H.R. 1716 seeks to approve VA educational assistance programs for apprenticeship or other on-job training.

Section 2. Modification of Entitlement Charges for Certain On-Job Training Programs
This section of H.R. 1716 amends 38 U.S.C. § 3687 to modify the formula used to charge a veteran's entitlement to training and educational assistance for certain on-the-job training (OJT) programs. This provision recalculates the remaining OJT assistance entitlement of an eligible veteran or other eligible person by a percentage of a month derived from the ratio of the total monetary entitlement for training assistance to the total monetary entitlement for educational assistance. This has the effect of reducing the disparity in entitlement between veterans who choose to pursue a trade or vocation and those who choose the path to a college degree. The American Legion fully supports this initiative to make the disbursement of educational benefits fair for all veterans regardless of the type of secondary education pursued.

Section 3. Incentive Payment for Early Completion of Apprenticeship Training
This section would allow veterans, who successfully complete an apprenticeship or OJT program ahead of schedule, to receive from VA, as a lump sum benefit, the remainder of the benefit he or she would have received had the entire time been required. Also, the amount of monthly benefit individuals required to attend classroom instructions receive as part of an apprenticeship or OJT program would be increased. These two changes are applied to the four VA educational benefits programs:

- The Montgomery GI Bill.
- The Selected Reserve Montgomery GI Bill
- Post-Vietnam Era Veterans Educational Assistance
- Veterans Educational Assistance and Survivors and Dependents Educational Assistance

The American Legion supports the development of an outreach program to veterans and employers to develop on-the-job training (OJT) programs for eligible veterans. The American Legion supports the development of joint projects to enhance OJT opportunities for eligible veterans through VA educational programs.

Section 4. Increase in Benefit for Individuals Pursuing Apprenticeship or On-Job Training and Related Postsecondary Classroom Education Training
This section increases the monthly VA benefit for trainees who simultaneously pursue apprenticeships or on-job training and related post-secondary classroom education training. It is important to ensure veterans enrolled in OJT are provided adequate monthly benefits to allow them to pursue an alternative business education. The American Legion supports increasing the benefit for veterans pursuing apprenticeship or OJT and related classroom education.

Section 5. Authority for Competency-Based Apprenticeship Programs
This section codifies and strengthens VA authority to pay benefits for competency-based apprenticeships. The traditional apprenticeship OJT is based on a specific period of time, commonly known as time based programs. Section 5 allows VA to pay benefits to veterans and other eligible individuals who are enrolled in apprenticeships based on mastery of skills, known as competency based programs, and may also required a combination of the two. In the case of a competency based program, VA would be required to consider the approximate term of the program based on apprenticeship standards recognized by the Department of Labor (DoL) or by a State approving agency. The American Legion supports this measure with a caution that the veteran's entitlement not be reduced in relation to time based apprenticeships.

This section of H.R. 1716 earmarks $3 million from VA's annual appropriations to modify and enhance computer systems to implement these changes and requires VA, DoD and DoL to coordinate their respective databases on OJT programs. This provision is especially timely and salient in light of the Joint Strategic Planning Initiative announced on April 21, 2003 by VA and DoD. The initiative extends the scope of the VA/DoD partnership to deliver seamless, cost-effective, quality services to veterans, service members, military retirees and their families. Among the plan's goals are efforts to improve access to benefits, streamline application processes, eliminate duplicated requirements and smooth other business practices that complicate service members' transition from active duty to veteran status. While the modification of

computer systems would indeed prove beneficial, The American Legion is concerned that earmarking existing funds will cause additional stress on an already overburdened system.

Section 6. Pilot Program to Provide On-Job Benefits to Train Department of Veterans Affairs' Claims Adjudicators

This section requires VA to begin a pilot project to pay OJT benefits to new VA claims adjudicators. The American Legion has no formal position on this issue; however, we question why this project is necessary. VA claims adjudicators typically are hired in at the GS-7 or GS-9 levels. 2003 General Schedule (Base) Step 1 starting salaries are $29,037 and $35,519 respectively, equating to $14.50 and $17.75 per hour. Most apprenticeships and OJT are in manual trades paying at or near minimum wage at the outset. OJT benefits are designed to supplement the veteran's subsistence while becoming proficient enough to command higher wages. The American Legion is aware that this program may indeed improve recruitment and retention of quality claims adjudicators, but is concerned about the reduction of available funds for veterans pursuing on-job training in fields that may pay less.

Section 7. Requirement for Coordination of Data among the Departments of Veterans Affairs, Defense, and Labor with Respect to On-Job Training

This section requires certain coordination of information among VA, DoD, and DoL with respect to on-job training. At the time of a service-member's separation from active duty, the Secretary of Defense would be required to furnish VA with information concerning each registered apprenticeship pursued by service-members during active duty service. Additionally, it would require VA in conjunction with the DoL, to encourage and assist states and private organizations to grant credit to service-members in civilian occupations for skills and training earned during military service. The American Legion has consistently advocated proper recognition of military training and experience by civilian licensure and certification agencies. Section 7 of H.R. 1716 is a step in the right direction. Ignoring the skills and training of America's service-members when they transition into the civilian workforce is not only a disservice to the transitioning veteran, but is a disservice to their future employers. The training and education of military personnel is, in many cases, parallel if not better than their civilian counterpart. Parity recognition of their skills and qualifications enables civilian employers to recruit from the highly trained and experienced workforce of transitioning service-members. The American Legion applauds Chairman Smith for introducing this important piece of legislation.

Mr. Chairman, that concludes my testimony. I thank the Subcommittee for this opportunity to present the views of the 2.8 million members of The American Legion and look forward to working with each of you on these important issues.

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April 30, 2003

Honorable Henry Brown, Chairman
Committee on Veterans' Affairs
Subcommittee on Benefits
337 Cannon House Office Building
Washington, DC 20515

Dear Chairman Brown:

The American Legion has not received any federal grants or contracts, during this year or in the last two years, from any agency or program relevant to the subject of the April 30 hearing concerning H.R. 1460, The Veterans Entrepreneurship Act of 2003; H.R. 1712, The Veterans Federal Procurement Opportunity Act of 2003 and H.R. 1716, The Veteran's Learn and Earn Act.

Sincerely,

Peter S. Gaytan, Principal Deputy Director
National Veterans Affairs and
Rehabilitation Commission

SERVING
WITH
PRIDE

TESTIMONY

of

RICHARD JONES
AMVETS NATIONAL LEGISLATIVE DIRECTOR

before the

COMMITTEE ON VETERANS' AFFAIRS
SUBCOMMITTEE ON BENEFITS
U.S. HOUSE OF REPRESENTATIVES

on

H.R. 1460, THE VETERANS ENTREPRENEURSHIP ACT OF 2003; H.R. 1712, THE VETERANS FEDERAL PROCUREMENT OPPORTUNITY ACT OF 2003; AND H.R. 1716, THE VETERANS EARN AND LEARN ACT OF 2003

Wednesday, April 30, 2003,
10:00 am, Room 334
Cannon House Office Building

A M V E T S

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MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE:

Thank you for the opportunity to present testimony to the Benefits Subcommittee on the three bills subject to this legislative hearing. AMVETS is pleased to present our views regarding H.R. 1460, the Veterans Entrepreneurship Act of 2003; H.R. 1712, the Veterans Federal Procurement Opportunity Act of 2003; and H.R. 1716, the Veterans Earn and Learn Act of 2003.

Mr. Chairman, AMVETS has been a leader since 1944 in helping to preserve the freedoms secured by America's Armed Forces. Today, our organization continues its proud tradition, providing, not only support for veterans and the active military in procuring their earned entitlements, but also an array of community services that enhance the quality of life for this nation's citizens.

H.R. 1460, the Veterans Entrepreneurship Act of 2003

H.R. 1460, introduced by Representative Renzi, seeks to provide our nation's veterans economic opportunities that allow them to create and prosper their own enterprises. Within our veterans community lays an untapped well of ready and able men and women with the abilities and work ethic to be successful given the opportunity. By funding enrollment in non-credit and non-degree business courses offered at Small Business Administration centers throughout the nation, this legislation would help veterans learn the self-employment skills necessary to run a successful business enterprise. Additionally, H.R. 1460 would liberalize certain VA practices that require disabled veterans to state an inability to work for others before becoming eligible for certain entrepreneurial services provided by VA rehabilitation programs. This change would help make entrepreneurship a more integral part of rehabilitation for disable veterans and bolster the opportunity for disabled veterans to foster home-based businesses more readily.

H.R. 1460 would also grant discretionary authority to procurement officers to award contracts up to $5 million for manufacturing awards and up to $3 million for non-manufacturing awards to disabled veterans. This provision would help priorities be met and would allow disabled veteran businesses to "catch up" to more "contract-advanced" providers with long-standing ties to federal agencies. AMVETS supports H.R. 1460 and urges its passage by the full House.

H.R. 1712, the Veterans Federal Procurement Opportunity Act of 2003

As the Subcommittee is well aware, in August 1999 the Congress passed Public Law 106-50, the Veterans Entrepreneurship and Small Business Development Act of 1999. The goals of 106-50 were noble, but sadly, in the nearly four years since its passage, little has been done by the executive agencies to meet these goals. As a participant in the Task Force for Veterans' Entrepreneurship, AMVETS has many concerns with the lack of implementation of Public Law 106-50. To address these and other concerns, Ranking Member Evans has introduced H.R. 1712.

To advance low-income and service-connected (rated 10 percent of greater) veterans entrance into federal contracting, H.R. 1712 would establish a new development program for these veterans that is similar to so-called "8(a)" businesses. By creating a new designation for low-income and service-connected veterans, the bill allows these veterans into federal contracting without forcing them to compete against those covered under the "8(a)" program. Further, H.R. 1712 would provide assistance, both financial and non-financial, to qualified veterans for their business creation. Under this bill, compensation received by these veterans related to their disability or military service would not be counted as income against eligibility.

The goal of awarding 3 percent of federal contracting to service-connected disabled veterans established by Public Law 106-50 has been habitually ignored by federal agencies. With this in mind, H.R. 1712 would provide "set-aside" authority to federal agencies for them to better reach the goal of at least 3 percent of their contracts awarded to service-connected disabled veterans. The bill also would eliminate "double counting." A contract to a service-connected disabled veteran would be counted as having been awarded to that single subcategory for tally in the Federal Procurement Data System. Under this system, much more realistic statistics of an agency's performance under both "8(a)" and the new designation created by this bill for service-connected disabled veterans could be established.

Finally, H.R. 1712 would place in a "lock-box" agency procurement funding that equaled the equivalent amount of the percentage goal established for service-connected disabled veteran

contracting. In short, should an agency not meet its goal of providing at least 3 percent of its prime contracts to service-connected disabled veterans, then 3 percent of its funding would be withheld and those funds could only be used to contract with eligible service-connected disabled veterans until the goals are met. AMVETS fully supports H.R. 1712 and urges its passage by the full House.

H.R. 1716, the Veterans Earn and Learn Act of 2003

H.R. 1716, introduced by Chairman Smith, seeks to ensure that veterans have the best opportunity to receive valuable training for a job while employed and learning through on-the-job-training (OJT) and/or apprenticeships programs. The changes sought by H.R. 1716 would modernize VA's OJT and apprenticeship programs to reflect the needs of American business in the 21st Century.

Current VA OJT and apprenticeship programs see limited use. For fiscal year 2001, only 4.2 percent of veterans were enrolled in an OJT or apprenticeship program. According to Department of Labor figures, over 850 occupations in the United States offer apprenticeships. For those veterans who wish not to attend a traditional classroom-based college program, these OJT and apprenticeship programs offer veterans the ability to apply their military vocation to a civilian career or train for an entirely new occupation. Several States, including Missouri and Pennsylvania, have mounted aggressive programs to place veterans in jobs offering OJT or apprenticeships, and these programs have shown encouraging results.

Enactment of H.R. 1716 would provide veterans with greater opportunities for employment by helping them obtain the professional licenses and accreditation they require to get on the job track they have chosen. AMVETS fully supports H.R. 1716 and urges its passage by the full House.

Again, thank you this opportunity to present our views, and we sincerely appreciates your vigilance in efforts to improve veterans earned benefits and services.

SERVING
WITH
PRIDE

April 30, 2003

The Honorable Henry E. Brown, Jr., Chairman
House Veterans' Affairs Committee
Subcommittee on Benefits
Cannon House Office Building
Washington, D.C. 20515

Dear Chairman Brown:

Neither AMVETS nor I have received any federal grants or contracts, during this year or in the last two years, from any agency or program relevant to the April 30, 2003, Subcommittee hearing on the benefit legislation.

Sincerely,

Richard Jones
National Legislative Director

AMVETS

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Testimony of

Emmett Paige, Jr.

Lieutenant General

United States Army (Retired)

Before the

Committee on Veterans' Affairs

Subcommittee on Benefits

April 30, 2003

Chairman Brown, Congressman Renzi, Congressman Smith, Congressman Evans, Congressman Manzullo, Congressman Beauprez, Congressman Michaud, Congressman filner and Congresswoman Hooley, other members of the Subcommittee on Benefits, and the Distinguished U.S. House Committee on Veterans' Affairs, I want to thank you for inviting this old soldier to be here today and to give you my views for the record on H.R. 1460 and H.R.1712.

For the record, I am not here representing any agency, or organization that has received or will receive a federal grant or contract relative to the subject matter of testimony. I am here representing myself and those deserving military personnel and veterans who cannot be here this morning. I do not now seek, and will never accept, any grants or contracts for my support of the subject matter of this testimony.

Included herewith is my biography. I am here this morning based on the years of experience and background reflected in this biography:

Honorable Emmett Paige, Jr.
Vice President, Operations – DoD/Intel Services

As VP, DoD/Intel Services, General Paige provides oversight to all Department of Defense and Intelligence activities for LMIT.

Lieutenant General (Retired) Emmett Paige, Jr., has had an extraordinary career since he enlisted in the US Army in August 1947, dropping out of high school at the age of 16 to do so. After spending approximately five (5) years as an enlisted soldier he was accepted to and completed the Signal Corps Officers Candidate School at Fort Monmouth, New Jersey In July 1952, and was commissioned a 2nd Lieutenant.

During his career as an officer, General Paige served in various Signal units to include the 40th and 41st Signal Construction Battalions, the 9th Signal Battalion, 9th Infantry Division where he served as the S-3. He served in the 57th Signal Company at Yongsan, Korea where he was responsible for all of the fixed plant communications serving the United Nations Command, U.S. Forces Korea, and Eighth Army Headquarters. One of General Paige's most challenging military jobs was as the Project Manager of the Integrated WideBand Communications System during the Vietnam conflict using commercial off-the-shelf equipment installed in South Vietnam and Thailand. It was the largest communications system ever installed in a combat environment, and the first major system engineered, designed, and installed to meet the Defense Communications System Standards. During the Vietnam War, he commanded the 361st Signal Battalion in Vietnam, and later commanded the 11th Signal Group at Ft. Huachuca, AZ. He served two tours with the Defense Communications Agency.

In 1976, he was promoted to Brigadier General and given command of both the US Army Communications-Electronics Engineering and Installation Agency at Ft. Huachuca, Arizona and the US Army Communications Systems Agency at Ft. Monmouth, New Jersey. He was also appointed Project Manager, Defense Communications Systems, Army.

General Paige promoted to Major General in 1979 and assumed command of the US Army Communications Research and Development Command at Ft. Monmouth, New Jersey. In 1981, he assumed command of the US Army Electronics Research and Development Command in Adelphi, MD.

General Paige was promoted to Lieutenant General in June1984 and assumed command of the US Army Information Systems Command, a worldwide organization of 42,000 Soldiers and Civilians headquartered at Ft. Huachuca, AZ; he remained in this assignment until his retirement in June 1988.

While in the Army, General Paige received the Distinguished Service Medal with one oak leaf cluster, the Legion of Merit with two oak leaf clusters, the Bronze Star for Meritorious Service, the Meritorious Service Medal and the Army Commendation Medal.

Following his retirement from the Army in 1988, General Paige became the President and Chief Operating Officer of OAO Corporation, an Aerospace Engineering and Information Systems Company in Greenbelt, MD.

President Clinton nominated General Paige for the position of Assistant Secretary of Defense for Command, Control, Communications and Intelligence and he was confirmed by Congress, in May 1993. He held this position until May 1997, when he returned to his previous job as the President and Chief Operating Officer of OAO Corporation.

General Paige has an undergraduate degree from the University of Maryland University College and received his Masters degree from the Penn State University. He has been awarded an honorary Doctor of Law degree from Tougaloo College, Tougaloo, MS, an honorary Doctorate from the University of Maryland, Baltimore County, and an honorary Doctorate of Science Degree, Honoris Causa from Clarkson University. Both the University of Maryland University College and Penn State have honored General Paige as a Distinguished Alumnus. Penn State also selected him as an Alumni Fellow in 1993. He is a graduate of the U.S. Army War College, Class of 1974.

General Paige is Chairman of the Board of Directors of GTECH Corporation; Member of the Board of Directors, LinkPlus Corporation; Board of Visitors, University of Maryland Clark College of Engineering; Board of Visitors, University of Maryland, University College; Board of Visitors, University of Maryland College Park, College of Education; Board of Directors, University of Maryland College Park Foundation; Board of Directors, Lau Technologies; Board of Directors, AFCEA International; Board of Directors; National Capital Area Council, Boy Scouts of America; Board of Directors, Community Learning & Information Network (CLIN); Advisory Board, George Mason University, IT&Engineering; Director, Greater Washington Board of Trade; Board of Directors, KenCast Corporation; Commissioner, Maryland Higher Education Commission (MHEC); Board of Directors, National Science Center, Inc.; and Board of Directors, Prince George's Community College Foundation; and a Member of the Division on Engineering & Physical Sciences, National Research Council.

General Paige has received numerous awards from both the military and the civil sector. The following are but a few of those awards: Information Week Magazine selected him as the Chief Information Officer of the Year in 1987; in 1988, the Armed Forces Communications-Electronics Association presented General Paige the Distinguished Service Medal; the Data Processing Management Association selected him for the coveted Distinguished Information Sciences

Award for outstanding service and contributions internationally to advancements in the field of Information Sciences; University of Maryland, Baltimore County selected him as Engineer of the Year in February 1995; he was given the Black Engineers Lifetime Achievement Award in February 1995; he also received the Visionary Award of the Year from Communications Week in January 1996 for his major contribution to the future of digital communications in a networked society; and he was the recipient of the prestigious Armed Forces Communications and Electronic Associations prestigious David Sarnoff Award in June 1996. He is a member of the National Capitol Area Council of the Boy Scouts of America and was awarded the Silver Beaver Award for Distinguished Service to Youth in June 1997.

He is married to the former Gloria McClary and has three children, Michael, Sandra and Anthony.

It is appropriate that I begin by thanking all of you for your efforts in support of our military people of all the services to include the coast guard, both active and retired, and particularly your support of our sick and disabled veterans and their families. It is extremely important to our military people and veterans that each of you representing the people of our great nation support us not only during the wars but after the war is over and our service in uniform in defense of America is completed.

The track record of our government to include Congress, DoD, and the Executive Branch leaves a lot to be desired. The issue of health care for our retirees and their families, and for our veterans is shameful as we "waffle" and fail to live up to the promises to provide healthcare. I often hear of the lack of timely medical service to our veterans due to the lack of staffing and support services at our veterans hospitals. I clearly understand that veterans health service is not the subject of this hearing and the legislation being proposed, but it is very important for me to never miss an opportunity to increase the awareness of people like you who really care and can carry a baton to meet the promises of medical care to our veterans.

As a commander on active duty only the death of one of my troops hurt more than having one of them be discharged because of permanent injury and be transitioned from a army hospital to a veterans' hospital where it appeared that they became only a person with a name and social security number and no one really cared about them any longer.

Understaffing of our veterans hospitals is not a recent problem, it just continues to grow. We can do better. We can make a difference.

It is never too late to right the wrongs. It is never too late to improve on the economic and educational opportunities that are made available to our veterans. Most will not need to exploit the benefits that are included in H.R. 1460 the Veterans Entrepreneurship Act of 2003, H.R 1712 the Veterans Federal Procurement Opportunity Act of 2003 and H.R.1716, the Veterans Earn and Learn Act. However, these three bills will be beneficial to qualified disabled veterans. They will open doors that would not otherwise be opened.

Let there be absolutely no doubt as to why this old soldier is here this morning. I am here to plead for your support of H.R. 1460, H.R. 1712 and H.R. 1716. I also want to again thank all of you for serving on the Committee on Veteran's Affairs, and the Subcommittee on Benefits. I am here to beg you to continue to do everything you ean to improve the lives of our veterans so that our young men and women will continue to go wherever the politicians decide that they must go to fight for and defend the freedoms of our great country and know that we will care for them and their families.

The cost of these bills is insignificant and the economic impact that qualified disabled veterans can have on our economy in terms of jobs in their communities and indeed in all of America can be very significant. Our disabled veterans need all of the help they can get, and we need to demonstrate that their service, and their efforts are appreciated. We should demonstrate to our military people that we will not walk away

and leave them on the corners begging as their only way of surviving once they are discharged from the veterans hospitals.

Today there are many disabled veterans in the homeless shelters all over our great country. I often wonder if we have done all that we could to help them rehabilitate themselves and become proud and contributing members of our society.

I believe that the proposed legislation which is the subject of this hearing will increase the possibilities that we will enable some disabled veterans to help themselves and help their communities.

So again, I plead for and beg for your total support of this legislation and all of our veterans.

Thanks for giving me the time to say a few words this morning

May God continue to bless you, our veteran's and our great country.

Statement of Frederico Juarbe, Jr.

Assistant Secretary for Veterans' Employment and Training

Submitted for the Record to the Subcommittee on Benefits,

House Committee on Veterans' Affairs

April 30, 2003

Mr. Chairman and members of the committee, thank you for the opportunity to provide comments on the "Veterans Earn and Learn Act." This initiative offers updates to the G.I. Bill that would ensure that on-the-job training and apprenticeship programs are in step with the requirements of the 21st Century Workforce. It would also ensure that these programs better support the needs of military veterans of the All Volunteer Force as they enter civilian employment.

This law could help the Department of Labor better achieve its mission in a number of ways:

1. It makes on-the-job training and apprenticeship programs that reflect today's workplace more accessible to today's veteran population by standardizing the way VA pays these benefits.
2. It encourages a higher rate of veteran participation in on-the-job training and apprenticeships. Because of the family commitments of today's veterans, they must earn while they learn in their transition to civilian life.
3. It authorizes competency-based criteria for attainment of journeyman status in place of exclusively time-based apprenticeships. This is more in tune with the credentialing models of today.

4. It helps employers hire and retain skilled workers by bridging military and civilian skill-sets for the purposes of licensing and certification.
5. It will require collaboration and coordination between the Departments of Defense, Veterans' Affairs and Labor to ensure military-acquired competencies are recognized in civilian workplaces.

The Department supports the goals of this bill, in keeping with its efforts to meet the demands of the 21st Century Workforce. The cost for this program, however, is not included in the President's budget and offsets would have to be found.

In conclusion, I want to thank you and the Committee for the opportunity to provide our input on this important piece of legislation.

President John J. Flynn
International Union of Bricklayers and Allied Craftworkers
Statement for the Record on H.R. 1716
Veterans Earn and Learn Act
April 30, 2003

Mr. Chairman, I would like to thank the Committee for the opportunity to provide this statement on House Resolution 1716, the Veterans Earn and Learn Act, as it relates to educational assistance programs of the Department of Veterans Affairs for Apprenticeship or certain on-job training.

The International Union of Bricklayers and Allied Craftworkers (BAC) has a long history of pro-active support for the Armed Forces of this country and the men and women who serve it with distinction in times of peace and in times of war. We have welcomed those who sacrificed so much for their nation, offering training, jobs as well as secure pensions and benefits to veterans returning from war. We continue to do so today through our involvement in the Helmets to Hardhats program.

We are proud of all our past and current members and within our membership roles are the names of thousands of veterans who responded to the call to action when our country needed them. After that time of action passed, most of them returned to their families and returned to their jobs building this country literally "brick by brick". Sadly, many of our members did not return because they had given their lives for this country's greater good. Those members who returned, and those who could not, share in a bond that unites them in a unique way, they are masonry craftsmen and they are United States military veterans. The unique bond that is developed through membership in both the military and the union is very similar, yet is difficult to explain to those who have not experienced it first hand.

Today's veterans and reservists transitioning to the civilian job market face the same difficult tasks as their predecessors, and in many ways it can be more difficult. Many return to job markets that have few job openings due to a faltering economy. Many could be taken advantage of because of their lack of knowledge in how the system works in the civilian employment sector and the additional opportunities, which could be available if they knew where to look for training or work. Through the Registered Apprenticeship System veterans have an opportunity to learn the manipulative and technical skills that will advance them along a career path from the entry level position or Apprentice Level, through the Journey worker level, and potentially onward to supervisory levels or even ownership of their own companies. This system fosters skill acquisition and lifelong learning as a means of advancement and success. In the organized sector of the economy this career path is built on a cooperative labor/management agreement with jointly funded training programs and a contractor who is more likely to hire the worker trained in such a program. The Registered Apprentice System we know today is a modernized and modified yet time proven system of career skill education, combining learning on the job and related technical instruction.

Today as yesterday, veterans deserve the opportunity to learn their craft through a structured apprenticeship system under the supervision of their employers in partnership with the critical eye of experienced craftsmen. This is a partnership, which is dedicated to teaching this next generation the craft skills to succeed at their profession and encourage them to advance in their chosen career. In the BAC apprenticeship system the costs of the training are born by contractual arrangement between the industry partners: the contractor and the union. This contract insures that the benefits remain with the veteran and are considered as their discretionary income.

As military veterans are promised, there are certain benefit's programs available that they receive as payment for serving in the Armed Forces. It is appropriate that the government assist them in transitioning into the civilian job market when their service is complete. Certain benefit modifications within H.R. 1716 will assist veterans in making that transition less of a hardship on them and their families. The modification to allow additional provision for educational pursuits associated with their careers will benefit many veterans as they move along their chosen career path. However, I urge the committee to ensure that the true beneficiary is the veteran and his or her career plan. Incentives for what is being called "early completion" must be tempered with validation processes and procedures to insure that the skills taught are the correct skills, that the student has mastered them totally, and that the student is able to transfer those skills into sound practices and decisions as the job requires. I have concerns that a veteran could be "fast tracked" through a less than competent training system and be unable to successfully compete in today's highly competitive job market. With his or her VA benefits exhausted, finding additional training could be a difficult and frustrating task.

In summary, increases in the career and educational benefits to which Veterans are entitled, is a cause which all of us support wholeheartedly. No one group deserves more in appreciation for the service that they have given to us all in defending our national sovereignty. Our duty should always be to insure that the military veteran benefits through these entitlements by validating only meaningful training programs that will result in the achievement of truly worthwhile careers. The government must fulfill its obligation to our veterans by funding those programs that provide the training for advancement, which is limited only by the veteran's desire to reach their goals.

STATEMENT OF BETH B. BUEHLMANN
EXECUTIVE DIRECTOR
CENTER FOR WORKFORCE PREPARATION
U.S. CHAMBER OF COMMERCE
SUBCOMMITTEE ON BENEFITS
HOUSE COMMITTEE ON VETERANS' AFFAIRS

The Veterans Earn and Learn Act, H.R. 1716
April 30, 2003

Mr. Brown and Members of the Subcommittee:

As the executive director, I am pleased to provide this written statement on behalf of the Center for Workforce Preparation (CWP), a nonprofit affiliate of the U.S. Chamber of Commerce, regarding transitioning from the military into civilian life and productive employment. The U.S. Chamber of Commerce is the world's largest business federation, representing more than three million businesses and organizations of every size, sector and region.

As the only arm of the U.S. Chamber dealing solely with education and workforce development issues, CWP can access this broad network of chambers. CWP is focused on strengthening the role of state and local chambers in workforce development by providing them with the resources they need to address a key employer concern in their communities— the finding, retaining and advancing of qualified workers.

I bring to bear a perspective on the issue before the subcommittee that comes from several years of working with state, local and metropolitan chambers, and specifically working in the San Diego community to build a model that brings together business, military, government agencies and community resources to improve the transition of military individuals and their spouses into civilian jobs and careers. The points I would like to cover in this statement are the need for transition services; the lack of connection between transition services and business; and the model being developed in the San Diego community among the chamber, the workforce system and the military transition offices.

The Need for Transition Services

Although there is a one-year moratorium on active duty military from ending their service, unemployment among service members who have transitioned into the civilian labor force is at an all time high. According to statistics from the Bureau of Labor Statistics (BLS), the veteran labor force totaled more than 15 million in 1998, or 12 percent of the total civilian labor force. BLS data also reveals that certain subgroups among veterans have recently shown disproportionately higher unemployment rates. These groups include the disabled, female and minority veterans. Approximately two million veterans have registered with state employment services offices in recent years seeking employment and training assistance services.

A recent report by the U.S. Department of Defense indicated that nearly 82 percent of active duty personnel who have at least a high school diploma are below the age of 35. Statistics show that many have had no formal education or training beyond their high school years other than what has been provided during their tenure with the military. The average enlisted service member is at the rank of E5 or below and makes less that $25,000 annually in basic pay. Finding the resources to help improve the skill levels of these individuals is critical to their advancement and potential for increased income.

Employment and training resources for military spouses transitioning to new communities is also a concern for armed forces personnel. There are approximately 750,000 spouses of active duty military personnel stationed at bases around the world. In the United States, military bases are located, for the most part, in areas best characterized by poor employment opportunities and low wages. Outside of the United States, opportunities for the employment of military spouses are hampered by language differences and agreements with the host nation that restrict employment of spouses in the local community. Almost half of active duty military members are married with children and live off base. Just under half of officers' spouses are employed and an additional 7 percent are seeking work. In contrast, over half of enlisted spouses are working and 8 percent are looking for employment. With a majority of these military families requiring two incomes, connecting to the local civilian workforce system is critical to sustaining their families' financial well-being.

The military faces several key workforce challenges in its support of those transitioning to the civilian workforce. Among them are:

- The need to raise the image of veterans as highly-skilled workers, and identify local community resources to provide veterans and their spouses with employment and training opportunities;
- Assessment of and access to existing training programs to meet the current labor market demands; and
- Enlisting the assistance of the business community to determine business' workforce needs.

The bottom line is that veterans often lack the skills necessary to meet the workforce needs of the 21st century workplace.

Connecting Transition Services and Business

To meet the challenges of developing and connecting a skilled workforce from among the thousands of potentially available military personnel who leave the service every year, a highly coordinated transition strategy must be organized. Between the military services, veterans groups and civilian resources, a vast array of employment and training services and resources are available to military personnel and their dependents. While these resources have been proven effective over time, they have not been coordinated and aligned with the needs of business. Consequently, the full range of benefits available to both military personnel and employers has not been fully realized. Through relevant job training and placement assistance combined with military and civilian transition services, eligible personnel can link their military experience and training more specifically to the needs of civilian employers.

Using the San Diego community as a demonstration site, *Operation Transition* engages the San Diego military community, the Veterans of Foreign Wars (VFW), CWP, the chamber, the business community, the local workforce system and service providers in structured discussions that challenge the stereotypes, clear misunderstandings and identify operational disconnects among these communities. The goal is to define and create local solutions that effectively bridge the gap between the employers who need workers, the transitioning military and spouses who need jobs and advancement opportunities, and the providers of workforce services.

As a result of this demonstration project, CWP is developing a model that can be replicated for use by other VFW communities that are impacted by high unemployment among their veteran populations. In addition, materials and tools that are developed, modified or utilized in this project will be widely distributed as templates. Information about the project will be housed on a Web site that is accessible to the participants and the broader chamber and VFW communities.

A three-step approach has been used in the San Diego community. First, CWP identified existing resources and responsibilities of key stakeholders in these efforts through a community audit. Second, CWP and the San Diego Chamber organized three one-day forums to bring together the VFW and the military community, employers and service providers in a common effort to improve access to workforce supports in the San Diego community. Third, through the development of a common agenda, common understanding and focused programs, a transition model is being created that can be replicated by other VFW communities.

CWP took on the demonstration project in San Diego anticipating a number of outcomes including:

- Improved employment transition outcomes for veterans that promote an improved quality of life for veterans and their families;
- Clarification of the expectations and needs of transitioning military, their spouses, community leaders, employers, and service providers;
- Increased knowledge of what resources are available to transitioning veterans and their spouses and how to access them;
- Promising practices that stakeholders can use to address worker shortages, provide access to jobs and workplace supports; and
- Demonstrated role of chambers of commerce in promoting and supporting a coordinated workforce delivery system for military veterans.

Although the project is not yet completed, several findings are already beginning to surface from CWP's demonstration work in San Diego. One key finding is the identification of the critical barriers to transitioning military. These barriers include lack of communication among all stakeholders, the need for more effective and efficient use of the Transition

Assistance Program and the need for greater focus on long-term career objectives. The Veterans Earn and Learn Act, as introduced by U.S. Representative Christopher H. Smith, addresses many of these issues. Section One of the bill reflects much of what CWP has learned and is doing with chambers and their employer members in communities across America—identifying and accessing key workforce development programs so that employers can assist their workers gain the skills that are needed to advance in the 21st century workplace.

In summary, CWP is working to align the relationships in communities that benefit both the employer and the participant. Helping employers understand how to access the services already available in their communities and how to create links with support services that can help employers retain and advance entry-level workers are the essential components in CWP's efforts. In addition, CWP partners with state, local and metropolitan chambers to identify underutilized populations such as transitioning military and their spouses as a source of qualified and skilled workers for the employers in their communities. The role chambers play in communities is vital to creating this necessary link between employer needs and the publicly funded workforce system. The more robust these relationships are and the more complete the range of partners who are brought to bear on creating a system to address these issues, the more the focus is on the dual customers—employers and participants—and not dual systems, and the greater the likelihood of success. It is CWP's mission to help chambers take on this role so that employers and communities benefit.

STATEMENT OF

JAMES N. MAGILL, DIRECTOR
NATIONAL EMPLOYMENT POLICY
VETERANS OF FOREIGN WARS OF THE UNITED STATES

BEFORE THE

SUBCOMMITTEE ON BENEFITS
COMMITTEE ON VETERANS' AFFAIRS
UNITED STATES HOUSE OF REPRESENTATIVES

WITH RESPECT TO

H.R. 1460 THE "VETERANS ENTREPRENEURSHIP ACT OF 2003";
H.R. 1712, THE "VETERANS FEDERAL PROCUREMENT OPPORTUNITY ACT OF 2003; AND
H.R. 1716 THE "VETERAN'S LEARN AND EARN ACT"

WASHINGTON, D.C. APRIL 30, 2003

MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE:

On behalf of the 2.6 million members of the Veterans of Foreign Wars of the United States (VFW) and our Ladies Auxiliary, I appreciate the opportunity to present our views on H.R. 1460, the "Veterans Entrepreneurship Act of 2003"; H.R. 1712, the "Veterans Federal Procurement Opportunity Act of 2003"; and H.R. 1716 the "Veteran's Learn and Earn Act."

H.R. 1460 was introduced by Mr. Renzi with many co-sponsors to include the Chairman and Ranking Democrat of the full Committee and the Chairman and Ranking Democrat of this Subcommittee. This bill would provide greater opportunities for veterans to achieve an American dream -- entrepreneurship. Skills acquired in the military may readily be transferred to the civilian workforce. However veterans may not have the fundamental skills required to run the day-to-day operation of a small business. By allowing state approving agencies to recognize entrepreneurship courses, veteran could enroll in non-credit, non-degree business courses.

H.R. 1460 would also establish self-employment as a sole occupational goal in the Department of Veterans' Affairs Vocational Rehabilitation and Employment (VR&E) Program. The VFW has no objection to this provision but would recommend an amendment to the bill that should the veteran's business fail within a specific time period, perhaps six to eight years, the veteran be permitted to re-enter the VR&E Program to pursue an academic goal. Under current law, once a veteran achieves a stated goal he/she can no longer be in the program. Statistics indicate many small businesses fail within the first ten years for a number of reasons; lack of expertise, economic conditions, etc.

Finally, the VFW supports the sole-source contract provision. This provision would greatly help small businesses owned by service-connected disabled veterans acquire government contracts. The VFW supports the enactment of H.R. 1460.

H.R. 1712 was introduced by Mr. Evans along with Mr. Filner, Mr. Michaud and Ms. Hooley as original co-sponsors. This bill would greatly improve the ability of small businesses to acquire contracts with federal agencies.

In August, 1999 the "Veterans Entrepreneurship and Small Business Development Act of 1999" was signed into law (PL 106-50). Unfortunately, many key provisions of PL 106-50 are not being implemented. H.R. 1712 addresses many concerns raised by Congress and the Veterans Service Organizations.

P.L. 106-50 provided for a goal of 3 percent of federal contracts be awarded to service-connected disabled veterans. This goal is not being met. H.R. 1712 provides penalties when the 3 percent goal is not attained. The VFW supports the penalties and would go one step further in striking "goal" and mandate that federal contracts be awarded to businesses being operated by service-connected disabled veterans.

The bill would also eliminate "double counting" and re-define a service-connected disabled owned business as one owned and operated by 10 percent or more disabled veterans rather than 20 percent or more disabled veterans.

H.R. 1712 would also reauthorize the programs of the National Veterans Business Development Corporation. The VFW supports the Veterans Corporation and urges Congress to provide additional funding in view of the fact there was a delay in the establishment of the Corporation. While the Veterans Corporation is to be self-sustaining, we recommend any additional funding provided for FY '05 and FY '06 be targeted to programs developed by the Corporation. The VFW supports the enactment of H.R. 1712

H.R. 1716, the "Veteran's Earn and Learn Act" was introduced by Mr. Smith with Mr. Evans, Mr. Brown and Mr. Michaud as original co-sponsors.

This bill provides for much needed improvements in VA's educational assistance program for apprenticeship and on-job training. Specifically, H.R. 1716 would modify entitlement charges for certain on-job training programs; provide incentive pay for early completion of apprenticeship programs; increases monthly benefit for individuals pursuing apprenticeship or on-job training and related postsecondary classroom education training; strengthens VA authority to pay benefits for competency-based apprenticeships; creates a pilot program to provide on-job benefits to train VA claims adjudications; and, require the coordination of data among the Departments of Veterans' Affairs and Labor with respect to on-job training.

The VFW believes the provisions of H.R. 1716 help not only veterans but employers as well. The VFW supports the enactment of H.R. 1716

Mr. Chairman, this concludes my statement. The VFW looks forward to working with you and the Subcommittee on improving the benefits our nation's veterans have earned.

James N. Magill, Director
National Veterans Employment Policy
Veterans of Foreign Wars of the United States

James N. Magill, a native of the Chicago suburb Aurora, Illinois has been a member of the Veterans of Foreign Wars (VFW) Washington Office staff since 1981 and is currently the Director of National Veterans Employment Policy.

Prior to being honorably discharged from the U.S. Navy in 1971 as a Hospital corpsman 2nd class, Jim served in Vietnam as a Rifle Platoon Corpsman and the 3rd Battalion, 1st Marines, 1st Marine Division. Upon his discharge, he joined the staff of U.S. House of Representatives as a Legislative Analyst responsible for legislation relating to veterans affairs. While working of the House of Representatives, he attended evening classes at George Washington University under the GI Bill where he earned his degree in Business Administration.

Jim resigned his position with the U.S. House of Representatives to join the Washington Legislative Staff as a Special Assistant Director and then later became the Director of National Legislative Service.

Currently as the Director for Veterans Employment Policy, Mr. Magill maintains liaison with federal officials. He works to ensure that policies and procedures for assisting veterans in obtaining and retaining federal employment are carried out in accordance with the spirit and intent of established laws.

He and his family reside in Gaithersburg, Maryland.

THE VETERANS OF FOREIGN WARS OF THE UNITED STATES IS NOT IN RECEIPT OF ANY FEDERAL FUNDING OR FEDERAL GRANTS

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Established 1968

STATEMENT OF

THE NATIONAL ASSOCIATION FOR UNIFORMED SERVICES

BEFORE THE

BENEFITS SUBCOMMITTEE OF THE HOUSE VETERANS AFFAIRS COMMITTEE

ON

ENTREPRENEURSHIP, PROCUREMENT, AND EDUCATION OPPORTUNITIES FOR VETERANS

PRESENTED FOR THE RECORD BY

THE NATIONAL ASSOCIATION FOR UNIFORMED SERVICES

MARCH 27, 2003

Curriculum Vitae and Organizational Disclosure Statements

NAUS was founded in 1968 to support legislation to uphold the security of the United States, sustain the morale of the Armed Forces, and provide fair and equitable consideration for all members of the seven uniformed services: Active, Reserve, National Guard, Veteran, Retired and their spouses, widows and widowers. The Society of Military Widows (SMW) became affiliated with NAUS in 1984. Our nation-wide membership is now 160,000, with over 500,000 additional family members and support voters. NAUS is the only military association to represent all grades, ranks, components and branches of the uniformed services: Army, Air Force, Navy, Marine Corps, Coast Guard, Public Health Service, National Oceanic and Atmospheric Administration, their families and survivors.

Disclosure
The National Association for Uniformed Services (NAUS) has not received grants (and/or subgrants) or contracts (and/or subcontracts) from the federal government for the past three fiscal years.

INTRODUCTION:

The National Association for Uniformed Services supports all of the legislation being discussed today; H.R. 1460. The Veterans Entrepreneurship Act of 2003; H.R. 1712, the Veterans Federal Procurement Opportunity Act of 2003; and H.R. 1716, the Veterans Earn and Learn Act. As the combat portion of the very successful Operation Iraqi Freedom draws to a close, we must plan ahead to take care of those who have bore the burden of our nations battles. The bills discussed today, when enacted into law, will be a great benefit for these worthy patriots.

REMARKS:

H.R. 1460. The Veterans Entrepreneurship Act of 2003

This legislation would permit the use of GI Bill provided education benefits for certain non-credit entrepreneurship courses. It would also permit veterans enrolled in a vocational rehabilitation program to have self-employment as a vocational goal. Small business is the backbone of the United States economy. This benefit encourages veterans to pursue entrepreneurial studies, which will great increase the success rate of those veterans who choose to enter the small business arena upon their separation from the military. The legislation involving the vocational rehabilitation program also encourages these same goals. NAUS fully supports any program such as this, which will benefit our veterans as they return from war, and offer a wider range of educational options for those that strive for small business success.

H.R. 1712, the Veterans Federal Procurement Opportunity Act of 2003

The "Veterans Federal Procurement Opportunity Act of 2003" would benefit veterans in several ways. First the law would establish a development program for small business concerns owned and controlled by qualified service-disabled veterans. The program would also reauthorize the excellent programs of the national veterans business development corporation and the advisory committee on veterans affairs. When combined with the other provisions of this legislation, this proposed law would greatly increase the opportunities for small businesses run by veterans. This includes the enhanced ability to contract with the Federal government. NAUS fully supports these provisions. The benefit to the veteran is increased opportunity for business success. The advantage to the government is the benefit of a superior product and/or service provided by our high quality veterans.

H.R. 1716, the Veterans Earn and Learn Act

The apprenticeship and on-job training programs of the Department of Veterans Affairs greatly benefits veterans, while assisting employers who seek to hire and retain skilled workers. These VA programs establish an important link between the training provided to service members while serving in the Armed Forces and the training available in civilian settings for purposes of occupational licensing and credentialing. Ultimately these programs develop a more highly educated and productive work force in the civilian community. The availability of these programs is also considered an important recruiting tool for the military services.

This legislation, if passed into law would improve educational assistance programs of the Department of Veterans Affairs for apprenticeship or other on-job training, by modifying the benefit entitlement charges for certain on-job training programs, to encourage veterans to pursue this type of training while actually providing incentive payments for early completion of apprenticeship training. The law would also increase benefits for individuals pursuing apprenticeship or on-job training and related postsecondary classroom education training to encourage veterans to consider critical fields. The law even benefits the DVA and the veteran by including a pilot program to provide on-job benefits to train Department of Veterans Affairs claims adjudicators.

NAUS fully supports this legislation, because it provides formal skill training and documentation of the training provided to the veteran, while increasing the success rate of skilled veterans who choose trade fields after their departure from the military. The program also works as a recruiting tool, when it is highlighted as part of a comprehensive benefit package to encourage young men to choose the military for the tangible benefit of obtaining a skill that will help with their future success.

Reaffirmation of Veteran Preference:

In keeping with the precedent of hiring preferences as provided Desert Storm and Vietnam Era Veterans, NAUS supports extending similar preferences to those active and reserve members serving in Operations Iraqi Freedom, Enduring Freedom, and Noble Eagle.

OTHER RECOMMENDATIONS:

Please consider the following related recommendations to benefit our returning service members, both active and reserve.

Increase the standard GI Bill benefit, and eliminate the enrollment fee—such as recommended in HR 1212. (Chairman Smith introduced March 11, 2003)

Defer the Repayment of Student Loans for Activated Reservists.
Mobilized Guardsmen and Reservists who have federal Stafford and Perkins education loans are currently required to begin repaying those loans while they are still on active duty.
NAUS recommends that the period of their involuntary active duty be excluded from the calculation of their loan repayment start date.

Prevent the loss of MGIB Benefits Because Of Recall.
Reservists who are students are at academic risk if they are called up. Currently if a student has to discontinue a course of study for recall, under MGIB, Chapter 1606, those incomplete months of study are charged against their 36 months MGIB benefits entitlement period because they failed to receive credit for the course. A provision was passed to protect members serving during the Gulf War only.
NAUS recommends not reducing the benefits entitlement for the period that a student is called up for a contingency operation during mid academic session.

Increase the Length of MGIB Benefits for Reservists.
A Guardsman or Reservist can qualify for a Montgomery G.I. Bill Program from either active duty or commitment to six additional years of reserve drilling time. Demands of family, and both a civilian and reserve career often preclude the individual from a timely pursuit of education. Often, the clock on G.I. Bill benefits run out before they can be used.
Furthermore, in this economy, a person may need retraining midway in their civilian career. NAUS recommends an amendment to Title 38 to permit extended use of benefits. If the benefit cannot remain available until it is exhausted, then for Reservists a time restrictive clock should only start at the termination of their Reserve career.

Continue MGIB-SR for Reservists who are Involuntarily Transferred from Pay to Non-pay.
If a member is moved to non-pay through high year tenure or promotion, the Reserve Montgomery G.I. Bill (MGIB-SR) ends. Education benefits should be permitted to be continued if the member continues to drill in non-pay, and has qualifying years

Improve overall MGIB Benefits for Selected Reserve (SR).
The MGIB-SR benefit level should equal approximately 50 percent of the recommended MGIB benefit level, to maintain equivalence between MGIB and MGIB-SR. MGIB-SR is currently 47.6 percent of the MGIB, having declined from 48.6 percent of MGIB on October 1, 1991. The MGIB-SR benefit level should be high enough so that the program is seen as a reward for serving the country. Increase MGIB-SR benefits to maintain the viability of the MGIB-SR program in the cluster of reasons to join the Armed Forces Reserve.

Affirm Department of Veterans' Affairs as Financial Administrator of MGIB-SR
Since MGIB-SR is a Title 10 program, VA believes it needs DoD's permission and perhaps legislation to formulate communication messages. VA should develop a comprehensive communication strategy that includes better coordination with DoD as an essential feature. VA should collaborate with DoD to review the content and mode of delivery of all MGIB-SR messages. Build flexible and responsive education programs and delivery systems tailored to the needs of members of the Selected Reserves/National Guard.

SUMMARY

The National Association for Uniformed Services (NAUS) appreciates the opportunity to submit this statement for the record. The nation owes its gratitude to the armed forces of our nation. As, our service members return from conflict it has been our tradition to take care of these heroes in thanks for their service to our great county. Enactment of the legislation discussed today will give these veterans the opportunity to carry the tradition of success they have demonstrated in the military forward into the civilian world as successful contributors to our nation's economy. If there are any questions for the record or otherwise please contact Ben Butler, the NAUS Deputy Director of Legislation at 703-750-1342 x3005.

Statement of Associated Builders and Contractors

Before the United States House of Representatives
Committee on Veterans' Affairs
Subcommittee on Benefits

The Veterans Earn and Learn Act of 2003
April 30, 2003

Speaking for the Merit Shop

1300 North Seventeenth Street
Rosslyn, Virginia 22209
(703) 812-2000

Associated Builders and Contractors (ABC), would like to thank to Chairman Brown, Ranking Member Michaude and the members of the Subcommittee on Benefits for this opportunity to put forth ABC's views regarding H.R. 1716 "*The Veterans Earn and Learn Act of 2003*".

ABC is a national trade association representing more than 23,000 merit shop contractors, subcontractors, materials suppliers and construction-related firms within a network of 80 chapters throughout the United States and Guam. Our diverse membership is bound by a shared commitment to the merit shop philosophy within construction industry.

ABC – COMMITMENT TO APPRENTICESHIP TRAINING

ABC's dedication to quality training is unquestioned. Beginning in 1960, with the establishment of ABC's first apprenticeship program in Baltimore, Maryland, ABC recognized that the future of the construction industry lies in its ability to attract and retain the men and women necessary to meet the nation's construction needs.

All of ABC's chapters provide formal training programs in nearly every state, and most chapters have apprenticeship programs that are registered with the Department of Labor's Office of Apprenticeship Training, Employer and Labor Services (OATELS) or an OTELS-recognized State Apprenticeship Agency. These programs meet all federal and state requirements for formal apprenticeship and prevailing wage work including employer-sponsored classroom instruction and on-the-job training, or more accurately, on-the-job learning. Upon successful completion, craft professionals are recognized at the journey-level in their trade and are awarded a craft professional certification.

ABC's commitment to education and training advanced in the 1990's, when ABC brought together 11 of the nation's largest contractors to develop industry wide, standardized craft training programs. In 1994, ABC created the now independent, National Center for Construction Education and Research (NCCER), located at the University of Florida's School of Architecture. ABC's multi-million dollar investment in training clearly illustrates our commitment to the future of the industry. This commitment continues today, as ABC continues to work closely with the NCCER as they develop and evolve the Construction and Maintenance Curriculum. This curriculum now covers over 30 craft professional trades and is built upon industry-wide skill standards. ABC continues to dedicate itself to developing and maintaining a training system that is internationally recognized, standardized, portable and competency-based.

ABC's commitment to on-the-job learning focuses on a continuum of education. Craft training is not a single end goal. Instead, craft professionals engage in what the Department of Labor often calls a "lattice" of learning. In the merit shop environment, craft professionals can cross-train among various trade specialties. This innovative approach allows workers greater opportunities to learn, while simultaneously increasing their potential for higher pay. The approach also aids employers as they are now provided with a varied well-trained staff capable of addressing any situation that may arise.

Craft Training Programs, while less formal than registered apprenticeship programs, are no less rigorous and demanding of high standards of performance. Craft training is more flexible and enables chapters to meet specific local skill needs of the construction industry employers. These programs utilize the same curriculum used in ABC's registered apprenticeship programs. ABC Craft Training Programs are competency-based, allowing craft workers to move through the training at an accelerated pace based on performance achievement. Both entry-level and more experienced craft workers — like veterans — benefit from ABC Craft Training Programs.

According to the Bureau of Labor Statistic, to remain at the present level of workers, the construction industry needs a quarter of a million new craft professionals per year to replace an aging and retiring workforce. Coupled with pervasive but erroneous negative images associated with careers in construction makes recruiting qualified people more difficult. These factors illustrate the need for good veteran placement programs to help attract and retain qualified, skilled workers.

ABC members have worked diligently in reaching out to veterans to ensure they know the multitude of benefits a career in construction provides. Working through programs such as the Department of Labor's Transition Assistance Program (TAP), ABC members and chapters look to advance learning continuum through various efforts including cross utilization of trade skills allowing workers to become more efficient.

COMPETENCY-BASED LEARNING

H. R. 1716, the "*Veterans Earn and Learn Act*", would financially reward veterans for merit performance. ABC applauds the competency-based approach to paying veterans that is contained in the legislation. On-the-job learning and apprenticeship is not measured solely by time. Instead, individuals' pace of learning varies depending on experience, skill level and suitability to a specific craft. Performance-based apprenticeship for craft professionals is now being recognized as an alternative to time-based completion by the U.S. Department of Labor and recognized State Apprenticeship Agencies. As a result, the

ABC apprenticeship programs throughout the country are revising their standards in accordance with the new recognition.

COOPERATION AMONG AGENCIES

In addition, the legislation proposes to increase cooperation among the Department of Veterans Affairs, Department of Labor and Department of Defense. The Department of Labor, in particular, has tremendous expertise in apprenticeship and on-the-job learning. This legislation represents a good first step towards coordinating these efforts.

DEFINITIONS RELATING TO APPRENTICESHIP

In order to promote effective implementation of the legislation among the three Departments, ABC recommends the committee adopt consistent definitions of apprenticeship and related terms in the statutes, which provide for veterans' educational assistance. In addition, terms that are inaccurate should be replaced with appropriately defined terms. To fulfill the mission of awarding veterans an opportunity to participate in competency-based apprenticeship programs, the legislation must define terms in accordance with the Department of Labor.

In particular Chapter 32 (Post-Vietnam Era Veterans' Educational Assistance), Chapter 34 (Veterans' Educational Assistance), and Chapter 36 (Administration of Educational Benefits) of Title 38 should be amended to include definitions that are in line with the Department of Labor's definitions of apprenticeship and the related terms pursuant to the National Apprenticeship Act of 1937. At a minimum we recommend defining:

- an "Apprentice" as recognized by the Secretary of Labor;
- an "Apprenticeship Program" as a program registered by the Department of Labor or by a State Apprenticeship Agency which is recognized by the Secretary of Labor; and
- a "State Apprenticeship Agency" as one recognized by the Secretary of Labor.

ABC recommends consultation with the Department of Labor in crafting accurate definition. Terms contained in the statute and legislation are not consistent with the Department of Labor. For instance, the current statute refers to a "State approving agency" in the context of apprenticeship. 38 U.S.C. § 3687 (a)(1). The proper term is a "State Apprenticeship Agency." (Some states use State Apprenticeship Council but the term is contained within the definition of "State Apprenticeship Agency.") Section 8(a) of the legislation refers to a "State apprenticeship registration agency." Again, this term is inaccurate. In addition, ABC recommends inserting the term "State Apprenticeship

Agencies" to replaced "State approving agencies" in the context of apprenticeship in the legislation.

The statutes have a hodge-podge of definitional references or implications. For instance, Section 3202 of Title 38 provides that the term "program of education" has the meaning to include "a full-time program of apprenticeship . . . "as approved as provided in Section 3687 of Title 38. Section 3687 refers to only apprenticeship programs "recognized by a State approving agency as meeting the standards of apprenticeship published by the Secretary of Labor . . .. " 38 U.S.C. § 3687(a)(1). This definition of apprenticeship is incomplete and, again, uses inaccurate terms.

AUTHORITY FOR COMPETENCY-BASED PROGRAMS

In reviewing the amendments, ABC identified one area of ambiguity relating to the Secretary's consideration of the period for a competency-based program. Section 5 of H.R.1716 amends Section 3672(c) of Title 38 by inserting a new paragraph (3)(A). Such paragraph refers to "registered apprenticeship program standards recognized by the Secretary of Labor." The meaning of this phrase is unclear. There are many national organizations, such as ABC, which have registered standards that are adopted in whole or part by apprenticeship programs, which are in turn registered by either the U.S. Department of Labor or a recognized State Apprenticeship Agency.

If the definitions are clarified, as recommended above, an "apprenticeship program" would be by definition registered and its competency-based standards would necessarily be recognized by the appropriate authority.

Absent a clarification of definitions, ABC recommends: "In the case of competency-based program, in determining the period of such a program, the Secretary shall take into consideration the approximate terms as stated in the registered apprenticeship program's standards."

CONCLUSION

In conclusion, ABC commends the intentions of H.R. 1716. Encouraging and rewarding those learning the construction industry through competency-based learning is an essential tactic for increasing participation in apprentice and training programs. However, ABC strongly encourages the subcommittee to take a closer look at the technical nature of this legislation in order to ensure its true intentions are met. ABC again thanks the subcommittee for the opportunity to be heard on this important issue.

WRITEN COMMITTEE QUESTIONS AND THIER RESPONSES

CONGRESSMAN EVANS TO DEPARTMENT OF VETERANS AFFAIRS

Questions for the Record
Honorable Lane Evans, Chairman
Subcommittee on Benefits
Committee on Veterans' Affairs
April 30, 2003

Post-Hearing Questions Regarding H.R. 1460, H.R. 1712 and H.R. 1716

Question 1: In your testimony – you object to H.R. 1712's prohibition on multiple counting. Yet, double and triple counting skews the data and creates the impression that agency performance is greater across the groupings than it really is. Why would VA support double and triple counting of efforts to measure agency performance?

Response: Multiple crediting is generally the accepted practice based on SBA guidance to agencies. Being a service-disabled veteran imposes certain hardships on a business owner, but being a socially disadvantaged service-disabled female veteran makes it all that much more difficult to succeed. Such individuals should be given every opportunity to compete for Government business and agencies will invest that much more effort into making awards to such firms if they can take credit for award to multiple categories. To remove one or more of that firm's socioeconomic statutes in a particular acquisition would impose a burden on that firm and may reduce its opportunities to compete. There should continue to be an incentive to contract with business owners who have multiple disadvantages.

To impose a prohibition on double counting now would be tantamount to significantly raising the goals or severely reducing agency accomplishments relative to existing goals. Without a corresponding reduction in goals, this would be unfair to agencies that are struggling to meet existing goals. If agencies are having difficulty meeting existing goals, raising those goals would be counterproductive.

Question 2: Should service-disabled veterans who are federal employees be required to compete against workers in foreign countries, who may be able to provide lower cost goods and services because those countries do not provide for minimum wages, health and safety laws comparable to the United States?

Response: To our knowledge, the Department of Veterans Affairs has never conducted a competition where service-disabled veterans were required to compete against workers in foreign countries.

The Department of Veterans Affairs (VA) is very concerned about the possibility of service-disabled veterans being required to compete against foreign workers. As mentioned in our response to question #4 below, VA took measures to ensure that work performed as a result of the award to Ocwen was performed by

workers in United States. If a similar situation occurs in the future, VA will take a similar action. We will also coordinate with the Office of Federal Procurement Policy (OFPP) regarding any federal procurement policy issues associated with the possibility of service-disabled veterans being required to compete against workers in foreign countries.

Question 3: You also raise "equal protection" concerns related to H.R. 1712's accountability provisions, which take affect upon agency failure to meet its goals. Please elaborate on this statement. Given the dismal performance of federal agencies in contracting with disabled veterans, what other enforcement mechanisms would you suggest?

Response: The actual language of Deputy Secretary Mackay's statement before the Subcommittee was as follows:

In implementing the various provisions of the legislation that make classifications based on race and gender, the Government would afford equal protection of the laws as required by the Due Process Clause of the Fifth Amendment to the Constitution.

The intent of this sentence was to make a plain fact-of-the-matter assertion that it is the Executive Branch's responsibility to administer all laws fairly and consistent with Constitutional safeguards, and that VA will perform in this manner. Regarding the second part of the question, on the issue of enforcement mechanisms for failing to meet small business contracting goals, VA continues to oppose those proposed in H.R. 1712 as they would remove the flexibility agencies need to be able to successfully perform their missions. As for alternatives to enforcement mechanisms, the Secretary created a task force within VA to examine contracting with veteran-owned small businesses. One recommendation was to develop appropriate personnel performance standards and reward systems to encourage achievement of VA's veteran-owned and service disabled veteran-owned small business goals.

Question 4: Recently the Department of Veterans Affairs announced the award of an A-76 competition to a company that is a leader in exporting American jobs to much lower-paid workers in India. What is the Administration's position concerning competition between veterans and foreign companies or American companies who profit by using low-cost foreign labor?

Response: The Department of Veterans Affairs (VA) is very concerned about the possibility of A-76 competitions resulting in contracts that are performed by workers in another country. Having contract work performed by workers in foreign countries not only eliminates American jobs, but virtually eliminates the possibility for displaced VA public servants, including American veterans, from exercising their Right of First Refusal of Employment opportunities in accordance with Federal Acquisition Regulation clause 52.207-3.

VA has taken measures to ensure all property management functions performed under the subject competition are performed in United States. VA contacted Ocwen regarding outsourcing to India. Ocwen stated that if they were awarded this contract, they would sign a bilateral agreement declaring that they will not outsource labor for VA property management services to any foreign country. Ocwen intends to perform the services required by the VA contract from its headquarters in West Palm Beach, Florida, and its national servicing center in Orlando, Florida. However, some of their administrative and clerical functions, currently being performed overseas, would stay intact. In addition, as stated in their proposal, Ocwen will offer employment opportunities in accordance with FAR 52.207-3, Right of First Refusal of Employment, to VA employees who apply for employment.

Question 5: What is VA's position with respect to Reduction in Force (RIF) procedures and veterans, especially service-disabled veterans, potentially losing their jobs due to the Administration's A-76 outsourcing initiative?

Response: VA's position regarding RIFs is that we will exhaust all reasonable alternatives prior to resorting to a RIF. This includes:

a) Reassigning all employees serving on permanent appointments to other comparable positions for which they are qualified.

b) Cross-training affected employees to perform other VA-needed functions where we can reasonably expect the training to enable the affected employees to be qualified to perform in other positions within a reasonable amount of time while not adversely impacting VA's mission, goals and objectives.

c) Providing affected employees with priority consideration for other available positions within VA.

d) Establishing reemployment priority lists and effective placement programs[1].

e) Paying reasonable costs for training and relocation that contribute directly to placement of affected employees.

f) Coordinating with the Office of Personnel Management (OPM) to ensure employees have access to the Interagency Career Transition Assistance Program (ICTAP).

[1] NOTE: This only applies if a RIF is required and announced.

g) Fully enforcing FAR 52.207-3, Right of First Refusal of Employment for contractor employment opportunities for which affected employees are qualified.

h) Examining the possibility of utilizing contractual incentives to motivate contractors to hire affected employees, including displaced veterans and service-disabled veterans.

In addition to exhausting all reasonable alternatives in ensuring VA employees who may potentially lose their jobs due to competitive sourcing have suitable employment alternatives; VA also recognizes the importance of early planning. Our position in this regard is to:

a) Notify all affected employees as soon as a function is announced for a competitive sourcing study in order to provide the maximum amount of time for affected employees to examine their options and plan for the possibility of the function being contracted out.

b) Examine recruitment alternatives for positions under study to minimize the potential impact on federal employees in permanent positions, e.g., hiring temporary employees or positions with term appointments.

c) Communicate with all potentially affected employees frequently to keep them apprised of the status of the study, as well as alternative opportunities.

d) Examine the possibility of obtaining Voluntary Early Retirement (VER) Authority and/or Separation Incentive Pay (SIP) authority to incentivize voluntary separation.

In the end, VA recognizes that there may be certain situations where a RIF is required. However, conducting a RIF is VA's last resort, and we are absolutely committed to minimizing the need for a RIF through the aforementioned actions.

Question 6: American jobs such as information technology, financial services and other "upscale jobs" are rapidly being moved from the United States to countries such as India, China, Mexico, and the Philippines where wages are about one-tenth of those paid in the United States. With the poor record you acknowledge in providing federal government contracting opportunities for veterans, absent protective legislation, what guaranty is there that veterans and service-disabled veterans will not lose contracts to companies utilizing low paid foreign workers?

Response: Unfortunately, there is no guarantee that jobs won't be lost to foreign locations. As previously mentioned, enforcement of the Service Contract Act may help. In addition, agencies can set-aside acquisitions for small businesses.

The set-aside provisions require that the small businesses perform at least 50% of the work under service contracts with their own employees. If passed and made Law, the provisions of H.R. 1460 permitting agencies to set-aside acquisitions for award to service-disabled veteran-owned small businesses will also help stem the tide of jobs going to foreign locations.

Question 7: VA objects to H.R. 1712 for its broad reaching effect on all federal small business procurement programs. You are concerned about inflexibilities in the bill, but the flexible approach to procurement you advocate has actually resulted in fewer opportunities for most classes of small business owners nationwide. If agencies achieve goals, they have tremendous flexibility under H.R.1712. It is self- defeating to plan for failure. How does the VA recommend we treat failure – what remedies do you suggest?

Response: As noted above, increased political pressure on agencies that fail to meet their goals is effective. In addition, incentives could be created to encourage agencies to meet their goals. Giving agencies tools with which to meet their goals, such as the ability to set aside acquisitions for service-disabled veteran-owned small businesses, as provided in H.R. 1460, will also likely be effective.

CONGRESSMAN EVANS TO OFFICE OF MANAGEMENT AND BUDGET

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

OFFICE OF FEDERAL
PROCUREMENT POLICY

July 3, 2003

The Honorable Lane Evans
Committee on Veterans' Affairs
335 Cannon House Office Building
U.S. House of Representatives
Washington, DC 20515

Dear Representative Evans:

Answers to the follow-up questions in your letter of May 8, 2003 are enclosed. Should you need additional information, please do not hesitate to contact me.

Sincerely,

Angela B. Styles
Administrator

Enclosure

Question 1. In your testimony, you state that increased flexibility, eliminating contract bundling and "competitive sourcing" will have significant positive impact on small business concerns. Please provide us with specific studies that support this assertion.

Answer:

Contract bundling is defined by the Small Business Act as consolidating two or more procurement requirements that were previously provided or performed under separate, smaller contracts into a solicitation of offers for a contract that is "unlikely to be suitable for award to a small business." If an agency does not combine procurement requirements into "bundled" contracts that are unsuitable for award to small businesses, the agency will have smaller procurement requirements for which small businesses can compete. My report to the President entitled "Contract Bundling: A Strategy for Increasing Federal Contracting Opportunities for Small Business" shows a dramatic decline in both the number of new contract awards and the number of small businesses receiving new contract awards in the 1990s. A copy of the report is attached. According to a report prepared for SBA's Office of Advocacy by Eagle Eye Publishers in September 2000, for every 100 "bundled" contracts, 106 individual contracts are no longer available to small businesses. The report also found that, for every $100 awarded on a "bundled" contract, there is a $33 decrease to small businesses. A copy of the report is attached.

With regard to competitive sourcing, the Defense Department has found that 67 percent of contracts awarded under OMB Circular A-76 procedures went to small businesses. Attached is a copy of a report entitled "Department of Defense Competitive Sourcing Program: Summary of Execution Trends for FY 95 through April 2003" that provides more detail. This percentage is nearly triple the statutory small business procurement goal. DOD's achievements in this area give us reason to be optimistic that the Administration's strong commitment to competitive sourcing will result in increased opportunities for small businesses to participate in federal procurement.

Question 2. Recently, we've seen an increase in the award of multi-million/billion dollar contracts going to large prime contractors. For example – the reconstruction contracts for Iraq, and a number of the e-Government initiatives to Booze Allen, Hamilton etc. At the same time, this Committee has received numerous calls from service-disabled veteran-owned firms who have been listed in large prime contractor subcontracting plans, but have not been afforded any part of the subcontracting pie subsequent to contract award. If you, in fact, support the participation of small business firms, and service-disabled veteran-owned firms in particular, in the economic well-being of this nation, do you not believe that the Government should ensure a fair share of the prime contractor subcontracting dollars go to small business?

Answer:

The Administration's strategy on contract bundling identifies actions that agencies will take to strengthen prime contractor compliance with their subcontracting plans, thus enabling a fair share of subcontracting dollars to go to small businesses. Large prime contractors that receive federal contracts of $500,000 for products or services or $1 million for construction are required to prepare plans for subcontracting with small businesses. Prime contractor compliance with these subcontracting plans and agency assessment of such compliance have been inconsistent across the government. In January 2003, the Administration issued a proposed rule to amend the Federal Acquisition Regulation to implement several action items identified in the strategy. The proposed rule would require agencies to assess contractor compliance with the goals identified in their small business subcontracting plans, as part of the agencies' overall evaluation of the contractor's past performance. The Administration's strategy identifies other actions agencies must take to strengthen oversight of contractor compliance with subcontracting plans. Agencies are expected to establish procedures that designate personnel responsible for monitoring contractor compliance with subcontracting plans and delineate responsibilities of such personnel. The agency procedures will include specific requirements for agency monitoring and evaluation of contractor efforts to comply with subcontracting plans for various agency multiple award contracts and multi-agency contracts and orders under such contracts.

Question 3. How should large prime contractors be held accountable for following through and complying with approved subcontracting plans after contract award?

Answer:

As described in detail above, the Administration is requiring agencies to assess large prime contractor compliance with the goals identified in their subcontracting plans, as part of the agencies' overall evaluation of the prime contractors' "past performance." Since evaluation of past performance is used increasingly as a significant factor for awarding future contracts, this requirement will provide strong incentive for contractors to follow through with plans to increase subcontracting opportunities for small businesses.

Question 4. While you indicate that the Administration supports the participation of small businesses in Federal procurement, a growing share of major multi-million dollar contracts are being awarded off GSA contracting vehicles, such as MOBIS, and going to the same large contractors, perpetuating "business as usual." What is the Administration's policy concerning use of the GSA schedule? How is that policy being implemented?

Answer:

The Multiple Award Schedule (MAS) program, which gives agencies access to a wide array of contractors offering a broad range of products and services, provides a vehicle for a large number of qualified small businesses to do business with the federal government. The Administration seeks to promote use of small businesses in MAS contracting, including the MOBIS contract, in a variety of ways. For example:

- Federal agencies are authorized to include orders placed against the MAS in their annual small business goals and accomplishments. This increases incentives for agencies to take advantage of the flexibility of the MAS to increase awards to small businesses. In FY 2002, approximately 37 percent of the dollars spent on MAS purchases went to small businesses.

- GSA Advantage!, an electronic catalog of the items in the GSA supply system, identifies small business schedule contractors and permits customers to search for products and services offered by these small businesses. GSA's Schedules E-Library also identifies the product and service offerings of small business concerns.

- GSA encourages use of team arrangements for schedule buys so that small businesses can participate in performing work on contracts they would not otherwise be able to obtain.

Small businesses will find additional opportunities to demonstrate their capabilities to MAS customers as a result of: (a) recent and pending regulatory changes to increase the use of competition in MAS purchases, especially for services, and (b) the introduction of "e-Buy," an electronic quote system established by GSA so customers may notify MAS contractors of their needs.

Finally, pending changes to the Small Business Administration's small business size certification regulation should ensure that opportunities designed for small businesses on MAS and other large task order contracts are, in fact, going to small businesses. Task order contracts permit agencies to place work with prequalified contractors as needs arise. Under large, long term task order contracts, like MAS and government-wide acquisition contracts (GWACs), the potential exists for businesses that no longer meet small business size status requirements to remain characterized for years as small businesses. SBA's proposed regulations would require re-certification during the life of the task order contract to prevent misrepresentation or mischaracterization, which could lead to abuse of the program intended to increase opportunities for small businesses. OFPP recently advised the GWAC executive agents that they must develop schedules for their small business contract holders to begin providing annual certifications of

their size status. These steps should help to ensure that the size status of businesses is properly represented when work is performed for the government.

Question 5. What specifically has the Administration done, to date, to ensure that a more proportionate share of the contracting dollars associated with its e-Government projects go to small businesses?

Answer:

OFPP is working to ensure small businesses have meaningful opportunities to apply their talent to the many pressing needs facing our government, including those to improve federal acquisition processes through reliance on a modern technology-based integrated infrastructure. As program managers, information technology specialists, and contracting officers work together to develop business cases for E-Government initiatives, they are expected to develop acquisition strategies that facilitate consideration of small business capabilities. To accomplish this objective, agencies would be expected, among other things, to avoid unnecessary bundling, ensure that business cases demonstrate the substantial benefits associated with any bundling necessary for integration efforts, and mitigating any negative effects on small businesses from necessary bundling.

Many key parts of the integrated acquisition environment infrastructure are being shaped through the ingenuity of small businesses, oftentimes in partnership with large businesses. For example, a small business played a key role in helping to develop FedBizOpps (www.fedbizopps.gov), the government's point of entry on the Internet for business opportunities, and another will play an important role in the development of the Federal Procurement Data System -- Next Generation, which will transform how information about acquisition activities is captured in the future.

Information technology (IT) investments have been shaped to increase transparency in the acquisition process to promote a dynamic environment where small businesses can actively sell their goods and services. FedBizOpps, for example, enables vendors to easily acquaint themselves with planned procurements of departments and agencies across the Executive branch. This gateway, hosts a wide variety of business documents, such as notices, solicitations, and other related acquisition information, that vendors need to bid and negotiate contracts with agencies. FedBizOpps reduces the cost of participation in federal procurement which, in turn, makes doing business with the government easier and more attractive, especially to small businesses.

Question 6. How does the Administration intend to hold a very flexible management system accountable?

Answer:

We will hold management systems accountable by promoting the fundamentals of a sound procurement system, by focusing on acquisition planning, and by improving contract management. Acquisition must be viewed in a broad sense that includes the early and active participation of all agency stakeholders in the acquisition process. The Administration's establishment of the Federal Acquisition Council will serve to ensure a broad, integrated approach and senior level participation in government procurement. The Council will emphasize initiatives that promote competition, transparency, and integrity in the federal acquisition process.

Question 7. Recently the Department of Veterans Affairs announced the award of an A-76 competition to a company that is a leader in exporting American Jobs to much lower-paid workers in India. What is the Administration's position concerning competition between veterans and foreign companies or American companies who profit by using low-cost foreign labor?

Answer:

The Administration supports a strong trade agenda to strengthen economic ties, thereby providing commercial benefits for both the U.S. and our trading partners. The Administration has launched new trade initiatives designed to expand trade and open markets globally. As a result of these initiatives, U.S. and foreign firms will gain nondiscriminatory access to each other's procurement opportunities. The Administration also supports expanding opportunities for veterans and demonstrating our appreciation for their service. In that regard, the Administration has indicated support for H.R. 1460 which will designate certain procurements specifically for award to service-disabled veteran-owned small businesses.

Question 8. In a letter responding to Ranking Member Evans' correspondence, you state that OMB has not done any impact analysis or study that A-76 outsourcing could have on veterans' employment preference within the federal workforce, when will OMB begin such analysis?

Answer:

No studies are planned at this time. However, we have recently completed a rewrite of the policy framework, OMB Circular A-76, used to determine if and when a commercial activity should be converted to or from in-house performance. The new Circular includes a specific reference to veterans' employment by contractors. The provision provides that "the statutory veterans' preference for appointment and retention (5 U.S.C. Sections 1302, 3301, 3302, 3502) applies to actions taken pursuant to this circular." The rewrite will ensure fairness in the competitive sourcing initiative. We will monitor the implementation, impact, and effectiveness of the new Circular and will continue to assess the need for further changes.

Question 9. What is the Administration's position with respect to Reduction in Force procedures and veterans, especially service-disabled veterans, potentially losing their jobs due to the Administration's A-76 outsourcing initiative?

Answer:

There are a variety of alternatives that should be considered by agencies. These alternatives include: reassigning employees to other comparable positions for which they are qualified, training affected employees to perform other needed functions, establishing priority lists and effective placement programs for other available positions, and enforcing the rights of first refusal for contractor employment opportunities.

Question 10. Traditional American jobs such as information technology, financial services and other "upscale jobs" are rapidly being moved from the United States to countries such as India, Mexico, and the Philippines where wages are about one-tenth of those paid in the United States. With the dismal record you acknowledge in providing federal government contracting opportunities for veterans, absent protective legislation, what guaranty is there that veterans and service-disabled veterans will not lose contracts to companies utilizing low paid foreign workers?

Answer:

In most procurement competitions, the possibility exists that the contract may be awarded to a foreign firm using offshore labor. The Federal government spends in excess of $250 billion on procurement yearly. I am confident that with proper training and a refocusing of our procurement personnel, we can find contracting opportunities for this segment of the contracting community. To expand the tools available for agencies to award to service-disabled veterans, the Administration supports enactment of H.R. 1460. This legislation would authorize sole source awards to service-disabled veteran-owned small businesses, up to $5 million for manufacturing contracts and $3 million for non-manufacturing contracts. It would also establish a set-aside for competition limited to just those businesses.

Question 11. You object to H.R. 1712 for its broad reaching effect on all federal small business procurement programs. You are concerned about inflexibilities in the bill, but the flexible approach to procurement you advocate has actually resulted in fewer opportunities for most classes of small business owners nationwide. If agencies achieve goals, they have tremendous flexibility under H.R. 1712. It is self defeating to plan for failure. How does this Administration recommend we treat failure – what remedies do you suggest?

Answer:

I am not anticipating failure. Success can be accomplished by focusing and educating procurement professionals on the value and the potential contribution small businesses can provide. Although we have not seen improvement in contract awards for all classes of small businesses, the number of awards to veteran-owned small businesses has increased. In FY 2001, 88,472 actions were awarded to veteran-owned small businesses for a total of $1,119,017,000; in FY 2002 those numbers jumped to 121,424 contract actions for a total of $1,609,348,000. As previously discussed, the Administration supports enactment of H.R. 1460 which will increase contracting opportunities for service-disabled veteran-owned small businesses.

U.S. Small Business Administration
Office of Advocacy

September 2000

The Impact of Contract Bundling on Small Business FY 1992 - FY 1999

A report by Eagle Eye Publishers, Inc. to the U.S. Small Business Administration's Office of Advocacy

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U.S. Small Business Administration's
Office of Advocacy
Under Contract #SBAHQ 97 M 0861

by Eagle Eye Publishers, Inc., Fairfax, Virginia

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EXECUTIVE SUMMARY

The increasingly common practice of contract bundling is accelerating the concentration of larger and fewer federal contracts into the hands of larger and fewer companies. As this happens, the small business share of federal dollars is stagnating well below established agency small business contracting goals. Small businesses, unable to compete for larger contracts, are leaving the federal marketplace in increasing numbers.

Since FY 1995, the start of the new era of procurement reform, the share of all contracts that are bundled has risen 27.6 percent. The FY 1999 prime contract bundled dollar total of $79 billion was the highest level in the last eight years. This total represented 43 percent of all prime contract dollars in FY 1999, also the highest level in eight years. Over the life of contracts active between FY 1989 and FY 1999, the average size of a bundled contract was $8 million, or 11 times the size of an average unbundled contract. The average annual size of a contract, whether bundled or unbundled, has increased 21 percent in the last eight years.

In FY 1999, large businesses received 67 percent of all prime contract dollars and 74 percent of all bundled dollars. Small, Disadvantaged Businesses (SDBs) and Other Small Businesses (OSBs) received a combined 18.7 percent of all prime contract dollars, up just 2 percent since FY 1995 and a full 4.3 percentage points below the 23 percent small business contracting goal set by the U.S. Small Business Administration. At the same time, the small business share of bundled contracts stands at 15.7 percent, 19 percent below the small business share of all contracts. Overall, between FY 1989 and FY 1999 small businesses received 15 percent of all contract dollars, 23 percent of unbundled contract dollars, but only nine percent of bundled contract dollars, on average.

As a result of these trends, 36 percent of all small business contract dollars were awarded on bundled contracts in FY 1999, yet only a handful of small firms actually benefited. Just 16 percent of the small businesses that won bundled contracts in FY 1999 accounted for 84 percent of all small business bundled contract revenue. The five largest small business bundled contract recipients alone accounted for $721 million, or six percent of all small business bundled dollars.

A regression showed that for every increase of 100 bundled contracts there was a decrease of 106 contracts to small business; and for every additional $100 awarded on bundled contracts there was a decrease of $33 to small business. At a level of $79 billion in FY 1999, bundled contracts cost small businesses $26 billion annually. This is driving small businesses from the federal marketplace.

The two market sectors fueling the growth in bundled contracting, Other Services (OS, excluding R&D) and Construction saw their small business participation rates fall while the two sectors that experienced drops in bundled contracts, Research and Development (R&D) and Manufacturing, saw their rates of small business participation rise. Between FY 1992 and FY 1999, Construction sector bundled dollars grew 170 percent to $3.5 billion while OS bundled dollars grew 45 percent to $33.2 billion. Yet the number of small businesses in the Construction sector fell 44.2 percent and the number of OS small businesses fell 4.9 percent. On the other hand, the R&D and Manufacturing sectors experienced a combined 15.1 percent decline in bundled dollars and a 3.2 percent rise in the number of small businesses.

The Department of Defense (DoD) still accounts for 82 percent of all bundled dollars, but civilian agencies are making increased use of bundled contracts. The Civilian agency share of all bundled dollars grew 28 percent between FY 1992 and FY 1999 to $14.3 billion, the highest level in eight years. The General Services Administration (GSA) leads all civilian agencies in awarding bundled contracts ($1.7 billion), followed by the Treasury Department ($1.2 billion), The Justice Department (DOJ, $924 million) and the Department of Veterans Affairs ($697 million). Several civilian agencies, including Education (DED), the Office of Personal Management (OPM) and the Federal Emergency Management Agency (FEMA) awarded more than 10 times the number of bundled contract dollars in FY 1999 than they did in FY 1992.

Of the three major DoD bureaus, only the Army has grown their use of bundled contracts significantly. At $15.8 billion, the Army's FY 1999 bundled dollar total is up 22 percent since FY 1992. The Navy leads all DoD bureaus in the awarding of bundled contracts with a $22 billion total, however it is only 2 percent higher than Navy's FY 1992 bundled dollar total. The Air Force follows the Navy at $18.8 billion, but the AF total is down 24 percent over eight years. Among the fastest growing users of bundled contracts at DoD are the Special Operations Command (USSOC, up 8,745 percent since FY 1992), the Defense Mapping Agency (DMA, up 913 percent), The CHAMPUS health organization (up 209 percent) and the Defense Logistics Agency (DLA, up 193 percent).

Taken as a whole, this study demonstrates that the practice of bundling is growing and that the negative impacts on small business are substantial. The diminishing diversity of the federal industrial base that contract bundling is fueling will have long term and detrimental consequences to the government's ability to procure needed services and supplies at competitive prices.

Recommendations

Some specific policy recommendations to address the problems bundled contracts pose to small business include:

1. Require more unbundled bidding opportunities for small businesses.
2. Fund agencies with sufficient budget resources to support adequate numbers of procurement personnel to handle larger numbers of solicitations and small business bidders.
3. Adopt a standard definition of contract bundling for all agencies.
4. Monitor contract bundling and its impact on small businesses more closely. Steps would include:
    - Require quarterly agency bundled contract reports detailing the distribution of bundled contracts and bundled contract dollars
    - Monitor bundled contract reporting requirements with FPDC data
    - Hold regular hearings and conferences on the topic of bundling to collect anecdotal information from small businesses
    - Restrict agency funds for those agencies not meeting bundled contract reporting requirements
5. Prohibit bundling under certain conditions, such as when certain kinds of goods and services are being procured, or when agency small business goals have not been met.
6. Publicize justifications for substantially-sized bundled contracts and solicit responses to the justifications from the contracting community. Elevate the justifications to the status of those required under OMB Circular A-76, which requires a rationale for contracting out in the first

place.

7. Set aside certain percentages of bundled contracts for small business.
8. Permit small businesses more time to respond to solicitations for bundled contracts in order to allow them more time to form ad hoc teams. Include a solicitation's due date in the justification for bundling.
9. Actively assist small businesses in identifying and qualifying teaming candidates for pursuing bundled contract opportunities.
10. Strictly enforce agency small business contracting goals.
11. Broaden existing definitions of bundling to include the accretion of dissimilar tasks (through modifications) to existing multiple award and IDIQ-type contracts and include these contracts in measures of bundling.

I. INTRODUCTION

The purpose of this study is to present evidence showing whether or not the practice of consolidating small, individual government purchases into larger, bundled contracts is having a negative impact on small business participation. This study further attempts to assess whether recent changes in federal procurement practices, such as the raising of the small purchase threshold to $100,000, will accelerate contract consolidation and exacerbate the negative impacts of bundling on small business.

Despite clauses in the Federal Acquisition Regulations (FAR) calling on contract officers to make special efforts to sustain small business participation in procurement, budget cuts and directives to streamline the procurement process may be leading contracting officers to consolidate small purchases into larger contracts in the name of a limited efficiency.

These kinds of procurement "efficiencies" impact small businesses negatively because the requirements of larger, multi-faceted contracts can easily outstrip the financial or administrative capabilities of a small business, precluding them from competing. Furthermore, the opportunity for small businesses to subcontract from the larger companies winning the bundled contracts may also diminish because of a tendency for larger firms to use their own resources on the contracts they win.

Evidence of the negative impact of contract bundling on small business was first presented in the U.S. Small Business Administration's 1993 report.[1] The study relied mainly on a survey of small business owners and others involved in the federal procurement process (that is, agency Offices of Small and Disadvantaged Business Utilization, contract officers, etc.). The study recommended more systematic and detailed analysis of prime contracts data to substantiate or disprove the claims of small business owners that umbrella contracts were harming their companies.

This led to the 1997 Eagle Eye study that developed new analytical techniques in an effort to fulfill the mandate of the SBA study and to analyze the impacts of bundled contracts.[2] This study found that "The practice of consolidating small requirements into larger, bundled contracts is gradually increasing and causing harm to many small businesses. The evidence of consolidation is contained in overall measures of contract size, numbers of bundled contracts, actions per contract, counts and shares of large versus small contracts and in the striking changes to annual small business revenues."

The present study extends the analysis of bundling to FY 1999 and refines the previous study's methodology. We provide justification for using dissimilar Standard Industrial Classification (SIC) Codes, Contract Types and Places of Performance (POP) as the basis for defining what we now refer to as "explicitly bundled contracts." The most significant methodological improvement is that the year-by-year analysis now incorporates a three-year look-back period designed to control the tendency toward higher incidences of bundling as contracts age. By limiting our year-by-year analysis of bundled contracts to

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[1] U.S. Small Business Administration, *Study of the Impact of Contract Bundling on Small Business Concerns and Practical Recommendations* (Report to the Committee on Small Business of the United States Senate and the Committee on Small Business of the United States House of Representatives, 14 May 1993) 77 pages.

[2] Eagle Eye Publishers, Inc., *Bundled Contract Study FY 1991-FY 1995,* prepared for the U.S. Small Business Administration, Office of Advocacy.

those showing bundling in the current year or in the three immediately prior years we can measure trends from fiscal year to fiscal year on an equal basis.

In this analysis we use Product/Service Codes (PSCs) exclusively to define market categories because including SIC codes might tend to distort counts of bundled contracts that became bundled because they incorporated dissimilar types of work. Taken as a whole, the combination of methodological and analytical improvements in this new study almost certainly generates a more conservative, stable and reliable estimate of bundling than has been available to date.

II. METHODOLOGY

This analysis builds upon lessons learned from Eagle Eye's initial bundled contract analysis for the SBA. Because the U.S. federal government still does not systematically collect information about bundling, Eagle Eye continues to define bundling in the context of available prime contract data from the U.S. General Services Administration.

As in the first study, this definition of bundling is based upon the notion of "dissimilar tasks," or the idea that contracts showing certain differences from obligation to obligation represent bundled requirements. We therefore begin our discussion of Methodology with a brief description of our data source. We go on to compare and contrast the key elements of our new analysis with the key elements of our old study, describing which concepts and data measures we have retained, modified and abandoned. Finally we explain the specific analytical procedures used in the current analysis. A full, detailed discussion of this study's methodology is presented in Appendix A.

A. The Data Source

The database used for this study is an enhanced version of the Form DD-350 (defense) and Form 279 (civilian) Individual Contract Action Report (ICAR) prime contracts data collected and compiled by the Federal Procurement Data Center (FPDC), a branch of the U.S. General Services Administration (GSA). The core data elements collected in this database describe various characteristics of contractual obligations made between the federal government and prime contractors. Neither subcontract nor budget data are part of the prime contracts database.

A prime contract obligation is a legally binding agreement between the government and a contractor that commits the government to acquire products or services at an agreed price. Obligated dollars are moved by the authorizing agency to a contractor's account at the federal buying activity responsible for the purchase. These obligated funds are then used by the purchasing personnel to make payments to the contractor on an agreed payment schedule. Obligations are therefore linked to, but do not necessarily match, contractor progress.

Every time the government makes an obligation on a contract of at least $25,000 a purchasing officer must fill out either a DD-350 form (for defense agencies) or an SF-279 form (for civilian agencies). These forms describe the financial, competitive, statutory and other characteristics of the obligation. Smaller initial obligations can be made on an SF-279 or reported in bulk form on an SF-281.

Over the entire course of a contract's duration, a purchasing officer might fill out numerous DD-350 or SF-279 forms for a single contract. This is because the dollars contained in a single obligation may not represent the total value of a contract. In fact, there are about 500,000 annual contract obligations in the FPDC database spread over 170,000 - 200,000 contracts. This means there are on average about 2.7 obligations per contract per year. Some small contracts have only one obligation, but some large contracts can have over 100.

Each DD-350 or SF-279 report forms the basis of a separate record in the ICAR contracts database. A purchasing officer will fill out a separate procurement form every time there is an action, that is, a new obligation on the contract or a de-obligation. Each action shows a unique combination of the following

data elements: reporting agency, contract number, contract modification number, contracting office order number, contracting office code, action date, and amount of obligation (or de-obligation). Each time a new form is filled out a separate task has been documented.

Because the core database for this study describes each individual task on a contract, over time contracts with more than one obligation can display different codes for the same field of data. As contract requirements change or evolve, many contracts display different Contract Type, SIC and Place of Performance codes. These differences flag a contract as bundled for the purposes of this analysis.

B. Definitions

It is important to carefully define each variable of interest in terms of the available data. First and foremost, of course, is the definition of a bundled contract.

1. Bundled Contract

A bundled contract is a contract that incorporates requirements formerly distributed across several separate contracts into one larger contract. Bundled contracts may combine dissimilar activities or they may represent a consolidation of similar requirements. Past definitions used by the federal government have further characterized bundled contracts as being requirements that have become too large in size or scope to be suitable for small business competition. As we will see, small businesses do indeed win what Eagle Eye defines as bundled contracts, but not at similar rates to their large business counterparts or to the small business share of federal contracting as a whole.

2. Candidate Bundled Contract (CBC) Definition in the First Eagle Eye Study

With no official indication in the FPDC data of whether a contract represented a consolidation of prior requirements, Eagle Eye identified Candidate Bundled Contracts (CBCs) in the first study as those contracts displaying one or more indicators of dissimilar tasks on the same contract number. The indicators of bundling we selected included multiple Type of Contract codes, multiple Standard Industrial Classification (SIC) codes or multiple Places of Performance (POPs).

We reasoned that two different SIC codes indicate dissimilar tasks. We further determined that a contract action indicating a contract type (e.g. cost plus or fixed price) that is different from the original contract or other modifications involves tasks that are at the very least dissimilar administratively. Furthermore, it is likely that tasks performed at two different places are dissimilar. We reasoned that any difference in any of these three codes on the same contract was almost certainly an indication of a new task and thus a candidate for bundling.

After considerable analysis, Eagle Eye determined that, although conservative, this CBC definition withstood the demands of analysis. Testing confirmed that the selection of CBCs left no unexpected gaps when the data was broken down by market or type of contractor.

Adding to the complexity of analyzing CBCs however is the fact that when we select data according to a market definition, for example ADP Services, not only can the actions constituting an ADP Services contract be bundled within the ADP Services market definition but the ADP Services themselves could be

part of a larger bundled award for, say, a new, multi-faceted airport communications system. We know from the start that our definition of bundling would of necessity be conservative.

3. Explicitly Bundled Contract (EBC) Definition in This Study

In order not to confuse this study with the previous one, and in order to be explicit, we use here the notion of an Explicitly Bundled Contract (EBC), which again is a contract number that displays dissimilar SICs, Types of Contract or PoPs over the period of the analysis.

Still lacking any official indication of bundling, Eagle Eye used the same three indicators of dissimilar tasks to identify EBCs in the current study. We carefully considered adding dissimilar PSCs on the same contract number to our criteria for identifying bundled contracts (see Appendix A). This would have dramatically raised the count of bundled contracts in our study. We decided against including different PSCs as a measure of bundling, however, primarily because so many PSCs have been reclassified over the years we feared that coding discrepancies rather than bundling might be the true cause of the differences we measured. We also sought consistency from the first study to the second.

We recognize that EBCs may include some contracts that are in reality unbundled. But it should also be recognized that EBCs exclude a considerably larger number of contracts that are actually bundled, such as large, consolidated contracts displaying the same SIC, POP and Type of Contract codes. In terms of data, an error in data entry for SIC code,[3] place of performance, or contract type that is not consistently wrong for the entire contract may result in "bundling" where bundling would not otherwise be indicated. On the other hand, since we are only including the portions of contracts during FY 1989 - FY 1999, bundling outside this period on the same contracts may not be reflected in bundling during the period.

Where does this leave us? By any reasonable definition of bundling, a contract of more than a billion dollars should be per se bundled. But as indicated below, only 67 percent of contracts involving more than a billion dollars are classified as EBCs and only 62 percent of the dollars in contracts involving more than a billion dollars are awarded on EBCs. This indicates that we continue to use an essentially conservative measure of bundling.

4. Markets

Markets are defined in terms of PSCs than SICs because this is a study of procurement rather than of the economy. As such, we need to break down procurement with a procurement classification rather than an economic one. The size of a market is defined as the sum of the dollar values of all actions in that market during the period in question. If a contract includes actions during that period in more than one market, only the actions in the market in question are included. Thus, contracts may be counted in more than one market, but dollar values are not. Contract counts for a market that encompasses other, more specifically defined markets do not have double counting, nor do contract counts for procurement as a whole.

5. Large Contracts

A bundled contract is by definition larger than the contracts it replaced. Conversely, large contracts in

[3] SIC codes were used for the first time in FY 1989 and were likely less reliable during the first part of the period FY 1989 - FY 1999.

general are more likely to be bundled. The original study used a dollar threshold of $100 thousand to define a large contract. In the present study, the dollar threshold has been changed to $1 million. Even though $100 thousand is the limit on small purchases, contracts between $100 thousand and $1 million are much less likely to be bundled than contracts over $1 million. The figure of $1 million is generally the threshold for the requirement of a subcontracting plan, and subcontracting means that the work can feasibly be split up; that is, the requirements may have been bundled.

6. Bundled Contract Rating Eliminated

The original study had a "Bundled Contract Rating", which was the sum of four such ratings, which were the subjective estimates of the importance of a particular value of each of a number of indicators in each market. In this study, the percentage of explicitly bundled contracts will in effect be the bundled contract rating. Actions per contract will continue to be calculated but will serve as an indicator of the underlying situation, rather than as an additional indicator of bundling. (Certain kinds of actions are already included in the definition of explicitly bundled contracts.)

The share of large contracts in procurement will continue to be calculated but will serve as an indicator of the underlying situation, rather than as an additional indicator of bundling. Also, small business contracts that are large will no longer be used as an indicator of bundling, although they will continue to be calculated. The thinking behind their use as an indicator of bundling was that bundling would result in larger contracts to small business as well as large. But small businesses with large contracts could also be an indicator of success independent of bundling.

7. Harm to Small Business Rating Eliminated

In the original study, the "Harm to Small Business Rating" was the sum of five such ratings, which were the subjective estimates of the importance of particular values of each of five indicators in each market studied. The five indicators can be described without loss of generality as the small business shares of CBCs, large contracts, all contracts, establishments performing contracts, and new establishments. While all indicators will continue to be calculated, we focus in the current study on the small business share of all contracts and dollars as the essential indicator of any harm to small business.

While an increasing small business share of explicitly bundled contracts is good for small business, it might be at the cost of other small business contracts; the small business share of all contracts is more relevant. A similar statement can be made about the small business share of large contracts. While a declining small business share of establishments may be a warning sign, it might also merely indicate some consolidation of effort within the small business sector. And a greater number of new small business establishments might indicate vigor or a lack of barriers or it might indicate merely higher turnover in the market due to difficulties in satisfying the government at a profit. The bottom line as always is whether or not contracts and dollars are going to small businesses.

The statistical analysis is taken one step further in the current study by calculating the changes (in percentage points) in the small business shares of contracts (and dollars) in each market versus the changes (in percentage points) in explicitly bundled contracts (and dollars) as shares of each market, and relating the two variables in a cross section regression.

C. Key Analytical Procedures

This study incorporates several specific analytical procedures, including:

1. Determination of Explicit Bundling for the Entire Study Period

To determine explicit bundling for the entire FY 1989 - FY 1999 period, we group all prime contract obligations by contract number. The result is all contracts acted upon during these eleven years. Then, we flag all contracts that have a difference among actions (which may include the original contract) in the SIC, PoP or Type of Contract codes regardless of the year in which the difference occurred, including the years leading up to the study period. The result is a measure of all explicitly bundled contracts that were acted upon during these eleven years.

2. Explicit Bundling in the Analysis of One Fiscal Year at a Time

Our main statistical innovation in the new study is the use of a look-back period in the year-by-year analysis of bundled contract activity. In the original study, the only evidence of bundling used was that which occurred in the year being analyzed. However, in conducting analyses for this study using the original methodology, we saw a tendency for contracts to show more signs of bundling as they became older. This is relatively easy to understand: the older a contract became, the more ways contract officers saw they could expand the scope of existing contract vehicles.

However, this tendency toward higher rates of bundling on older contracts caused two biases in our analysis: actions on contracts in earlier years were more likely to be on contracts that were later bundled, and actions in later years were more likely to be on contracts that were bundled earlier. Since these two biases would in all probability not be perfectly offsetting, we decided that it was necessary to systematically remove each of them.

To render annual measures of bundling more accurately, we instituted a procedure that identified a contract as being bundled in any given year only if the three, key bundling indicators (PoP, SIC and Type of Contract codes) showed differences during the four-year period leading up to and including the year in which bundling was being measured. Once a contract became bundled, it remained bundled for the remainder of the study period. For example, to determine if a contract that was active in FY 1992 was explicitly bundled for the analysis of that year, all actions placed against that contract from FY 1989 up through the end of FY 1992 were analyzed for variations in the PoP, SIC and Type of Contract codes. Similarly, to determine if a contract active in FY 1999 was explicitly bundled, all actions placed against that contract starting in FY 1996 were studied.

This methodological refinement eliminated the artificial inflation of bundled contract counts in the later years of the study and lowered measures of bundling in the earlier years. Overall, our new measure of year-to-year bundling trends remained relatively conservative.

Note that if a contract's bundled status changed from unbundled to bundled over its life, indications of bundling were not made retroactive in the year-by-year analysis. For instance, a contract initially awarded in FY 1991 that first showed signs of bundling in FY 1993 was considered bundled starting in FY 1993 and thereafter, until it was closed out. The contract was not counted as bundled in FY 1991 and FY

1992. This eliminates any bias toward bundling that would otherwise tend to inflate the numbers of bundled contracts in the earlier years of this analysis.

We selected a four-year period in order to capture a good portion of bundling but still have eight years (FY 1992-FY 1999) to compare with each other. While this captures a good deal of bundling, it by no means captures all bundling. This is illustrated by an analysis of how bundling occurs as contracts age. This analysis looked at the 1,316,127 contracts that began[4] during the period FY 1989 - FY 1999, or 94.7 percent of the 1,383,161 contracts acted upon during this period.

Of the 120,324 contracts that began during FY 1989, 3,843 contracts (3.19 percent) were bundled during the same year. By the end of FY 1990, another 3,574 contracts had been bundled, for a total of 7,417 contracts bundled (6.16 percent). By the end of FY 1999, a total of 10,593 contracts that began in FY 1989 had been bundled by the eleventh year, or 8.8 percent. Similar calculations were done for contracts that began in FY 1990, but the bundling could only be followed for ten years instead of eleven. As we looked at bundling that occurred on contracts that began later and later, the bundling histories that we could observe became shorter and shorter, until for contracts that began in FY 99 we could only look at bundling that occurred during the same year. Thus we had eleven observations on bundling that occurred during the same year as the beginning of a contract, ten observations on bundling that occurs within the year after that, and so on. We calculated the percentages of contracts that were bundled, and the averages of these percentages by the corresponding years in the life of the contract. These averages are shown in Table 2.1 (below).

The percentage of contracts that are bundled rises steadily as contracts age, reaching 8.8 percent of all contracts in the eleventh year that these contracts have existed. The percentage of dollars that are bundled rises steadily through the eighth year and then begins a three-year decline. This is partly the result of a quite large percentage (59.1) of dollars in contracts that began in FY 1991 that were bundled by FY 1995.

Because large contracts are more likely to be bundled, the percentage of dollars bundled in each year is much greater than the percentage of contracts bundled. The ratio of these percentages also increases with age from four to six. (As contracts get older, not only are more contracts bundled, but more dollars are put into the contracts already bundled.)

Because some new bundling will occur after the eleventh year, looking forward three years after the year of birth of a contract captures 75 percent of the contracts that are eventually bundled and less than 50 percent of the dollars that are eventually bundled. This suggests that a three-year look-back from an action leaves out considerable bundling, making our estimate of bundling more conservative. As stated above, however, the look-back was limited to three years in order to have eight years of data to analyze for trends.

Table 2.1: Contracts Bundled by Age of Contract (averages of percentages of all contracts)

[4] Defined as showing no actions in the period FY 1984 – FY 1988.

Year in Contract	Number of Observ Yrs	Bundled Contracts as % of All Contr	Index with Year 11 = 100	Bundled Dollars as % of All Dollars	Index with Year 11 = 100
1	11	2.57	29	22.66	44
2	10	5.07	58	38.22	75
3	9	6.10	69	45.17	88
4	8	6.62	75	48.7	95
5	7	6.88	78	51.49	101
6	6	7.02	80	52.97	104
7	5	7.24	82	55.06	108
8	4	7.56	86	55.45	109
9	3	7.93	90	55.14	108
10	2	8.35	95	51.43	101
11	1	8.8	100	51.1	100

In the original study, the procedure to determine bundling was quite limited: the only evidence of bundling used was that which occurred in the year of the action. Consequently, the number of explicitly bundled contracts in this study are properly greater than the number of "candidate" bundled contracts in the original study.

3. Markets in the Analysis of One Fiscal Year at a Time

For a given fiscal year, we first select all actions that have a product-service code in the market being analyzed. The sum of the obligations and de-obligations in these actions is the dollar size of the market in the given fiscal year. Note that this excludes actions on contracts acted upon during this year that had a product-service code in this market in an earlier year but not in the year being analyzed.

These actions in the given market are then grouped by contract number. The result is the number of contracts acted upon by actions in this market during this fiscal year. (The ratio of actions to contracts includes just the actions in the market and year being analyzed but not in other markets as well if they are actions upon the same contracts.) We then count the number of contracts that are flagged. The result is the number of explicitly bundled contracts acted upon by actions in this market during this fiscal year.

The original study at this point excluded contracts with negative or zero net dollar values in total actions in the fiscal year being analyzed, on the grounds that any bundling here may have actually been unbundling. But the size of the market is thus increased and is then greater than the size of the market in various tabulations of others. Keeping such contracts would facilitate cleaner comparisons with other studies. And a de-obligation in this case will still represent action upon a bundled contract.

4. Large Contracts in the Analysis of One Fiscal Year at a Time

The original study defined large contracts to be contracts acted upon in the fiscal year and market being analyzed that had a total value of actions in that year in that market (but not in another market) in excess of a dollar threshold. This excluded contracts that were large in a prior year but were acted upon in the current year in an aggregate amount less than the dollar threshold. It also excluded contracts that were large in another market but not in the market being analyzed. Since the indicator of bundling in this study can occur in a different market and/or an earlier year, the small and large breakdown should be on the comparable basis. Contract size is therefore defined to include the dollar value of all actions in any market

during the period used to determine bundling.

5. New Contractors

In the original study, a "new" contractor was defined as an establishment that had not received an award during any previous year. In the present study, we use instead a file that Eagle Eye has constructed linking establishments to their parent companies. A "new" contractor is defined as a parent company that had not previously received an award in the period used to determine bundling.

6. Type of Contractor

Contractors are grouped in the appendix into the following categories: small disadvantaged business, other small business, large business, and other (which consists of sheltered workshops, other nonprofits, other state/local government institutions, foreign contractors, domestic contractors performing outside the U.S., historically black colleges/universities or minority institutions,[5] and unknown). Actions that do not have a code for type of contractor are not attributed to large business even though they are almost exclusively DoD actions with a firm specified by a foreign government or by an international organization, or DOD actions in some other special program. Counts of contractors by type will sometimes add to a total that is greater than the total for all performers if actions awarded to the same p[6]erformer have been coded with more than one type of contractor on separate actions.

[5] Contracts with historically black colleges/universities or minority institutions are undercounted in the overall (FY 1989 - FY 1999) tabulations because they were not indicated on the data form before May 1996.
[6]

III. OVERALL ANALYSIS

In this section we present the results and analysis of bundling in the entire eleven-year period FY 1989 to FY 1999 as a whole. Year-to-year comparisons of bundling occur in the next section.

A. All Contracts

There were 1,383,161 contracts acted on during the FY 1989 – FY 1999 period. The dollar value of all contract actions amounted to $2.01 trillion, for an average contract size of $1.454 million. Of these contracts 1,316,127 began in FY 1989 or later. The dollar value of the actions on these contracts amounted to $1.6 trillion for an average contract size of $1.247 million. There were thus 67,034 contracts that began before FY 1989 and were acted on in FY 1989 or later in the amount of $ 369 billion for an average contract size after FY88 of $5.498 million. Even though we only include the latter portions of these earlier contracts, the average dollar value of these contracts during the eleven-year period is still almost four times the average dollar value of contracts that began during the period. At the end of the period, the contracts that began during this period ranged in age from eleven years to birth at the end of the period, for an average age of 5.5 years. The average contract size in our data base is less than the average contract size in general for two reasons: (1) we only have the FY 1989 - FY 1999 portions of contracts that began before FY 1989, and (2) some of the contracts that began during FY 1989 - FY 1999 will have further modifications after FY 1999. Estimates of contract size and rates of bundling in this report are therefore conservative.

1. Bundling by Contract Size

Table 3.1 shows the bundling of contracts when each contract is classified by the total value of the contract during the period FY 1989 through FY 1999. Bundling increases rapidly with contract size, reaching a peak of 69 percent at contract sizes of $100 million or more.

Of the 1,383,161 contracts, 118,299 or 8.6 percent were bundled. Of the $2.01 trillion in these contracts, $1.09 trillion or 54.2 percent were awarded as part of bundled contracts. Unbundled dollars totaled $920 billion in 1.3 million contracts for an average unbundled contract size of $721,021. The average bundled contract was $7.971 million, or 11.1 times the size of the average unbundled contract.

Table 3.2 shows that, for each category of contract size less than $1 billion, the percent of dollars bundled is greater than the percent of contracts bundled, since larger contracts are more likely to be bundled, even within a given contract size. The bundling of dollars increases rapidly with contract size, reaching 67 percent for contracts valued greater than $100 million.

The 19,735 contracts with total values of less than $1,000 (Table 3.1) are on the whole negative (Table 3.2). This can happen if a contract that began before FY 1989 showed de-obligations on the whole after FY88. Another possibility is, of course, an error in the data submitted to the FPDC in either the contract amount or the contract number, which would create a "contract" that should actually be combined with another contract. The fact that 25 percent of these contracts (and 55 percent of their dollars) are bundled suggests that these are part of large contracts.

Table 3.1: Contracts Bundled by Size of Contract FY 1989 – FY 1999

Contract Size (Dollars)	All Contracts	Bundled Contracts	Percent Bundled	Unbundled Contracts
<1K	19,735	4,871	24.7%	14,864
1K-100K	845,430	19,825	2.3%	825,605
100K-1M	387,894	49,473	12.8%	338,421
1M-10M	108,616	32,563	30.0%	76,053
10M-100M	18,994	9,841	51.8%	9,153
100M-1B	2,310	1,604	69.4%	706
>1B	182	122	67.0%	60
TOTAL	**1,383,161**	**118,299**	**8.6%**	**1,264,862**

Table 3.2: Dollars Bundled by Size of Contract FY 1989 – FY 1999

Contract Size (Dollars)	Dollars in All Contracts ($000)	Bundled Contracts ($000)	Percent of $ Bundled
<1K	-8,595,014	-4,708,319	54.8%
1K-100K	33,158,817	999,195	3.0%
100K-1M	127,456,532	19,684,952	15.4%
1M-10M	323,397,913	108,000,000	33.4%
10M-100M	513,649,675	282,080,550	54.9%
100M-1B	561,088,157	397,638,716	70.9%
>1B	460,647,302	285,947,638	62.1%
TOTAL	**2,010,803,382**	**1,090,574,082**	**54.2%**

By any reasonable definition of bundling, a contract of more than a billion dollars should be per se bundled. But only 67 percent of contracts involving more than a billion dollars are explicitly bundled and only 62 percent of the dollars in contracts involving more than a billion dollars are explicitly bundled. This indicates that we are using an essentially conservative measure of bundling. Yet, more than one out of every two dollars (54%) was awarded as part of a bundled contract between FY 1989 and FY 1999.

2. Bundling by Number of Actions

Table 3.3 shows the bundling of contracts by the number of actions. Contracts with only one action are by definition not explicitly bundled, since more than one action is required for a change in the SIC, Type of Contract and/or Place of Performance Codes. The reason bundled contracts with only one action appear in this analysis is because these contracts have only one action during the FY 1989 - FY 1999 study period but meet the study's bundled criteria with other actions during the prior FY84-FY88 period.

Table 3.3: Contracts Bundled by Number of Contract Actions FY 1989 – FY 1999

Number of Actions	All Contracts	Bundled Contracts	Percent Bundled
1	950,705	13,872	1.5%
2	152,584	20,294	13.3%
3	70,042	12,134	17.3%
4	44,125	8,906	20.2%
5	28,382	6,657	23.5%
6 – 10	65,876	20,488	31.1%
11 - 20	36,983	15,159	41.0%
21+	34,464	20,789	60.3%
Total	**1,383,161**	**118,299**	**8.6%**

The bundling of contracts and dollars clearly accelerates with larger numbers of contract actions. When the number of actions reaches 21 and above, more than 60 percent of contracts and more than 68 percent of their associated dollars are bundled.

Table 3.4: Dollars Bundled by Number of Contract Actions FY 1989 – FY 1999

Number of Actions	All Dollars ($000)	Bundled Dollars ($000)	Percent Bundled
1	184,276,543	2,966,604	1.6%
2	75,031,907	14,807,967	19.7%
3	57,287,494	14,963,642	26.1%
4	48,865,274	14,603,131	29.9%
5	41,177,929	14,759,816	35.8%
6 – 10	161,765,177	70,174,768	43.4%
11 - 20	212,616,143	121,295,242	57.0%
21+	1,229,782,915	837,002,912	68.1%
Total	**2,010,803,382**	**1,090,574,082**	**54.2%**

B. Contracts by Type of Business

Table 3.5 (below) shows contract bundling by Type of Business.

The number of contracts counted in Table 3.5 is 29,938 greater than previous totals. This happens when more than one type of contractor is coded on different actions for the same contract. This can happen when a contractor changes status during the course of a contract or when companies are miscoded as two different types of business.

The percentage of contracts bundled is greatest the Not Reported/Not Available and the Domestic

Contractor Performing Outside the U.S. categories. Not Reported consists of contracts coded with blank business type codes. This category exhibits many of the same dollar and contract count characteristics as the Large Business category. Close scrutiny reveals that in fact the contractor names linked to contracts coded with blank business type codes are mostly large businesses. Often they are defense contractors working on contracts where a foreign government is the ultimate client.

Table 3.5: Numbers of Contracts Bundled by Type of Contractor FY 1989 – FY 1999

Type of Business	All Contracts	Bundled Contracts	Unbundled Contracts	Percent Bundled
Not Reported / Not Available	27,322	7,853	19,469	28.7%
Total Small Business (SDB+Other)	**864,316**	**63,886**	**800,430**	**7.4%**
Small, Minority-Owned Business	137,434	14,923	122,511	10.9%
Other Small Business	726,882	48,963	677,919	6.7%
Large Business	378,910	48,963	329,947	12.9%
JWOD Nonprofit Agency	7,638	707	6,931	9.3%
Nonprofit Education Organization	16,416	1,880	14,536	11.5%
Nonprofit Hospital	1,824	122	1,702	6.7%
Other Nonprofit Organization	14,200	1,931	12,269	13.6%
State / Local Government – Educational	5,331	448	4,883	8.4%
State / Local Government – Hospital	1,682	111	1,571	6.6%
Other State / Local Government	17,577	1,659	15,918	9.4%
Foreign Contractor	66,692	7,280	59,412	10.9%
Domestic Contractor Performing Outside U.S.	10,822	1,940	8,882	17.9%
Historically Black College / University or Minority Institution	369	32	337	8.7%

The Domestic Contractor Performing Outside the U.S. category includes virtually all large businesses as international contracts have a marked tendency to be performed by larger firms. Many of these companies are multinational energy and engineering firms like Halliburton, Exxon and Raytheon.

Of the contracts acted upon during the eleven-year period FY 1989 to FY 1999, 12.9 percent of the contracts with an explicit large firm performer were bundled, 74 percent greater than the 7.4 percent of contracts going to small firms. A mathematically equivalent statement is that a bundled contract is 74 percent more likely to go to a large firm (as opposed to a small firm) as a contract in general. But a sharper comparison is between bundled contracts and unbundled contracts: a bundled contract is 86 percent more likely to go to a large firm (as opposed to a small firm) as an unbundled contract. The overall conclusion is that **compared to small firms, large firms are nearly twice as likely to have their contracts explicitly bundled, and nearly twice as likely to be recipients of explicitly bundled contracts as opposed to unbundled contracts.**

Table 3.6 shows the bundling of contract dollars by the type of contractor. Total contract dollars are the same as in previous tabulations, since even if the contractor type changes from one action to another on the same contract, the total number of dollars in the contract will not change.

The percentage of contract dollars bundled is greatest, 78 percent, for the $95 billion awarded in the Not Reported category. This, as we have pointed out, is a category made up mainly of large firms. The percentage of contract dollars bundled is next greatest (60 percent) for the $1.4 trillion awarded to large businesses. The third largest bundled dollar percentage, 51 percent, is associated with Domestic Contractors Performing Outside the U.S. Again, this category consists mainly of large businesses.

Table 3.6: Dollars Bundled by Type of Contractor
FY 1989 – FY 1999

Type of Business	All Contract Dollars ($000)	Bundled Dollars ($000)	Unbundled Dollars ($000)	Percent Bundled
Not Reported / Not Available	95,374,631	74,155,642	21,218,989	77.8%
Total Small Business (SDB+Other)	**343,320,067**	**120,324,545**	**222,995,522**	**35.0%**
Small, Minority-Owned Business	102,860,304	38,203,984	64,656,320	37.1%
Other Small Business	240,459,763	82,120,561	158,339,202	34.2%
Large Business	1,370,075,503	823,675,944	546,399,559	60.1%
JWOD Nonprofit Agency	4,912,947	966,981	3,945,966	19.7%
Nonprofit Education Organization	33,416,573	14,780,793	18,635,780	44.2%
Nonprofit Hospital	2,266,270	52,299	2,213,971	2.3%
Other Nonprofit Organization	48,510,974	22,013,129	26,497,845	45.4%
State / Local Government - Educational	34,767,569	3,629,358	31,138,211	10.4%
State / Local Government - Hospital	545,078	95,360	449,718	17.5%
Other State / Local Government	7,974,039	920,403	7,053,636	11.5%
Foreign Contractor	50,581,001	20,322,899	30,258,102	40.2%
Domestic Contractor Performing Outside U.S.	18,830,493	9,586,193	9,244,300	50.9%
Historically Black College / University or Minority Institution	228,237	50,536	177,701	22.1%

Of the contracts acted upon during the eleven-year period FY 1989 to FY 1999, 60.1 percent of the contract dollars with an explicit large firm performer were bundled, 72 percent greater than the 35 percent of contract dollars going to small firms. A mathematically equivalent statement is that a bundled contract dollar is 72 percent more likely to go to a large firm (as opposed to a small firm) as a contract dollar in general. But a sharper comparison is between bundled contracts and unbundled contracts: a bundled contract dollar is almost three times as likely to go to a large firm (as opposed to a small firm) as an unbundled contract dollar. The overall conclusion here is that **compared to small firms, large firms are nearly twice as likely to have their contract dollars explicitly bundled, and almost three times as likely to be recipients of explicitly bundled contract dollars as opposed to unbundled contract dollars.**

Small firms had 7.4 percent of their contracts bundled and 35 percent of their contract dollars bundled. The ratio of these two percentages is 4.73, which is mathematically equivalent to the ratio of the average size of bundled small firm contracts to the average size of all small firm contracts. A sharper comparison is between bundled and unbundled contracts, leading to Table 3.7.

For procurement as a whole, this table implies that contracts active during FY 1989 - FY 1999 had an

average value of $1.423 million during this period. This is slightly less than the true value of $1.454 million because of the extra "contracts" due to multiple contractor type codes. The State and Local Government - Educational category showed the largest average contract size, 4.5 times the average size for procurement as a whole. The average large firm contract was 9.1 times the average small firm contract.

Table 3.7: Average Contract Size by Type of Contractor, FY 1989 – FY 1999

	Average Contract Size ($000)			
Type of Business	**All Contracts**	**Bundled Contracts**	**Unbundled Contracts**	**Bund/Unbund Size Ratio**
Not Reported / Not Available	3,491	9,443	1,090	8.66
Total Small Business (SDB+Other)	**397**	**1,883**	**279**	**6.76**
Small, Minority-Owned Business	748	2,560	528	4.85
Other Small Business	331	1,677	234	7.18
Large Business	3,616	16,822	1,656	10.16
JWOD Nonprofit Agency	643	1,368	569	2.40
Nonprofit Education Organization	2,036	7,862	1,282	6.13
Nonprofit Hospital	1,242	429	1,301	0.33
Other Nonprofit Organization	3,416	11,400	2,160	5.28
State / Local Government - Educational	6,522	8,101	6,377	1.27
State / Local Government - Hospital	324	859	286	3.00
Other State / Local Government	454	555	443	1.25
Foreign Contractor	758	2,792	509	5.48
Domestic Contractor Performing Outside U.S.	1,740	4,941	1,041	4.75
Historically Black College / University or Minority Institution	619	1,579	527	2.99
Total	**1,454**	**7,971**	**721**	**11.06**

For all of procurement, the average bundled contract was 11.1 times the size of the average unbundled contract. This ratio was highest for the Large Business category, whose 48,963 bundled contracts averaged 8.7 times the average size of their 329,947 unbundled contracts. Again, note the high 8.7 bundled to unbundled ratio in the Not Reported category, which consists virtually entirely of large businesses.

Another way of looking at the effects of bundling by type of contractor is to examine the shares of bundled and unbundled contracts in Table 3.8 (below). Here, we see that small businesses receive 62 percent of all contracts, 63 percent of unbundled contracts, but only 54 percent of bundled contracts. The small business percentage share of bundled contracts is only 0.85 times their percentage share unbundled contracts. The ratio for large business is 1.6. The large firm share of bundled contracts is 41 percent, greater than the large firm share of unbundled contracts, which is 26 percent. A bundled contract is more likely to go to a large firm than an unbundled contract; the reverse is true for small firms. It is informative to compare these percentage contract shares with similar numbers for contract dollars.

Table 3.8: Contract Share by Type of Contractor, FY 1989 – FY 1999

Type of Business	Percentage Share of Contracts			Ratio of Bundled to Unbundled Contracts
	All Contracts	Bundled Contracts	Unbundled Contracts	
Not Reported / Not Available	1.98%	6.64%	1.54%	4.31
Total Small Business (SDB+Other)	62.49%	54.00%	63.28%	**0.85**
Small, Minority-Owned Business	9.94%	12.61%	9.69%	1.30
Other Small Business	52.55%	41.39%	53.60%	0.77
Large Business	27.39%	41.39%	26.09%	1.59
JWOD Nonprofit Agency	0.55%	0.60%	0.55%	1.09
Nonprofit Education Organization	1.19%	1.59%	1.15%	1.38
Nonprofit Hospital	0.13%	0.10%	0.13%	0.77
Other Nonprofit Organization	1.03%	1.63%	0.97%	1.68
State / Local Government - Educational	0.39%	0.38%	0.39%	0.98
State / Local Government - Hospital	0.12%	0.09%	0.12%	0.76
Other State / Local Government	1.27%	1.40%	1.26%	1.11
Foreign Contractor	4.82%	6.15%	4.70%	1.31
Domestic Contractor Performing Outside U.S.	0.78%	1.64%	0.70%	2.34
Historically Black College / University or Minority Institution	0.03%	0.03%	0.03%	1.02

Table 3.9 shows us that small businesses receive 17 percent of all contract dollars, 24 percent of unbundled contract dollars, but only 11 percent of bundled contract dollars on average from FY 1989 to FY 1999. The small business percentage share of bundled contract dollars is only 0.46 times their percentage share of unbundled contract dollars. The ratio for large business is 1.27. The large firm share of bundled contract dollars is 76 percent, greater than the large firm share of unbundled contract dollars, which is 59 percent. A bundled contract dollar is more likely to go to a large firm than an unbundled contract dollar; the reverse is true for small firms. While both the large firm and small firm ratios of bundled to unbundled dollar shares are less than the similar ratios for contracts, the small firm ratio is less still, reflecting again that average contract size has not gone up as much in comparing bundled vs. unbundled contracts for small business as for large business.

Table 3.9: Dollar Share by Type of Contractor, FY 1989 – FY 1999

Type of Business	Percentage Share of Dollars All Contracts	Bundled Contracts	Unbundled Contracts	Ratio of Bundled to Unbundled Contract $
Not Reported / Not Available	4.74%	6.81%	2.30%	2.95
Total Small Business (SDB+Other)	17.07%	11.04%	24.21%	0.46
Small, Minority-Owned Business	5.12%	3.51%	7.02%	0.50
Other Small Business	11.96%	7.54%	17.19%	0.44
Large Business	68.14%	75.59%	59.32%	1.27
JWOD Nonprofit Agency	0.24%	0.09%	0.43%	0.21
Nonprofit Education Organization	1.66%	1.36%	2.02%	0.67
Nonprofit Hospital	0.11%	0.00%	0.24%	0.02
Other Nonprofit Organization	2.41%	2.02%	2.88%	0.70
State / Local Government - Educational	1.73%	0.33%	3.38%	0.10
State / Local Government - Hospital	0.03%	0.01%	0.05%	0.18
Other State / Local Government	0.40%	0.08%	0.77%	0.11
Foreign Contractor	2.52%	1.87%	3.28%	0.57
Domestic Contractor Performing Outside the U.S.	0.94%	0.88%	1.00%	0.88
Historically Black College / University or Minority Institution	0.01%	0.00%	0.02%	0.24

Because shares by contractor type are so important, we present in Table 3.10 (below) a comparison of the percentage shares of dollars with the percentage shares of contracts.

The ratio of the small firm percentage share of dollars to their percentage of contracts is 0.27. This ratio is higher for unbundled contracts at 0.38 and lower for bundled contracts at 0.20. The large firm overall dollar to contract ratio is 2.49 and the bundled dollar to bundled contract ratio is 1.83. These ratios confirm the disparities between large and small firm contract sizes. Large firms are winning dollars at over twice the rate at which they are winning contracts and at nearly twice the rate for bundled contracts.

Table 3.10: Dollar Share vs. Contract Share
By Type of Contractor, FY 1989 – FY 1999

	Ratio of % of Dollars to % of Contracts			Ratio of Bundled to Unbundled Contracts
Type of Business	**All Contracts**	**Bundled Contracts**	**Unbundled Contracts**	
Not Reported / Not Available	2.40	1.03	1.50	0.69
Total Small Business (SDB+Other)	**0.27**	**0.20**	**0.38**	**0.53**
Small, Minority-Owned Business	0.51	0.28	0.72	0.38
Other Small Business	0.23	0.18	0.32	0.57
Large Business	2.49	1.83	2.27	0.80
JWOD Nonprofit Agency	0.44	0.15	0.78	0.19
Nonprofit Education Organization	1.40	0.85	1.76	0.48
Nonprofit Hospital	0.85	0.05	1.79	0.03
Other Nonprofit Organization	2.35	1.24	2.97	0.42
State / Local Government - Educational	4.49	0.88	8.76	0.10
State / Local Government - Hospital	0.22	0.09	0.39	0.24
Other State / Local Government	0.31	0.06	0.61	0.10
Foreign Contractor	0.52	0.30	0.70	0.43
Domestic Contractor Performing Outside U.S.	1.20	0.54	1.43	0.38
Historically Black College / University or Minority Institution	0.43	0.17	0.72	0.24

IV. YEAR-BY-YEAR ANALYSIS

In this section we present the results and analysis of bundling year-by-year during the period FY 1992 to FY 1999. In the analysis of one fiscal year at a time, we start with the actions during that fiscal year and their contracts. A contract is counted as explicitly bundled in this context only if the evidence of bundling occurs during an historical four-year period up to and including the fiscal year being analyzed. For instance, to determine if a contract that was active in FY 1992 was explicitly bundled for the analysis of that year, all actions placed against that contract from FY 1989 up through the end of FY 1992 are analyzed for variations in the SIC, type of contract and place of performance codes. Similarly, to determine if a contract active in FY 1999 was explicitly bundled, all actions placed against that contract starting in FY 1996 are studied. Since only four years are used as the basis for determining bundling, the bundling measured will in general be less than the bundling measured for the eleven-year period as a whole.

The classification of contracts as small or large in this analysis is defined comparably. Contract size is therefore defined to include the dollar value of all actions during the four-year period used to determine bundling.

A. All Markets

1. Overall Numbers

Table 4.1 shows a total of 1,434,096 "contracts" during the eight-year period FY 1992 - FY 1999. The reason this number is greater than the 1,383,161 contracts counted above as being active during FY 1989 – FY 1999 (see page 17 and subsequent tables) is that there is double counting of contracts when contract counts from individual years are added together. In the year-by-year analysis, each contract is counted in each year it shows actions. The fact that the number of contracts in the year-by-year analysis is higher in an eight-year period versus an eleven-year period indicates the extent to which contracts are being modified outside the year in which they were first awarded. There were a total of 164,661 bundled "contracts" during the eight-year period FY 1992 – FY 1999, as indicated in Table 4.1 below. This number is greater than the 118,299 contracts analyzed above for the eleven-year period FY 1989 - FY 1999. Again, the reason for this is the double counting that inevitably occurs in the year-by-year analysis. The double counting of contracts means that the contract totals of all the years in this analysis should be regarded primarily as check totals.

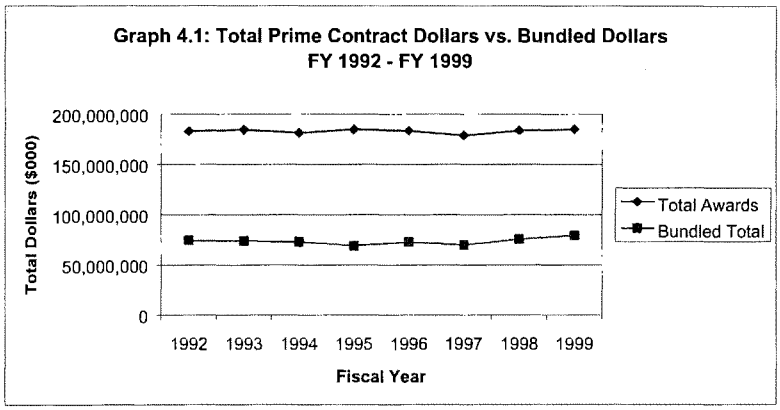
Dollars, on the other hand, include only the dollar values of the actions in the year in question so annual dollar totals can be meaningfully added. The FY 1992 – FY 1999 total spending figure of $1.5 trillion is 73 percent of the FY 1989 – FY 1999 total analyzed above. However, the eight-year bundled total of $588 billion is only 54 percent of the eleven-year bundled total. This illustrates how the four-year period used to determine bundling in the present analysis does not capture as much of the bundling as was captured in the analysis of the eleven-year period as a whole.

Table 4.1: Bundling by Fiscal Year, FY 1992 – FY 1999

Fiscal Year	Total	Bundled	Percent
	Number of Contracts		
1992	200,198	23,142	11.56%
1993	190,118	20,628	10.85%
1994	180,479	18,619	10.32%
1995	176,069	17,607	10.00%
1996	177,686	20,093	11.31%
1997	173,334	21,453	12.38%
1998	169,003	21,791	12.89%
1999	167,209	21,328	12.76%
Total	**1,434,096**	**164,661**	**11.48%**
	Contract Dollars ($000)		
1992	183,081,207	74,346,422	40.61%
1993	184,426,948	74,101,220	40.18%
1994	181,500,339	72,937,974	40.19%
1995	185,101,960	69,124,249	37.34%
1996	183,418,403	72,925,611	39.76%
1997	178,817,245	69,960,609	39.12%
1998	183,883,073	75,635,848	41.13%
1999	185,124,691	79,290,234	42.83%
Total	**1,465,353,866**	**588,322,167**	**40.15%**

The start of the new era of procurement reform in FY 1995 appears to mark renewed growth in bundling. The percentage of contracts that are bundled declined each year from FY 1992 to FY 1995 at a slowing rate, and then increased sharply from FY 1995 to FY 1996 with another sizeable increase from FY 1996 to FY 1997. After reaching a peak of 12.9 percent in FY 1998 the rate declined slightly to 12.8 percent in FY 1999. Nonetheless, this was 10.4 percent greater than the beginning level of 11.6 percent in FY 1992.

The percentage of dollars that are bundled is at the highest level in eight years. The eight-year bundled dollar share pattern is more complex than counts of contracts. After declining eight percent between FY 1992 – FY 1995 to an eight-year low of 37.3 percent, the share of bundled dollars jumped sharply in FY 1996, declined in FY 1997 and then jumped sharply again in FY 1998 - FY 1999 to finish at a new high of 42.8 percent.



2. Average Contract Size

Because the annual number of "contracts" declined by 16.5 percent while annual dollars grew slightly, the average size of a contract increased 21 percent and the average bundled contract increased 15.7 percent over eight years. Average bundled contract size in FY 1999 is still below the peak value of $3.9 million in FY 1995 but it has been climbing steadily for the last three years. Taken together, the information in charts 4.1 and 4.2 tell us that not only are contracts greater in value after adjusting for inflation over the last eight years, there are also fewer of them.

Table 4.2: Average Contract Size by Fiscal Year, FY 1992 – FY 1999

FY	Average Contract Size ($000)	Average Bundled Contract Size ($000)
1992	915	3,213
1993	970	3,592
1994	1,006	3,917
1995	1,051	3,926
1996	1,032	3,629
1997	1,032	3,261
1998	1,088	3,471
1999	1,107	3,718
Average	**1,022**	**3,573**

3. Large vs. Small Contracts

An analysis of bundling by size of contract confirms observed trends about the growing size and consolidation of federal contracts. Between FY 1992 and FY 1999, large contracts valued $1 million or more grew in absolute size and in their share of awarded contracts and dollars. Simultaneously, small contracts grew in size but shrank in overall share of contracts and dollars.

Table 4.3 shows the size of an average, large contract grew 12 percent in eight years, roughly in keeping with inflation. An average small contract grew nearly 18 percent during the same period. Yet while the large contract share of all contracts was growing from 19 percent to 21 percent over the FY 1992 – FY 1999 period, the small contract share declined from over 80 percent to just under 79 percent. There was also a one percentage point shift in the large and small contract dollar share, with large contracts growing to account for 93 percent of all awarded dollars in FY 1999 and small contracts shrinking from 8 percent to 7 percent.

Between FY 1992 and FY 1999 large, bundled contracts grew from 53 percent to 60 percent of all bundled contracts. Large, bundled contracts also represented a growing percentage of all large contracts. With the average size of a large, bundled contract growing only 2.5 percent over the study period, it appears that a number of small, bundled contracts that were relatively large have grown into large bundled contracts that are relatively small. Indeed, while the average bundled contract has grown 15.7 percent, the average large bundled contract only grew 2.5 percent. Small bundled contracts, on the other hand, are lower in value as a result of a significant drop in overall dollar value of in FY 1999. This is consistent with the observation that the larger small bundled contracts are crossing the $1 million threshold and growing into large bundled contracts.

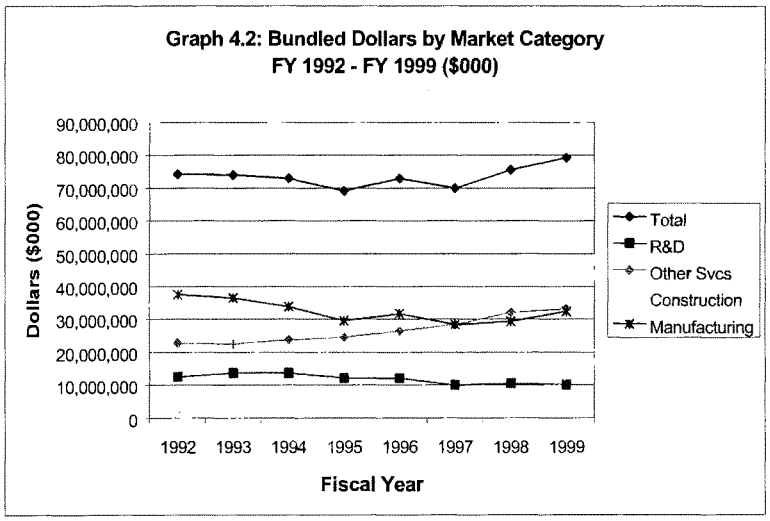
Table 4.3: Bundling of Small and Large Contracts, FY 1992 and FY 1999

Contract Size	FY 1992 Contract Counts			FY 1999 Contract Counts		
	All	Bundled	Bundled %	All	Bundled	Bundled %
De-obligations	676	90	13.3%	169	40	23.7%
Large (> $1 mil)	38,557	12,283	31.9%	35,143	12,919	36.8%
Small (< $1 mil)	160,965	10,769	6.7%	131,897	8,369	6.3%
Total	**200,198**	**23,142**	**11.6%**	**167,209**	**21,328**	**12.8%**
	FY 1992 Contract Sums ($000)			**FY 1999 Contract Sums ($000)**		
	All	Bundled	Bundled %	All	Bundled	Bundled %
De-obligations	-292,493	-99,979	34.2%	-1,206,330	-51,893	4.3%
Large (> $1 mil)	168,797,511	73,209,666	43.4%	172,279,974	78,925,921	45.8%
Small (< $1 mil)	14,576,189	1,236,735	8.5%	14,051,047	416,206	3.0%
Total	**183,081,207**	**74,346,422**	**40.6%**	**185,124,691**	**79,290,234**	**42.8%**
	FY 1992 Average Contract Size ($000)			**FY 1999 Average Contract Size ($000)**		
	All	Bundled	Bundled %	All	Bundled	Bundled %
De-obligations	-433	-1,111	256.7%	-7,138	-1,297	18.2%
Large (> $1 mil)	4,378	5,960	136.1%	4,902	6,109	124.6%
Small (< $1 mil)	91	115	126.8%	107	50	46.7%
Total	**915**	**3,213**	**351.3%**	**1,107**	**3,718**	**335.8%**

B. Four Perspectives on Bundled Contract Trends

In this section we analyze federal contract spending in general and bundled contract spending in particular by several key data groupings in order to pinpoint where bundling is occurring, what bundled contract trends look like over time and to assess how extensive and potentially harmful to small business the practice of bundling has become. The four perspectives include looking at bundled contract data by Market, by Agency, by Type of Business and by Size of Contract.

1. Market-By-Market Analysis



The modest 2.2 percentage point rise in the bundled dollar share of total federal contracts between FY 1992 and FY 1999 masks a dramatic 13 percent jump in overall bundled contract spending since FY 1997, from $70 billion to $79.3 billion. As part of this rapid rise over the last three years there has been a dramatic shift in the composition of bundled contract dollars. Bundling has moved away from the R&D and Manufacturing sectors and into Other Services and Construction.

While government contract spending rose only 1 percent between FY 1992 and FY 1999, spending in the R&D and Manufacturing sectors declined 17 percent and 12 percent respectively. This is mirrored in the respective 19 percent and 14 percent bundled dollar drops in these sectors. Yet over this period, total spending in Other Services rose 18 percent and Construction spending rose 25 percent. Bundled spending growth in these sectors was even more dramatic: 45 percent for Other Services and 170 percent for Construction. In Graph 4.2 above, note that in FY 1998 bundled dollars in the Other Services Sector

surpassed the Manufacturing sector for the first time. Clearly, the Other Services and the Construction sectors have been the main drivers behind the increase in bundled contract spending. A $3 billion jump in bundled dollars in the Manufacturing sector in FY 1999 may portend additional contract consolidation there.

Table 4.4: Overall and Bundled Spending by Market FY 1992 – FY 1999

	1992	1993	1994	1995	1996	1997	1998	1999
Overall Spending								
Total ($000)	**183,081,207**	**184,426,948**	**181,500,339**	**185,101,960**	**183,418,403**	**178,817,245**	**183,883,073**	**185,124,691**
R&D	29,472,608	29,861,006	27,861,389	28,477,050	28,334,352	26,105,713	25,752,111	24,595,627
Other Svcs	67,319,180	67,515,790	72,987,115	72,948,808	74,272,284	72,938,630	77,289,945	79,586,660
Construction	13,043,069	13,580,246	16,434,012	17,066,800	15,976,970	16,134,800	15,589,791	16,248,018
Manufacturing	73,246,350	73,469,906	64,217,823	66,609,302	64,834,797	63,638,102	65,251,226	64,694,386
Bundled Total ($000)	**74,346,422**	**74,101,220**	**72,937,974**	**69,124,249**	**72,925,611**	**69,960,609**	**75,635,848**	**79,290,234**
Bundled Share	**40.6%**	**40.2%**	**40.2%**	**37.3%**	**39.8%**	**39.1%**	**41.1%**	**42.8%**
R&D	12,500,911	13,716,752	13,711,548	12,216,234	12,106,786	10,075,751	10,518,129	10,161,332
Other Svcs	22,888,851	22,486,929	23,762,717	24,543,541	26,456,971	28,409,846	32,126,763	33,205,809
Construction	1,288,938	1,422,447	1,633,126	2,739,930	2,577,228	3,023,875	3,575,685	3,479,273
Manufacturing	37,667,722	36,475,092	33,830,583	29,624,544	31,784,626	28,451,137	29,415,271	32,443,820
Market Share of Bundled Total								
R&D	16.8%	18.5%	18.8%	17.7%	16.6%	14.4%	13.9%	12.8%
Other Svcs	30.8%	30.3%	32.6%	35.5%	36.3%	40.6%	42.5%	41.9%
Construction	1.7%	1.9%	2.2%	4.0%	3.5%	4.3%	4.7%	4.4%
Manufacturing	50.7%	49.2%	46.4%	42.9%	43.6%	40.7%	38.9%	40.9%
Bundled Share of Overall Market								
R&D	42.4%	45.9%	49.2%	42.9%	42.7%	38.6%	40.8%	41.3%
Other Svcs	34.0%	33.3%	32.6%	33.6%	35.6%	39.0%	41.6%	41.7%
Construction	9.9%	10.5%	9.9%	16.1%	16.1%	18.7%	22.9%	21.4%
Manufacturing	51.4%	49.6%	52.7%	44.5%	49.0%	44.7%	45.1%	50.1%

In FY 1992, Other Services and Construction accounted for only 32.5 percent of all bundled dollars. By FY 1999, these two sectors represented over 46 percent of the bundled dollar total, a 42 percent share increase. Between FY 1992 and FY 1999 bundled dollars in Other Services grew as a share of all Other Services dollars from 34 percent to 42 percent. In Construction, bundled dollars were only 10 percent of total Construction spending in FY 1992 but grew to 21 percent of the dollars in FY 1999. With the Manufacturing sector's $3 billion jump in bundled dollars from FY 1998 – FY 1999, one out of every two Manufacturing contract dollars is now bundled.

What do these market shifts mean for small business? Table 4.5 (below) shows that since FY 1992 large firms have grown as a share of all federal contractors from 22.3 percent to 23.8 percent. Given the increase in contract size and consolidation this is not too surprising. Notice, however that between FY 1992 and FY 1999 the small business share of the Other Services (OS) and Construction (CON) sectors fell, while the small business share of the R&D and Manufacturing sectors rose. Small business participation fell in the two market sectors driving the growth in bundled contract spending over the last

eight years and rose in the two sectors where bundled contract dollars fell. This data links declines in small business participation with increased rates of bundling and rises in small business participation with the growth of unbundled awards.

Table 4.5: Count of Firms in R&D, Other Services, Construction & Manufacturing With Breakouts by Large, Small Disadvantaged, Other Small and Other Business FY 1992 - FY 1999

Type of Business	FY 1992	FY 1993	FY 1994	FY 1995	FY 1996	FY 1997	FY 1998	FY 1999
				Research & Development				
Large	1,577	1,659	1,433	1,497	1,702	1,454	1,295	1,203
Small Disadv	505	564	597	701	776	677	634	603
Other Small	2,504	2,691	2,692	2,890	3,303	2,972	2,798	2,866
Other	1,202	1,237	1,138	1,296	1,410	1,223	1,118	1,076
Total	**5,788**	**6,151**	**5,860**	**6,384**	**7,191**	**6,326**	**5,845**	**5,748**
SB Sector Share	52.0%	52.9%	56.1%	56.3%	56.7%	57.7%	58.7%	60.4%
				Other Services				
Large	10,547	11,482	10,913	11,512	12,903	11,307	11,167	10,775
Small Disadv	3,661	3,924	3,932	4,479	5,079	4,261	4,418	4,657
Other Small	20,609	18,827	17,260	17,940	19,141	17,646	18,146	18,421
Other	7,031	7,369	6,942	7,502	7,586	6,985	6,841	6,848
Total	**41,848**	**41,602**	**39,047**	**41,433**	**44,709**	**40,199**	**40,572**	**40,701**
SB Sector Share	58.0%	54.7%	54.3%	54.1%	54.2%	54.5%	55.6%	56.7%
				Construction				
Large	2,045	2,415	2,243	2,311	2,549	2,158	2,099	2,047
Small Disadv	2,754	3,244	3,151	3,082	3,116	2,511	2,302	2,253
Other Small	16,809	17,369	15,929	13,244	13,071	10,610	9,469	8,664
Other	1,131	1,033	989	1,000	1,206	1,100	969	1,062
Total	**22,739**	**24,061**	**22,312**	**19,637**	**19,942**	**16,379**	**14,839**	**14,026**
SB Sector Share	86.0%	85.7%	85.5%	83.1%	81.2%	80.1%	79.3%	77.8%
				Manufacturing				
Large	9,508	9,214	8,240	8,728	10,185	8,588	8,322	8,331
Small Disadv	1,588	1,661	1,577	1,852	2,257	2,072	2,070	2,095
Other Small	15,005	13,742	12,501	13,239	16,484	15,289	14,421	14,666
Other	3,181	3,121	2,824	3,106	3,734	3,819	3,516	3,636
Total	**29,282**	**27,738**	**25,142**	**26,925**	**32,660**	**29,768**	**28,329**	**28,728**
SB Sector Share	56.7%	55.5%	56.0%	56.0%	57.4%	58.3%	58.2%	58.3%
All Firms	**92,326**	**92,112**	**85,369**	**86,946**	**96,815**	**84,709**	**81,330**	**80,643**
Small Firms	60,264	58,836	54,467	54,001	59,836	52,261	50,273	50,008
Small Firm Share	**65.3%**	**63.9%**	**63.8%**	**62.1%**	**61.8%**	**61.7%**	**61.8%**	**62.0%**
Large Firms	20,575	21,610	19,988	21,081	24,113	20,448	19,757	19,194
Large Firm Share	**22.3%**	**23.5%**	**23.4%**	**24.2%**	**24.9%**	**24.1%**	**24.3%**	**23.8%**

2. Agency Analysis

The year-by-year agency analysis reveals an intensified usage of bundling by civilian agencies. Defense agencies still dominate the awarding of bundled contracts and their share of overall bundled dollars remains significantly out of proportion to their share of total prime contract dollars. However the DoD share of bundled contract dollars declined over the study period by 3.9 percentage points, from 85.9 percent to 82 percent, while the Civilian Agency share grew from 14.1 percent to 18 percent. This 27.6 percent bundled dollar share growth for civilian agencies over the eight years was tempered in FY 1999 by a nearly 2 percentage point drop from FY 1998 as DoD bundled spending rose.

Table 4.6: Total and Bundled Prime Contract Spending With Defense vs. Civilian Bundled Dollar Breakout FY 1992 - FY 1999 (all dollars in thousands)

	1992	1993	1994	1995	1996	1997	1998	1999
Total Dollars	183,081,207	184,426,948	181,500,339	185,101,960	183,418,403	178,817,245	183,883,073	185,124,691
All Bundled	74,346,422	74,101,220	72,937,974	69,124,249	72,925,611	69,960,609	75,635,848	79,290,234
DoD Bundled Total	63,844,800	64,037,992	61,959,757	57,038,700	60,452,233	55,913,223	60,610,040	64,986,122
DoD Bundled Share	85.9%	86.4%	84.9%	82.5%	82.9%	79.9%	80.1%	82.0%
Civilian Bundled Total	10,501,622	10,063,228	10,978,217	12,085,549	12,473,378	14,047,386	15,025,808	14,304,112
Civilian Bundled Share	14.1%	13.6%	15.1%	17.5%	17.1%	20.1%	19.9%	18.0%

As shown in Table 4.7 below, 21 civilian agencies more than doubled their bundled contract spending between FY 1992 and FY 1999. The Department of Education (DED) and the Equal Employment Opportunity Commission (EEOC) grew their bundled dollars nearly 30 times. Between the two largest civilian agencies, the Department of Energy's (DOE's) bundled dollars grew 19.2 percent while the National Aeronautics and Space Administration's (NASA's) total fell by 16.4 percent.

In terms of absolute dollars, the largest growth by far occurs in the General Services Administration (GSA), where Federal Schedule contracting vehicles have grown significantly in importance over the last seven years. Between FY 1992 and FY 1999 GSA's bundled dollar expenditures grew over $1.7 billion. Treasury was next with $1.2 billion, followed by Justice ($925 million), Veterans ($697 million) and Education ($388 million). The Social Security Administration (SSA) spent $300 million in bundled awards in FY 1997 and $260 million in each of the last two fiscal years. However SSA did not exist as a separate agency in FY 1992 so their growth figures would be misleading.

As shown in Table 4.8 below, in FY 1998, the Navy surpassed the Air Force in total bundled contract dollar awards for the first time and continues to lead all DoD bureaus in the awarding of bundled contracts through FY 1999. The Navy now accounts for 34 percent of all DoD bundled dollars. Army bundling grew a dramatic 25 percent from FY 1998 to FY 1999 and the Army now accounts for 24 percent of all DoD bundled dollars. The Army's 22 percent bundled dollar growth outpaces the Navy's growth by 10 times. Air Force bundled dollars increased for the first time since FY 1996. The Air Force accounts for 29 percent of the DoD's FY 1999 bundled dollar total, however Air Force bundled dollars fell 24 percent in the last eight years. The Special Operations Command (USSOC), the Defense Mapping Agency (DMA), the Defense Nuclear Agency (DNA) and the Defense Finance and Accounting Service (DFAS), once relatively small DoD bureaus, now spend hundreds of millions of bundled dollars each year at rates two to eight times higher than in FY 1992.

Table 4.7: Top 25 Civilian Agencies[7]
Ranked By Bundled Contract Dollar Growth FY 1992 - FY 1999
(all dollars in thousands)

Rank	Agency	FY 1992	FY 1993	FY 1994	FY 1995	FY 1996	FY 1997	FY 1998	FY 1999	FY 92-99 Diff	% Growth
1	DED	13,092	5,111	4,384	21,212	29,058	47,127	472,740	401,089	387,997	2963.6%
2	EEOC	462	3,287	1,254	2,482	5,355	5,801	4,934	13,988	13,526	2927.7%
3	OPM	3,064	294	150	829	5,171	21,757	86,228	83,657	80,593	2630.3%
4	FEMA	7,675	3,991	4,926	11,247	110,513	132,010	86,241	131,345	123,670	1611.3%
5	FTC	855	1,633	2,160	3,668	2,554	2,601	2,256	6,845	5,990	700.6%
6	DOC	79,080	66,310	187,650	123,702	208,695	194,378	378,542	443,953	364,873	461.4%
7	PEACE	1,415	1,929	3,389	357	2,041	5,188	8,059	7,791	6,376	450.6%
8	DOJ	423,721	366,964	542,595	849,400	963,197	1,156,802	1,306,869	1,348,491	924,770	218.2%
9	USDA	118,273	104,929	134,191	100,271	245,953	208,614	273,803	376,278	258,005	218.1%
10	SEC	6,433	7,716	5,341	5,586	13,766	7,666	7,310	19,439	13,006	202.2%
11	TREAS	609,754	786,932	575,507	555,868	679,393	874,683	1,509,372	1,818,477	1,208,723	198.2%
12	SMITH	1,360	866	7,406	1,165	3,002	3,610	2,357	3,899	2,539	186.7%
13	SSS	118	78	137	0	0	0	550	308	190	161.0%
14	NRC	12,012	5,597	3,621	27,645	28,583	17,815	40,641	29,105	17,093	142.3%
15	ITC	577	501	327	508	25	1,433	926	1,379	802	139.0%
16	HUD	138,246	110,884	89,166	114,451	141,928	186,591	45,562	319,392	181,146	131.0%
17	AID	128,480	119,683	76,600	102,548	64,001	4,277	205,953	295,986	167,506	130.4%
18	NARA	5,892	6,748	5,414	7,792	2,326	2,585	9,245	12,442	6,550	111.2%
19	CPSC	537	1,779	1,789	975	261	1,179	1,957	1,129	592	110.2%
20	STATE	245,305	278,705	283,670	366,733	221,052	307,111	306,411	500,763	255,458	104.1%
21	DVA	689,511	785,606	567,599	972,084	1,036,533	1,476,828	1,354,299	1,386,630	697,119	101.1%
22	EOP	10,434	9,035	13,302	10,906	15,270	16,872	20,448	19,071	8,637	82.8%
23	GSA	2,150,870	1,961,754	3,050,957	1,629,760	3,280,594	3,905,217	4,427,133	3,895,146	1,744,276	81.1%
24	NLRA	2,804	1,466	2,796	2,389	2,574	2,470	2,451	4,440	1,636	58.3%
25	HHS	317,186	256,012	88,520	371,940	211,610	274,983	343,733	499,495	182,309	57.5%

[7] See Appendix A.2, page 60 for Agency Acronym Translations

Table 4.8: Top Defense Bureaus[8]
Ranked By Bundled Contract Dollar Growth FY 1992 - FY 1999
(all dollars in thousands)

Rank	Bureau	FY 1992	FY 1993	FY 1994	FY 1995	FY 1996	FY 1997	FY 1998	FY 1999	FY 92-99 Diff	FY 92-99 Growth
1	USSOC	2,783	14,204	364,894	145,952	172,800	148,293	228,694	246,165	243,382	8745.3%
2	AFIS	1,974	2,064	5,794	24,320	26,947	24,781	32,314	34,656	32,682	1655.6%
3	WHS	4,621	4,650	5,275	4,723	2,697	10,479	8,905	52,448	47,827	1035.0%
4	OMA	24,966	29,030	21,756	33,947	54,685	129,806	152,012	252,977	228,011	913.3%
5	DNA	53,994	35,633	40,623	27,752	104,784	183,279	81,873	192,936	138,942	257.3%
6	CHAMPUS	782,421	880,192	552,980	550,520	485,427	1,559,470	2,275,122	2,422,279	1,639,858	209.6%
7	DLA	655,934	932,766	894,069	1,065,657	1,157,220	1,422,341	1,568,669	1,921,791	1,265,857	193.0%
8	USUHS	1,133	1,578	989	1,281	452	1,315	2,248	3,204	2,071	182.8%
9	DISA	899,013	738,431	785,995	999,706	1,276,829	1,229,055	1,443,333	1,391,959	492,946	54.8%
10	COE-CPF	591,103	509,608	663,199	889,904	695,266	648,771	628,840	732,721	141,618	24.0%
11	DOA	12,938,235	12,856,895	11,091,191	11,364,520	13,488,141	11,781,771	12,852,257	15,804,961	2,866,726	22.2%
12	NAVY	21,510,484	19,872,300	18,664,186	17,431,312	18,043,079	17,646,915	21,650,219	22,111,603	601,119	2.8%
13	AF	24,695,242	26,683,028	28,043,677	23,620,379	24,020,959	20,095,275	18,480,615	18,803,760	-5,891,482	-23.9%
14	DARPA	76,268	84,870	90,181	53,931	52,137	51,968	43,371	55,669	-22,599	-28.9%
15	SDIA	349,315	115,672	20,542	26,662	15,488	15,019	129,240	205,753	-143,562	-41.1%
16	DCA	683,231	719,937	548,459	602,841	628,466	729,602	661,366	314,392	-368,839	-54.0%
17	DODSEC	562,636	548,533	160,069	174,483	163,785	158,000	153,677	207,369	-355,267	-63.1%
18	OSIA	9,447	8,601	5,878	8,187	22,930	24,883	29,520	0	-9,447	-100.0%
19	DFAS	0	0	0	0	0	0	137,332	203,368	203,368	N/A
20	ODS	0	0	0	12,613	40,141	52,200	50,433	28,111	28,111	N/A

3. Type of Business Analysis

A. Dollar Analysis

In FY 1999, Large Businesses (LBs) still received three-quarters of all bundled contract dollars, but between FY 1992 and FY 1999 Small, Disadvantaged Businesses (SDBs) and Other Small Businesses (OSBs) grew their bundled share from 9 percent to 16 percent. Despite receiving a larger share of bundled dollars, SDBs and OSBs received a disproportionately small share of these dollars. In FY 1999, SDBs and OSBs received 18.7 percent of all prime contract dollars, leaving a three percentage point gap between the small business share of bundled dollars and their share of overall dollars.

In FY 1999 large firms received 74 percent of all bundled dollars, down from 77 percent in FY 1998. Note, however, the growth in bundled dollars awarded in the "Other" category. Two of the largest components of this category, Domestic Contractors Performing Outside the US and company records with blank business codes, consist mainly of large businesses. This means the apparent decline in large business bundled dollars is smaller than it appears.

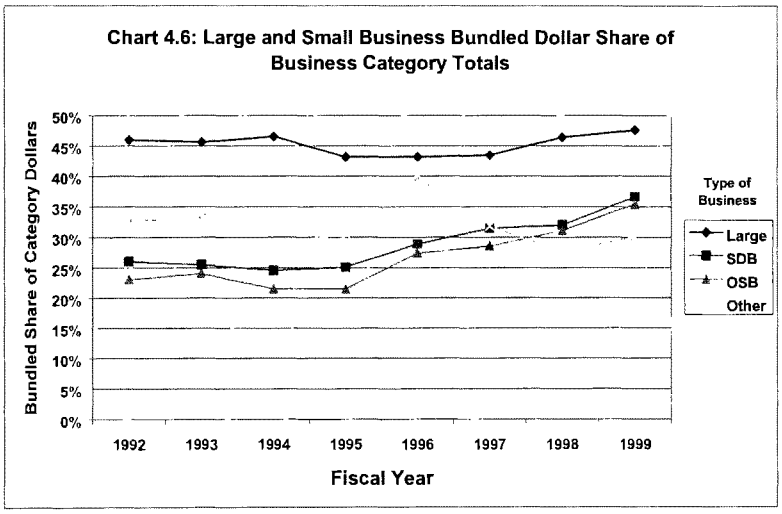
[8] See Appendix A.2, page 60 for bureau acronym translations.

Table 4.9: Total Dollars, Bundled Dollars and Shares Broken Out by Business Category, FY 1992 - FY 1999

Size	FY 1992	FY 1993	FY 1994	FY 1995	FY 1996	FY 1997	FY 1998	FY 1999
Overall Dollars	**183,081,207**	**184,426,948**	**181,500,339**	**185,101,960**	**183,418,403**	**178,817,245**	**183,883,073**	**185,124,691**
Large	128,340,826	124,786,275	124,238,328	122,974,725	117,537,976	118,559,185	125,208,392	123,458,215
SDB	8,304,926	9,525,288	10,051,383	11,350,897	10,920,323	10,790,139	11,396,554	11,560,128
OSB	21,218,703	21,023,633	20,266,898	22,558,386	22,789,127	22,280,685	22,737,705	23,104,207
Other	25,216,752	29,091,752	26,943,730	28,217,952	32,170,977	27,187,236	24,540,422	27,002,141
Bundled Dollars	**74,346,422**	**74,101,220**	**72,937,974**	**69,124,249**	**72,925,611**	**69,960,609**	**75,635,848**	**79,290,234**
Large	59,031,221	56959681	57783750	53084006	50756352	51531546	58142747	58750930
SDB	2162406	2430820	2467370	2847073	3154441	3398627	3648506	4232925
OSB	4900300	5058180	4363455	4853655	6237912	6363250	7062670	8181965
Other	8252495	9652539	8323399	8339515	12776906	8667186	6781925	8124414
Sector Share of Overall Dollars								
Large	70.10%	67.66%	68.45%	66.44%	64.08%	66.30%	68.09%	66.69%
SDB	4.54%	5.16%	5.54%	6.13%	5.95%	6.03%	6.20%	6.24%
OSB	11.59%	11.40%	11.17%	12.19%	12.42%	12.46%	12.37%	12.48%
Other	13.77%	15.77%	14.85%	15.24%	17.54%	15.20%	13.35%	14.59%
Bundled Share of All Bundled Dollars								
Large	79.40%	76.87%	79.22%	76.80%	69.60%	73.66%	76.87%	74.10%
SDB	2.91%	3.28%	3.38%	4.12%	4.33%	4.86%	4.82%	5.34%
OSB	6.59%	6.83%	5.98%	7.02%	8.55%	9.10%	9.34%	10.32%
Other	11.10%	13.03%	11.41%	12.06%	17.52%	12.39%	8.97%	10.25%
Bundled Share of Sector Dollars								
Large	46.00%	45.65%	46.51%	43.17%	43.18%	43.46%	46.44%	47.59%
SDB	26.04%	25.52%	24.55%	25.08%	28.89%	31.50%	32.01%	36.62%
OSB	23.09%	24.06%	21.53%	21.52%	27.37%	28.56%	31.06%	35.41%
Other	32.73%	33.18%	30.89%	29.55%	39.72%	31.88%	27.64%	30.09%

SDBs and OSBs received a combined $12.4 billion in bundled contract dollars in FY 1999, a jump of nearly 16 percent in one year. Over the last eight years the small business bundled dollar share has grown 64 percent.

Small business's growing dependency on bundled contracts is illustrated by the fact that between FY 1992 and FY 1999 both SDB and OSB bundled dollars grew from about one-quarter to one-third of the combined SDB and OSB sector dollars. The SDB bundled dollar share grew from 26 percent to 37 percent while the OSB sector grew from 23 percent to 35 percent. The LB share of bundled contracts remained relatively stable, rising only from 46 percent to 48 percent over the same period.



Although on the whole small businesses have become more dependent upon bundled contracts, relatively few small businesses actually benefit. There is a high degree of stratification among small businesses receiving bundled dollars. Table 4.10 displays a decile dollar breakdown of bundled contract recipients in FY 1999. It shows that the 1,168 small businesses in the first two dollar deciles received 84.3 percent of all the small business bundled dollars that year. In other words, 16.1 percent of all small, bundled dollar recipients received 4.2 out of every five small business bundled dollars.[9]

A further illustration of this stratification is the fact that only seven small businesses are among the top 100 recipients of bundled contracts during FY 1999, yet these small businesses received $885 million, or 13 percent of all small business bundled awards. The seven small businesses include: GTSI ($278 million); ITC ($127 million); Integrity Management ($110 million); McBride & Associates ($109 million); Signal Corp. ($106 million); Intelligent Decisions ($79 million); and Comteq Federal ($75 million). For a ranked list of the Top 100 bundled contract recipients in FY 1999, see Appendix 3, page 62.

Table 4.10: FY 1999 Bundled Contract Dollar and Company Decile Analysis

[9] Note that for the decile analysis Eagle Eye corrected for companies that had multiple Type of Business Codes by assigning a single Business Category to a Parent Company based on which Business Category held the majority of a company's bundled dollars. This was done to correct for the fact that numerous large businesses had divisions coded as small businesses. This lowered the small business dollar total from the $12.4 billion in Chart 4.9 to the $11.9 billion in Chart 10, a difference of $461 million.

All Dollars in Thousands

	Decile 1		Decile 2		Decile 3		Decile 4		Decile 5	
Business Type	**Bund $**	**Firms**	**Bund $**	**Firms**	**Bund $**	**Firms**	**Bund $**	**Firms**	**Bund $**	**Firms**
Large	61,501,799	525	1,125,815	391	372,763	322	178,278	300	87,600	260
Other Small	5,412,757	322	1,113,687	400	628,383	535	338,268	571	215,140	635
Small/Disadv	2,786,587	190	773,181	256	236,878	200	111,347	184	58,195	172
Other	4,459,597	122	318,452	113	118,289	103	62,593	105	30,698	93
Total	**74,160,740**	**1,159**	**3,331,135**	**1,160**	**1,356,313**	**1,160**	**690,486**	**1,160**	**391,633**	**1,160**

	Decile 6		Decile 7		Decile 8		Decile 9		Decile 10	
	Bund $	**Firms**	**Bund $**	**Firms**	**Bund $**	**Firms**	**Bund $**	**Firms**	**Bund $**	**Firms**
Large	54,622	271	34,021	283	22,758	326	12,397	337	-1,049,965	277
Other Small	127,525	634	80,247	655	45,474	635	22,575	619	-26,441	603
Small/Disadv	29,487	145	13,602	112	7,332	101	3,352	95	-23,365	165
Other	21,402	110	13,578	110	7,129	98	3,975	109	-39,778	108
Total	**233,036**	**1,160**	**141,448**	**1,160**	**82,693**	**1,160**	**42,299**	**1,160**	**-1,139,549**	**1,153**

B. Business Counts

Contract bundling appears to have a negative impact on new, small business formation. As bundled contracts have grown in total value and have become concentrated in the hands of large business and the larger small businesses, the number of vendors in the federal marketplace has fallen.

Between FY 1992 and FY 1999, the number of unique parent companies fell 16.3 percent, from 74,202 to 62,104. The count of OSBs fell 1.5 times more than the overall count, dropping 23 percent to 36,799, the lowest OSB count in eight years. SDBs rose 2 percent, from 6,802 to 6,966 over the same period. [10]

Table 4.11: Overall Counts of Unique Parent Companies In the Federal Marketplace, FY 1992 - FY 1999

[10] Eagle Eye uses a count of parent company names in this table rather than a count of DUNS numbers because it more accurately reflects the number of unique players entering and leaving the federal marketplace. Large firms can be made up of many DUNS numbers, while small companies typically hold only one or a few DUNS numbers. By consolidating related DUNS numbers into one parent entity, the resulting count removes the tendency to over- and under-state the actual number of firms present. Eagle Eye has been tracking parent companies in the federal contractors database for 15 years and used its historical data files to create this table.

Bus Type	1992	1993	1994	1995	1996	1997	1998	1999
Large	11,728	11,055	10,253	10,726	11,380	10,624	10,498	10,329
Other Small	47,572	44,150	41,072	39,500	40,276	38,649	37,199	36,799
Small/Disadv	6,802	7,226	7,132	7,438	7,708	6,979	6,854	6,966
Other	8,100	8,438	8,003	8,455	8,641	7,965	7,719	8,010
Total	**74,202**	**70,869**	**66,460**	**66,119**	**68,005**	**64,217**	**62,270**	**62,104**

These overall trends are further supported by observed trends in the four major markets, R&D, Other Services, Construction and Manufacturing. As detailed on page 63, between FY 1992 and FY 1999 the small business share of the Other Services (OS) and Construction (CON) sectors fell, while the small business share of the R&D and Manufacturing sectors rose. Small business participation fell in the two market sectors driving the growth in bundled contract spending over the last eight years and rose in the two sectors where bundled contract dollars fell.

4. Size of Contract Analysis

An analysis of bundling by contract size confirms the growing concentration of contract dollars in fewer contract and larger vehicles. Table 4.12 below shows that large, bundled contracts greater than $1 million are more numerous and larger on average, while small bundled contracts are less numerous and smaller.

The total for large, bundled contracts grew from $73 billion to $79 billion between FY 1992 and FY 1999, while the sum of all small, bundled contracts dropped by 2/3, from $1.2 billion to $416 million. With total large contract bundled dollars growing 8 percent and the count of large, bundled contracts only growing five percent, the average size of a large, bundled contract rose from $4.3 million in FY 1992 to $4.9 million in FY 1999. This is the largest size of a large, bundled contract since FY 1995. Between FY 1998 and FY 1999 large, bundled contract size jumped 14 percent.

Overall counts of large and small, unbundled contracts declined, driving up average contract sizes in both categories. Between FY 1992 and FY 1999, an average, large unbundled contract grew from $3.6 million to $4.2 million, an average small, unbundled contract shot up from $89,000 to $110,000. Despite this increase, the size of a large, bundled contract is 1.5 times greater than a large, unbundled contract in FY 1999.

Table 4.12: Large and Small Unbundled and Bundled Contracts With Annual Counts and Average Contract Size FY 1992 - FY 1999 Large = Greater than or equal to $1 million. All dollars in thousands ($000).

	FY 1992	FY 1993	FY 1994	FY 1995	FY 1996	FY 1997	FY 1998	FY 1999
Count of All Contracts								
Large Contracts	38,557	40,599	40,281	41,602	41,481	40,927	39,719	35,143
Small Contracts	160,965	148,815	139,747	134,116	135,947	131,962	129,075	131,897
Count of All Bundled Contracts								
Large Contracts	12,283	12,160	11,347	10,718	12,820	13,556	13,780	12,919
Small Contracts	10,769	8,381	7,204	6,840	7,235	7,853	7,958	8,369
Count of All Unbundled Contracts								
Large Contracts	26,274	28,439	28,934	30,884	28,661	27,371	25,939	22,224
Small Contracts	150,196	140,434	132,543	127,276	128,712	124,109	121,117	123,528
Sum of All Contracts								
Large Contracts	168,797,511	170,399,207	168,153,629	171,414,750	169,341,853	166,270,667	171,015,941	172,279,974
Small Contracts	14,576,189	14,299,638	13,410,783	13,935,512	14,206,586	12,812,565	12,964,055	14,051,047
Sum of All Bundled Contracts								
Large Contracts	73,209,666	73,271,057	72,064,995	68,400,345	71,971,477	69,079,441	74,631,363	78,925,921
Small Contracts	1,236,735	879,068	874,680	909,949	990,864	940,955	1,035,038	416,206
Sum of All Unbundled Contracts								
Large Contracts	95,587,845	97,128,150	96,088,634	103,014,405	97,370,376	97,191,226	96,384,578	93,354,053
Small Contracts	13,339,454	13,420,570	12,536,103	13,025,563	13,215,722	11,871,610	11,929,017	13,634,841
Average of All Contracts								
Large Contracts	4,378	4,197	4,175	4,120	4,082	4,063	4,306	4,902
Small Contracts	91	96	96	104	105	97	100	107
Average of All Bundled Contracts								
Large Contracts	5,960	6,026	6,351	6,382	5,614	5,096	5,416	6,109
Small Contracts	115	105	121	133	137	120	130	50
Average of All Unbundled Contracts								
Large Contracts	3,638	3,415	3,321	3,336	3,397	3,551	3,716	4,201
Small Contracts	89	96	95	102	103	96	98	110

The number of small, bundled contracts shrank over the study period along with their average size. Note, however, that since FY 1995, the number of both large and small bundled contracts has grown significantly, climbing a combined 21 percent in the last five years. The drop between FY 1998 and FY 1999 in the number of large, bundled contracts may be the result of growth in their size.

C. Bundled Contract Regression Analysis

A standard regression analysis of bundled contract statistics reveals that bundling is associated with harm to small business. The analysis confirms observed trends that as bundled contracts increase in number and size, small business contract and dollar shares decline.

Specifically, our analysis shows that if the number of bundled contracts increases by 100:

- the number of total small business contracts decreases by 106
- the number of small disadvantaged business contracts increases by 38
- the number of other small business contracts decreases by 144
- the number of large business contracts increases by 75, and

- the number of contracts to other performers increases by 31.

Our analysis also shows that if the amount of bundled dollars increases by 100:

- the number of total small business dollars decreases by 33
- the number of small disadvantaged business dollars increases by 8
- the number of other small business dollars decreases by 41
- the number of large business dollars increases by 24, and
- the number of dollars to other performers increases by 8.

1. Contract Analysis

For each general market and fiscal year, Table 4.13 gives the percentage of contracts going to each performer, as well as the percentage of contracts that are bundled.

Table 4.14 shows the results of regressions of each performer's share vs. the overall bundling share. In performing these regressions it was necessary to take into account that the e.g. small business share by general market is influenced not only by bundling but also by the general market itself. For example, in FY99 the highest small firm share was in construction, as was the smallest bundling share. Now it may be that the high small business share is the result of the low bundling share, but it may also be that there is something about construction that lends itself to small business but at the same time is (independently) not conducive to bundling. (For example, a large business contract might also be less likely to be bundled if it is in construction.)

We have dealt with this by introducing three dummy variables: one for construction, one for other services, and one for manufacturing. (Having a dummy variable for R&D would be redundant.) The results are as follows: If the number of bundled contracts increases by 100, the number of small disadvantaged business contracts increases by 38, the number of other small business contracts decreases by 144, the number of total small business contracts thus decreases by 106, the number of large business contracts increases by 75, and the number of contracts to other performers increases by 31. R-squared varies from 91 percent to 96 percent.

TABLE 4.13: Percent of Contracts By Performer, by General Market and Fiscal Year

	FY	SDB	OSB	Total SB	LB	OTHER	BUNDLED
R&D	1992	6.05	34.22	40.26	36.01	23.72	14.63
	1993	6.76	36.3	43.06	34.8	22.14	13.31
	1994	7.56	38.12	45.68	32.81	21.51	12.85
	1995	8.27	39.1	47.37	30.24	22.39	11.7
	1996	8.59	40.77	49.36	29.59	21.05	11.29
	1997	8.48	42.21	50.69	28.84	20.47	11.73
	1998	8.36	43.42	51.78	27.99	20.23	11.57
	1999	8.23	44.91	53.14	26.77	20.09	12.48
Const	1992	14.16	73.29	87.45	7.71	4.84	4.28
	1993	15.96	70.98	86.94	8.45	4.61	4.03
	1994	16.96	69.02	85.97	9.15	4.88	3.44
	1995	19.85	63.97	83.82	10.44	5.74	3.77
	1996	18.55	63.02	81.57	11.09	7.34	4.09
	1997	19.6	59.77	79.38	12.93	7.7	5.62
	1998	21.11	56.67	77.78	13.95	8.27	7.66
	1999	22.21	53.3	75.51	14.23	10.26	8.67
OS	1992	11.18	41.67	52.85	29.31	17.85	19.88
	1993	12.42	38.18	50.59	30.96	18.44	17.63
	1994	13.02	37.43	50.45	31.68	17.88	16.76
	1995	14.27	36.47	50.74	31.51	17.74	15.5
	1996	14.17	36.74	50.91	31.87	17.21	19.51
	1997	14.18	37.07	51.25	31.68	17.07	21.16
	1998	14.61	37.47	52.08	31.74	16.18	21.34
	1999	15.24	38.01	53.25	30.7	16.05	21
MFG	1992	5.07	47.18	52.25	40.45	7.3	11.11
	1993	6.11	42.78	48.89	43.12	7.99	12.07
	1994	6.45	42.91	49.36	41.41	9.23	12.07
	1995	6.73	44.58	51.31	38.78	9.91	11.83
	1996	6.63	48.95	55.58	33.86	10.56	11.03
	1997	6.25	49.49	55.74	33.6	10.66	11.44
	1998	6.52	48.09	54.61	34.76	10.63	11.79
	1999	6.78	46.79	53.58	35.48	10.94	11.96

Table 4.14: Regression Results

	SDB	OSB	Total SB	LB	OTHER
R Squared	0.93	0.91	0.96	0.95	0.96
Constant	3.12	57.76	60.88	21.58	17.54
Coefficient:					
Bundled	0.38	-1.44	-1.06	0.75	0.31
Const.	13.48	13.45	26.94	-14.47	-12.47
OS	3.35	7.57	10.92	-4.68	-6.24
Man.	-1.17	5.34	4.17	7.38	-11.55
t-stats:					
Bundled	2.09	-3.32	-2.91	2.42	1.94
Const.	8.97	3.71	8.8	-5.59	-9.16
OS	2.37	2.22	3.8	-1.92	-4.88
Man.	-1.53	2.88	2.66	5.57	-16.59

2. Dollar Analysis

For each general market and fiscal year, Table 4.15 gives the percentage of dollars going to each performer, as well as the percentage of dollars that are bundled.

Table 4.16 shows the results of regressions of each performer's share vs. the overall bundling share. In performing these regressions it was necessary to again take into account that the e.g. small business share by general market is influenced not only by bundling but also by the general market itself. For example, in FY99 the highest small firm share was in construction, as was the smallest bundling share. It may be that the high small business share is the result of the low bundling share, but it may also be that there is something about construction that lends itself to small business but at the same time is (independently) not conducive to bundling. (For example, a large business contract might also be less likely to be bundled if it is in construction.)

We have again dealt with this by introducing three dummy variables: one for construction, one for other services, and one for manufacturing. (Having a dummy variable for R&D would be redundant.) The results are as follows: If the number of bundled dollars increases by 100, the number of small disadvantaged business dollars increases by 8, the number of other small business dollars decreases by 41, the number of total small business dollars thus decreases by 33, the number of large business dollars increases by 24, and the number of dollars to other performers increases by 8. R-squared varies from 80 percent to 98 percent.

3. Regression Analysis Summary

To summarize the above estimates: the contract effect of bundling on small business is more than one-for-one in that an increase of 100 bundling contracts is associated with a net decrease of 106 small business contracts. But an increase of 100 bundled dollars is associated with a net decrease of 33 small business dollars. The reason for the difference in the effects is that the bundled contracts

won by small business are larger than the contracts they replaced that were previously going to small business. In short, the contract effect of bundling on small business is more than one-for-one; the dollar effect is one-for-three. At $79 billion in FY 1999, the current level of bundled contracts may be costing small businesses $26 billion annually. But no matter how one looks at it, the net effects of bundling are detrimental and substantial.

Table 4.15: Percent Of Dollars By Performer, by General Market and Fiscal Year

		SDB	OSB	Total SB	LB	OTHER	BUNDLED
R&D	1992	2.23	6.34	8.56	70.3	21.14	42.42
	1993	2.34	7.25	9.59	69.79	20.62	45.94
	1994	2.14	8.11	10.25	74.33	15.42	49.21
	1995	2.6	8.74	11.34	71.57	17.1	42.9
	1996	2.7	9.55	12.25	71.65	16.1	42.73
	1997	2.86	10.35	13.21	67.47	19.32	38.6
	1998	2.52	9.76	12.28	69.82	17.9	40.84
	1999	2.55	11.75	14.31	67.21	18.48	41.31
Const.	1992	12.55	35.87	48.42	45.99	5.59	9.88
	1993	15.34	33.23	48.57	45.13	6.3	10.47
	1994	16.11	27.69	43.8	50.77	5.43	9.94
	1995	16.6	27.1	43.7	50.19	6.11	16.05
	1996	15.15	28.81	43.96	48.55	7.49	16.13
	1997	16.04	23.59	39.63	51.91	8.46	18.74
	1998	16.86	24.99	41.85	50.71	7.45	22.94
	1999	16.39	22.01	38.4	51.61	9.99	21.41
OS	1992	6.61	11.19	17.8	66.08	16.13	34
	1993	7.11	10.63	17.75	66.09	16.17	33.31
	1994	6.83	9.21	16.04	66.98	16.98	32.56
	1995	7.91	10.57	18.48	64.97	16.55	33.64
	1996	7.5	10.7	18.2	64.58	17.22	35.62
	1997	7.81	10.58	18.39	64.86	16.74	38.95
	1998	7.84	10.36	18.19	65.57	16.24	41.57
	1999	8.16	11.03	19.19	63.12	17.69	41.72
Man.	1992	2.13	9.75	11.88	78.01	10.1	51.43
	1993	2.64	9.76	12.4	72.41	15.19	49.65
	1994	2.83	10.49	13.33	72.1	14.58	52.68
	1995	3.01	11.61	14.62	70.01	15.37	44.48
	1996	3.33	11.62	14.96	64.03	21.01	49.02
	1997	2.76	12.66	15.42	71.12	13.46	44.71
	1998	3.16	12.76	15.92	74.55	9.53	45.08
	1999	2.74	12.15	14.89	74.66	10.45	50.15

Table 4.16: Regression Results

	SDB	OSB	Total SB	LB	OTHER
R Squared	0.98	0.94	0.98	0.93	0.8
Constant	-0.87	26.42	25.55	59.77	14.68
Coefficient:					
Bundled	0.08	-0.41	-0.33	0.24	0.08
Const.	15.27	7.86	23.13	-14.24	-8.88
OS	5.49	-1.11	4.38	-3.38	-1
Man.	-0.09	4.56	4.47	0.53	-5
t-stats:					
Bundled	2.26	-4.06	-3.67	1.95	0.75
Const.	15.1	2.69	8.86	-3.88	-2.73
OS	12.87	-0.9	3.97	-2.18	-0.73
Man.	-0.22	3.88	4.26	0.36	-3.82

V. CONCLUSION & RECOMMENDATIONS

Even by what is almost certainly a conservative definition of bundled contracts, the practice of bundling on federal prime contracts is on the rise and is harming small business.

The definition of bundling used in this analysis limits bundled contracts to those showing changes in the SIC Code, the Type of Contract Code or the Place of Performance Code over the FY 1989 – FY 1999 period. This definition includes only 67 percent of the contracts valued at least $1 billion and only 62 percent of the dollars awarded on contracts worth at least $1 billion, so the measure is almost certainly conservative. Furthermore, in order to avoid the tendency to over-count bundled contracts in the latter years of the analysis, the year-by-year study of bundling limits the time period within which bundling can occur to the current fiscal year and the three most recent fiscal years.

In terms of dollars, bundling is at its highest rate in the last eight years. The bundled dollar share of all prime contract dollars rose from 40.6 percent in FY 1992 to 42.8 percent in FY 1999 (Tale 4.1, p. 27). Since the low point of bundling in FY 1995, the share of all dollars that are bundled has grown 15 percent. Although the overall share of contracts that are bundled is down slightly from FY 1998 to FY 1999, the bundled share of all contracts rose 10 percent over the last eight years. Since the low point of bundling in FY 1995, the share of all contracts that are bundled has risen 27.6 percent (Table 4.1, page 27).

Rates of contract bundling increase rapidly as contracts grow in size. Over one-half of all contracts valued at least $10 million show signs of bundling. Bundled contracts account for 54 percent of the dollars awarded on contracts of this size (Table 3.2, page 18). Over the study period, large (> $1 million) bundled contracts became more numerous but grew only 3 percent in value, on average. Small bundled contracts fell in number and their average size shrank dramatically (Table 4.12 page 40). This suggests strong growth in the number and size of bundled contracts in the $800,000 - $5 million range.

Growth in bundled contracts in this range may help explain the rise in small business bundled dollars during the FY 1992 – FY 1999 period. Over the eight years, SDBs and OSBs grew their dollar share of bundled contracts 64 percent, from 9.5 percent in FY 1992 to 15.7 percent in FY 1999, a growth of $5.3 billion in real dollars. Large businesses lost bundled dollar share during this period, falling from over 79 percent to just over 74 percent (see Table 4.9, page 36). Yet the shift in bundled dollars was concentrated in relatively few hands.

Between FY 1992 and FY 1999, the overall count of unique parent companies in the contracts database fell 16.3 percent and the count of OSBs fell even faster at 22.6 percent (see Table 4.11, page 39). A decile dollar breakdown shows that 1,168 small businesses in the first two dollar deciles accounted for 84.3 percent of all small business bundled dollars in FY 1999. In other words, 16.1 percent of all small, bundled dollar recipients in FY 1999 received 4.2 out of every five small business bundled dollars (Table 4.10, p. 38). Overall, the Top 100 bundled dollar recipients in FY 1999 received 70 percent of all bundled dollars. Only five of the top 100 bundled dollar recipients were small businesses and these five companies alone received 6 percent of all small business bundled dollars.

Bundled contract growth is being fueled by the Other Services and Construction sectors. Between FY 1992 and FY 1999, Construction sector bundled dollars grew 170% to $3.5 billion while OS

bundled dollars grew 45% to 33.2 billion. Bundled contract spending in the R&D and Manufacturing sectors fell a combined 15% during the same period. Between FY 1992 and FY 1999 Other Services and Construction saw their combined bundled dollar share grow from 32.5 percent to 46.3 percent, a hefty 42 percent share increase (Table 4.4, page 31). By FY 1998, two of every five Other Services dollars and one of every five Construction dollars were awarded on bundled contracts. In FY 1998, Other Services surpassed Manufacturing in total bundled dollars for the first time (Graph 4.2, page 27).

Significantly, the two market sectors showing growth in bundled dollars also experienced a decline in the number of small business participants. Between FY 1992 and FY 1999, the number of small businesses in the Construction sector fell 44.2 percent and the number of small businesses in Other Services fell 4.9%. Despite the combined 15 percent decline in bundled dollars in R&D and Manufacturing, these sectors saw a 3.2 percent rise in the number of small business participants (Table 4.5, page 32). As bundled dollars increase along with average contract size, we see increased stratification as the number of small businesses decline.

Eagle Eye's bundled contract regression analysis supports these observed trends. Statistics demonstrate that an increase of 100 bundled contracts is associated with a net decrease of 106 small business contracts. Furthermore, an increase of 100 bundled dollars is associated with a net decline of 33 small business dollars. In short, the contract effect of bundling on small business is over one-for-one; the dollar effect is one-for-three. At $79 billion in FY 1999, the current level of bundled contracts is costing small businesses $26 billion annually.

The Defense Department remains the predominant source of bundled dollars. DoD awarded 82 percent of all bundled dollars in FY 1999, an increase of 2 percentage points from FY 1998. Overall, since FY 1992 the DoD share of bundling has remained relatively stable, only falling a total of 3.9 percentage points (Table 4.6, page 33).

The Army has grown their use of bundled contracts significantly. At $15.8 billion, the Army's FY 1999 bundled dollar total is up 22 percent since FY 1992. The Navy leads all DoD bureaus in the awarding of bundled contracts with a $22 billion total, however it is only 2 percent higher than Navy's FY 1992 bundled dollar total. At $18.8 billion, Air Force bundled dollars are down 24 percent over eight years. Among the fastest growing users of bundled contracts at DoD are the Special Operations Command (USSOC, up 8,745 percent since FY 1992), the Defense Mapping Agency (DMA, up 913 percent), The CHAMPUS health organization (up 209 percent) and the Defense Logistics Agency (DLA, up 193 percent) (Table 4.8, page 35).

Civilian bundled dollars are up 28 percent since FY 1992 to $14.3 billion, the highest level in eight years. The General Services Administration (GSA) leads all civilian agencies in awarding bundled contracts ($1.7 billion), followed by the Treasury Department ($1.2 billion), The Justice Department (DOJ, $924 million) and the Department of Veterans Affairs ($697 million). Several civilian agencies, including Education (DED), the Office of Personal Management (OPM) and the Federal Emergency Management Agency (FEMA) awarded more than 10 times the number of bundled contract dollars in FY 1999 than they did in FY 1992. The Department of Energy's bundled dollars have grown only modestly in eight years and NASA's have declined (Table 4.7, page 34).

Taken as a whole, this study demonstrates that the practice of bundling is growing and that the negative consequences for small business are substantial. Furthermore, the growing lack of diversity

and stratification in the federal industrial base being fueled by bundling will have long term and detrimental consequences to the government's ability to procure needed services and supplies at competitive prices.

Recommendations

Some policy recommendations to address the problems bundled contracts pose to small business include:

1. Require more unbundled bidding opportunities for small businesses.
2. Fund agencies with sufficient budget resources to support adequate numbers of procurement personnel to handle larger numbers of solicitations and small business bidders.
3. Adopt a standard definition of contract bundling for all agencies.
4. Monitor contract bundling and its impact on small businesses more closely. Steps would include:
    a. Require quarterly agency bundled contract reports detailing the distribution of bundled contracts and bundled contract dollars
    b. Monitor bundled contract reporting requirements with FPDC data
    c. Hold regular hearings and conferences on the topic of bundling to collect anecdotal information from small businesses
    d. Freeze agency funds for those agencies not meeting bundled contract reporting requirements
5. Prohibit bundling under certain conditions, such as when certain kinds of goods and services are being procured, or when agency small business goals have not been met.
6. Publicize justifications for substantially-sized bundled contracts and solicit responses to the justifications from the contracting community. Elevate the justifications to the status of those required under OMB Circular A-76, which requires a rationale for contracting out in the first place.
7. Set aside certain percentages of bundled contracts for small business.
8. Permit small businesses more time to respond to solicitations for bundled contracts in order to allow them more time to form ad hoc teams. Include a solicitation's due date in the justification for bundling.
9. Actively assist small businesses in identifying and qualifying teaming candidates for pursuing bundled contract opportunities.
10. Strictly enforce agency small business contracting goals.

APPENDIX 1: DETAILED METHODOLOGY FOR BUNDLED CONTRACT IDENTIFICATION

The main challenge in performing bundled contract analysis is that the government does not track data that specifically distinguish bundled contracts from unbundled contracts. Before any data processing can begin, it is first necessary to identify bundled contracts and related trends using available data. This requires making certain assumptions about the contracts database that serves as the core of this analysis.

A. The Data Source

The database used for this study is an enhanced version of data issued by the Federal Procurement Data Center (FPDC), a branch of the U.S. General Services Administration (GSA). The FPDC is responsible for collecting, editing and disseminating prime contracts data to Congress, the executive branch and the private sector so that government officials and the general public can monitor the government's dealings with contractors. With this data the federal government measures the impact of federal procurement on the nation's economy, monitors the distribution of contracts to large, small and small disadvantaged businesses, and periodically assesses the effectiveness of federal procurement policies.

The core data elements collected in this database describe various characteristics of contractual obligations made between the federal government and prime contractors doing business directly with a federal agency. Neither subcontract nor budget data are part of the prime contracts database.

A prime contract obligation is a legally binding agreement between the government and a contractor that commits the government to acquire products or services at an agreed price. Obligated dollars are moved by the authorizing agency to a contractor's account at the federal buying activity responsible for the purchase. These obligated funds are then used by the purchasing personnel to make payments to the contractor on an agreed payment schedule. Obligations are therefore linked to, but do not necessarily match, contractor progress.

Every time the government makes an obligation on a contract of at least $25,000 a purchasing officer must fill out either a DD-350 form (for defense agencies) or an SF-279 form (for civilian agencies). These forms describe the financial, competitive, statutory and other characteristics of the obligation. Smaller initial obligations can be made on an SF-279 or reported in bulk form on an SF-279. Only the SF-279 data are used in this study because only this form has indicators of bundling.

Over the entire course of a contract's duration, a purchasing officer might fill out numerous DD-350 or SF-279 forms for a single contract. This is because the dollars contained in a single obligation may not represent the total value of a contract. In fact, there are about 500,000 annual contract obligations in FPDC involving approximately 170,000-200,000 contracts. This means there are on average about 2.7 obligations per contract per year. Some small contracts have only one obligation, but some large contracts can have over 100.

Each DD-350 or SF-279 report forms the basis of a separate record in the FPDC contracts database. A purchasing officer will fill out a separate procurement form every time there is an action, that is, a new obligation on the contract or a de-obligation. Each action shows a unique combination of the following data elements: reporting agency, contract number, contract modification number, contracting office order number, contracting office code, action date, and amount of obligation (or de-obligation). Each time a

new form is filled out, a separate task has been documented.

B. Definitions

It is important to carefully define each variable of interest in terms of the available data. First and foremost, of course, is the definition of a bundled contract.

1. Bundled Contract

A bundled contract is a contract that, originally or by modification, incorporates dissimilar activities. While it is possible that the overall costs to the contractor may have been reduced, a majority of the savings from such combination may only be in general and administrative (G&A) costs, that is, the costs of administering the contract. The government's administrative costs may also be less.

This does not mean that the total cost to the government is less, for bundling increases contract size and may lessen competition for the contract, which may in turn increase the size of the winning bid, even though the cost to the contractor may be less. However, the government may be forced into contract bundling if procurement personnel are too few to let contracts in more economically efficient amounts.

2. Previous Definitions of Bundled Contracts

The earliest definition of contract bundling that we are aware of can be found in Section 208 of the SBA Reauthorization and Amendments Act of 1990, which became Public Law 101-574 on 15 November 1990: "If a proposed procurement includes in its statement of work goods or services currently being performed by a small business, and if the proposed procurement is in a quantity or estimated dollar value the magnitude of which renders small business prime contract participation unlikely, or if a proposed procurement for construction seeks to package or consolidate discrete construction projects...."[11] This definition is codified as 15 USC 644(a) and is incorporated in Section 19.202-1(e) of the Federal Acquisition Regulation (FAR), with the addition that the construction consolidation as a trigger of bundling is also restricted that "the magnitude of this consolidation makes it unlikely that small businesses can compete for the prime contract".

In addition to being awkwardly stated, the 1990 statutory definition has at least two deficiencies. The first is that bundling, presumably a characteristic of a contract, also includes the impact of that characteristic, namely that the bundling has caused small business participation to be "unlikely". The second deficiency is that it ignores a contract that had not previously been performed by a small business even though it could have been performed by a small business. In addition to being a compound definition mixing "apples and oranges", each deficiency makes the definition unduly restrictive as a description of contracts. As far as construction is concerned, we are not sure what is meant by "discrete" projects. But the idea of dissimilar requirements is one that we pursue below in the definition we develop for this study.

The next definition was in Section 321 of the Small Business Credit and Business Opportunity Act of 1992, which became Public Law 102-366 on 4 September 1992: "For the purpose of this section, the term 'contracting bundling' or 'bundling of contract requirements' refers to the practice of consolidating into a single large contract solicitation multiple procurement requirements that were previously solicited and

[11] Quoted in U.S. General Accounting Office National Security and International Affairs Division, "Extent and Impact of Contract Bundling is Unknown", Letter Report of 14 April 1994, page 11.

awarded as separate smaller contracts, generally resulting in a contract opportunity unsuitable for award to a small business concern due to the diversity and size of the elements of performance specified and the aggregate dollar value of the anticipated award."[3]

This was the definition used in the SBA study of contract bundling. This 1992 definition properly ignores who had the contracts before bundling, but still retains the idea that a bundled contract is generally unsuitable for award to a small business concern. This definition imposes an additional restriction on what has happened to the contract: in addition to the contract growing in size, there is also a greater "diversity" of the "elements of performance". While it is possible for the idea of bundling to include a simple increase in the size of a contract, it may not be possible to measure such an occurrence in any meaningful way. Indeed, we pursue the idea of diverse requirements in the definition we develop for this study. All in all, this definition is superior to the one of 1990.

A third definition was in Section 847 of the National Defense Authorization Act for Fiscal Year 1994, which became Public Law 103-160 on 30 November 1993: "For the purposes of this section, the terms 'contract bundling' and 'bundling of contract requirements' means the practice of consolidating two or more procurement requirements of the type that were previously solicited and awarded as separate smaller contracts into a single large contract solicitation likely to be unsuitable for award to a small business concern due to: (1) the diversity and size of the elements of performance specified; (2) the aggregate dollar value of the anticipated award; (3) the geographical dispersion of the contract performance sites; or (4) any combination of the factors described in paragraphs (1), (2), and (3)."[12]

This 1993 definition retains the idea that a bundled contract is "likely to be unsuitable for award to a small business concern". It has an important difference, however, from the definition of 1992. The 1993 definition introduces the possibility that "dispersion of the contract performance sites" can constitute bundling, an idea that we developed in the definition we developed for this study.

A fourth definition was adopted in an SBA Procedural Notice (Control Number 6000-582) on 9 July 1993: "Bundling is the consolidation of two or more requirements, descriptions, specifications, line items or statements of work; which individually were or could be performed by small business; resulting in a contract opportunity for supplies, services or construction which may be unsuitable for award to a small business concern due to the diversity and size of the performance elements, and/or the aggregate dollar value of the anticipated award, and/or the geographical dispersion of the contract performance sites."[13]

This definition has two differences from the statutory definition of 1993: it broadens the concept of bundling by only requiring that the bundled contract "may be unsuitable for award to a small business concern" instead of "likely to be unsuitable for award to a small business concern". However, it is more limiting in that it adds the restriction that the original contracts "individually were or could be performed by small business", which on the other hand is broader than the restriction in the 1990 statutory definition that the original contracts were for "goods or services currently being performed by a small business". Our comments on these features have already been made.

3. Candidate Bundled Contracts in the First Study

The definition of a bundled contract involves determining whether or not "dissimilar" tasks have been

[12] *ibid*, p. 11
[13] *ibid*, p. 11

combined. This can only be determined by examining a contract's file, and even that might be insufficient. At any rate, such a definition is not useful for a large-scale analysis of many contracts. Given the limitations of reported contract data, no definition of bundled contracts will be perfect. But after considerable analysis and testing, Eagle Eye has developed a definition of bundled contracts that meet the demands of analysis.

In the original study, Eagle Eye first attempted to define a bundled contract using multiple Standard Industrial Classification (SIC) codes on a single contract number as the distinguishing feature of a Candidate Bundled Contract (CBC). Since only one SIC code is entered for each contract action, we reasoned that different SIC codes on different actions were clear signs of distinct tasks. After selecting and analyzing these CBC data in thirteen markets, we determined that too many potentially bundled contracts were being eliminated. Many contracts with numerous, small obligations and the same SIC code were being filtered out of the analysis, eliminating almost all dollars in some market categories and many contractor categories. The limited nature of the CBC data became particularly evident when comparing these CBC trends with other measures of contract counts and totals.

Eagle Eye then tried broadening the definition of a bundled contract by calling any contract with more than one obligation a CBC. We analyzed data using this definition and found the counts and totals of CBCs grew so high that it was unlikely so much bundling would be occurring.

Eagle Eye finally settled on the following CBC definition. Since each contract action report indicates only one SIC code, only one type of contract, and only one place of performance, CBCs were defined as any contract with additional actions showing multiple SIC codes, multiple types of contract (cost plus, fixed price, etc.) or multiple places of performance. We reasoned that two different SIC codes indicate dissimilar tasks, that a contract action that indicates a contract type (e.g. cost plus or fixed price) that is different from the original contract or another modification involves tasks that are at the very least dissimilar administratively, and that it is unlikely that tasks performed at two different places are not dissimilar. We reasoned that any difference in any of these three codes on the same contract was almost certainly an indication of a new task and thus a candidate for bundling. Testing confirmed that the selection of CBCs left no unexpected gaps when the data was broken down by market or type of contractor.

Adding to the complexity of analyzing CBCs is the fact that when we select data according to a market definition, for example ADP Services, not only can the actions constituting an ADP Services contract be bundled within the ADP Services market definition but the ADP Services themselves could be part of a larger bundled award for, say, a new, multi-faceted airport communications system.

4. Explicitly Bundled Contracts in This Study

For the present study, we analyzed the effects of the different indicators of a bundled contract and simultaneously made a preliminary investigation of the possibility of using a difference in PSC codes as an additional indicator of bundling. Product-service codes are the traditional indicator of what is bought by the government. A product code is the federal supply class, which is the first four digits of the federal stock number. SIC codes denote the industry supplying the product or service and were developed by economists. The two codes measure different things. For example, there is one PSC code for containers, but glass containers come from one industry, plastic containers from another, metal containers from another industry, and cardboard containers from still another industry, all with different SIC codes. Conversely, one industry can supply products with different PSC codes. For example, the "wire bending"

industry can produce both paper clips and bird cages.[14]

Because FY 1989 was the first year SIC codes were used, this methodological analysis covers contracts that had actions during the period FY 1989 through FY 1999. All actions on these contracts during this ten- year period were grouped according to the 1,274,609 contracts they represented, which amounted to $1,831,913,533 for an average contract size of $1,437,000. For each contract with more than one action, we then looked for differences in product-service codes (PSC), SIC codes, places of performance, and contract types. The differences could be in any of the eleven years. The results are given in Tables 2.1 and 2.2.

Table A.1: Indicators of Contract Bundling, FY 1989 – FY 1999
(numbers of contracts showing differences)

Different	PSC Codes	SIC Codes	Place s	Contract Types
PSC Codes	78,693	25,355	34,907	13,307
SIC Codes	25,355	47185	18,795	9,942
Places	34,907	18,795	77,288	11,183
Contract Type	13,307	9,942	11,183	28,123

Table A.1 indicates the number of contracts that had actions during FY 1989 – FY 1999 and that had differences from one action to another in PSC code, SIC code, place of performance, or contract type. The diagonal entries in the table are the numbers of contracts with differences when the indicators of bundling are taken one at a time. For example, there were 78,693 contracts with changes in the PSC code from one action to another, 47,185 with differences in the SIC code, 77,288 with differences in the Place of Performance, and 28,123 with differences in the Type of Contract. The off-diagonal elements are the numbers of contracts with differences when the indicators of bundling are taken two at a time. For example, the second number in the first row indicates there were 25,355 contracts showing differences in both the PSC code and the SIC code. Note that this number also is the first number of the second row, since the number of contracts with a difference in the SIC code and also a difference in the PSC code is the same as the number of contracts with a difference in the PSC code and also a difference in the SIC code. The same holds true for the other indicators; that is, the table is symmetric.

Table A.2 indicates the thousands of dollars in contracts that had actions during FY 1989 – FY 1999 and that had differences from one action to another in PSC code, SIC code, place of performance, or Cntract Tpe.[15] The diagonal entries in the table are the thousands of dollars in contracts with differences when the indicators of bundling are taken one at a time. For example, there were $777 billion in contracts with changes in the PSC code from one action to another, $616 billion with differences in the SIC code, $541 billion with differences in the Place of Performance, and $691 billion with differences in the type of contract. The off-diagonal elements are the thousands of dollars in contracts with differences when the indicators of bundling are taken two at a time. For example, the second number in the first row indicates there were $491 billion in contracts showing differences in both the PSC code and the SIC code. Note that this number also is the first number of the second row, since the thousands of dollars in contracts with

[14] SBA's Office of Size Standards used these examples during the discussion leading up to the incorporation of SIC codes into SF 279.

[15] Any dollars in actions on these contracts before FY 1989 are cxcluded.

a difference in the SIC code and also a difference in the PSC code are the same as the thousands of dollars in contracts with a difference in the PSC code and also a difference in the SIC code. The same holds true for the other indicators; that is, the table is symmetric.

Of the 1,383,161 contracts that had actions during this period, 118,299 (8.5 percent) show a difference in the SIC code or place of performance or contract type. The bundled dollar total is $1.1 trillion or 54 percent of the value of all contracts acted upon during the FY 1989 – FY 1999 period. The average bundled contract was worth $9.2 million, or 6.3 times the $1.4 million size of an overall average contract overall.

Table A.2: Indicators of Dollar Bundling, FY 1989 – FY 1999
(thousands of dollars in contracts showing differences)

Different	PSC Codes	SIC Codes	Places of Performance	Contract Types
PSC Codes	777,709,092	491,553,171	358,036,717	459,382,670
SIC Codes	491,553,171	616,326,801	284,141,868	391,603,620
Places of Perf	358,036,717	284,141,868	541,745,300	281,924,920
Contract Types	459,382,670	391,603,620	281,924,920	691,720,942

If a difference in the PSC code is added to the list of bundled contract discriminators, then the number of contracts showing differences rises by 29,444 to 147,743 contracts (10.82 percent of the total). The dollar amount rises to $1,080,459,918 or 59 percent of the total. This suggests that adding a difference in the PSC code as an additional indicator of bundling would significantly expand the scope of contract bundling beyond the current definition. Before adding PSCs to the bundled contract definition, however, a significant amount of additional work would be required that is beyond the scope of this study. For instance, we would want to study the extent of spurious PSC data in the database. A number of contracts remain coded with PSCs beginning with R3 even though use of the R3 codes ended several years ago. Also, many PSCs within a common federal supply group make relatively subtle distinctions between the types of work being performed on a contract compared to their SIC counterparts.

While we feel the analysis and use of the PSC code as an indicator of bundling should be postponed to a later study, these two tables bolster the existing definition of bundling. The indicators of bundling overlap but are not redundant. For example, of the 47,185 contracts showing a difference in the SIC code, 18,795 (40 percent) also show a difference in the place of performance. Of the $616 billion in contracts showing a difference in the SIC code, $284 billion (46 percent) also show a difference in the place of performance. This is not unreasonable. Similarly, of the 77,299 contracts showing a difference in the place of performance, the same 18,795 contracts (this time 24 percent) also show a difference in the SIC code. Of the $541 billion in contracts showing a difference in the place of performance, the same $284 billion (52 percent) also show a difference in the SIC code, indicating that it is mainly larger contracts that show differences in both SIC codes and places of performance, as compared to differences in only the place of performance. This also is not unreasonable. Similar statements could be made in comparing SIC code with contract type and contract type with place of performance. While the three indicators overlap, they are not redundant. Eliminating any one of them would result in a loss of useful information.

In the original study, the only evidence of bundling used was that which occurred in the year being analyzed. In this study we broaden that considerably. In the overall tables (which are for the entire period FY 1989 through FY 1999) we include any evidence of bundling during the eleven years. In the analysis of one fiscal year at a time, we include any evidence of bundling during a "look back" period. In order not to confuse this study with the previous one, and in order to be explicit, we use here the notion of an "explicitly" bundled contract (EBC), which again is a contract that has an action with the Standard Industrial Classification (SIC) code and/or the type of contract code and/or the place of performance code that is different from another action on the same contract, during the period of analysis.

We recognize that "explicitly bundled contracts" may include some contracts that are in reality unbundled. But it should also be recognized that "explicitly bundled contracts" exclude a considerably larger number of contracts that are actually bundled, such as large contracts with the same SIC code but with non-spurious differences in the PSC code. Also excluded are contracts bundled before the look-back period and bundled contracts that have not been modified in any way or that have only one action (we only capture bundled contracts showing modifications). In terms of data, an error in data entry for SIC code,[16] place of performance, or contract type that is not consistently wrong for the entire contract may result in "bundling" where bundling would not otherwise be indicated. On the other hand, since we are only including the portions of contracts during FY 1989 – FY 1999, bundling outside this period on the same contracts may not be reflected in bundling during the period.

Where does this leave us? By any reasonable definition of bundling, a contract of more than a billion dollars should be per se bundled. But as indicated below, only 67 percent of contracts involving more than a billion dollars are explicitly bundled and only 62 percent of the dollars in contracts involving more than a billion dollars are explicitly bundled. This indicates that we are using an essentially conservative measure of bundling.

5. Markets

Markets are defined in terms of Product-Service Codes (PSCs) rather than SIC codes because this is a study of procurement rather than of the economy. As such, we need to break down procurement with a procurement classification rather than an economic one. The size of a market is defined as the sum of the dollar values of all actions in that market during the period in question. If a contract includes actions during that period in more than one market, only the actions in the market in question are included. Thus, contracts may be counted in more than one market, but dollar values are not. However, contract counts for a market that includes other markets do not have double counting, nor do contract counts for procurement as a whole.

6. Large Contracts

A bundled contract is by definition larger than the contracts it replaces. Conversely, large contracts in general are more lkely to be bundled. The original study used a dollar threshold of $100 thousand to define a large contract. In the present study, the dollar threshold has been changed to $1 million. Even though $100 thousand is the limit on small purchases, contracts between $100 thousand and $1 million are much less likely to be bundled than contracts over $1 million. The figure of $1 million is generally the

[16] SIC codes were used for the first time in FY 1989 and were likely less reliable during the first part of the period FY 1989 – FY 1999.

threshold for the requirement of a subcontracting plan, and subcontracting means that the work can feasibly be split up; that is, the requirements may have been bundled.

7. Bundled Contract Rating

The original study had a "Bundled Contract Rating", which was the sum of four such ratings, which were the subjective estimates of the importance of a particular value of each of a number of indicators in each market studied. In this study, the percentage of contracts that are explicitly bundled will in effect be the bundled contract rating. Actions per contract will continue to be calculated but will serve as an indicator of the underlying situation, rather than as an additional indicator of bundling. (Certain kinds of actions are already included in the definition of explicitly bundled contracts.)

The share of large contracts in procurement will continue to be calculated but will serve as an indicator of the underlying situation, rather than as an additional indicator of bundling. Also, small business contracts that are large will no longer be used as an indicator of bundling, although they will continue to be calculated. The thinking behind their use as an indicator of bundling was that bundling would result in larger contracts to small business as well as large. But small businesses with large contracts could also be an indicator of success independent of bundling.

8. Harm to Small Business Rating

In the original study, the "Harm to Small Business Rating" was the sum of five such ratings, which were the subjective estimates of the importance of particular values of each of five indicators in each market studied. The five indicators can be described without loss of generality as the small business shares of CBCs, large contracts, all contracts, establishments performing contracts, and new establishments. While all indicators will continue to be calculated, we focus in the current study on the small business share of all contracts and dollars as the essential indicator of any harm to small business.

While an increasing small business share of explicitly bundled contracts is good for small business, it might be at the cost of other small business contracts; the small business share of all contracts is more relevant. A similar statement can be made about the small business share of large contracts. While a declining small business share of establishments may be a warning sign, it might also merely indicate some consolidation of effort within the small business sector. And a greater number of new small business establishments might indicate vigor or a lack of barriers or it might indicate merely higher turnover in the market due to difficulties in satisfying the government at a profit. The bottom line as always is whether or not contracts and dollars are going to small businesses.

The statistical analysis is taken one step further in the current study by calculating the changes (in percentage points) in the small business shares of contracts (and dollars) in each market versus the changes (in percentage points) in explicitly bundled contracts (and dollars) as shares of each market, and relating the two variables in a cross section regression.

9. Regression Analysis

The statistical analysis is taken one step further in the current study by calculating the changes (in percentage points) in the small business shares of contracts (and dollars) in each market versus the changes (in percentage points) in explicitly bundled contracts (and dollars) as shares of each market. The two variables are related in a cross section regression for the four sectors of Research and Development,

Construction, Other Services and Supplies and Equipment.

C. Procedures

The results of this study are affected by a number of specific procedures.

1. Determination of Explicit Bundling for the Entire Period

For the period FY 1989 – FY 1999, group all actions by contract number. The result is all contracts acted upon during these eleven years. Flag all contracts that have a difference among actions (which may include the original contract) in the SIC code and/or the contract type and/or the place of performance, regardless of the year in which the difference occurred. The result is all explicitly bundled contracts that were acted upon during these eleven years.

2. Explicit Bundling in the Analysis of One Fiscal Year at a Time

In the analysis of one fiscal year at a time, we could have simply looked at the number of contracts acted upon during a given fiscal year, and then looked at how many of these contracts were ever bundled. But such an approach would have two biases in the data: actions in earlier years would be more likely to be on contracts that were later bundled, and actions in later years would be more likely to be on contracts that were bundled earlier. Since these two biases would in all probability not be perfectly offsetting, we decided that it was necessary to systematically remove each of the two biases in the following manner.

Actions in later years would be more likely to be on bundled contracts because the contracts would, on average, have longer histories; a few of them might go back to the first year in our data base, FY 1989. Therefore, in the analysis of one fiscal year at a time, a contract is counted as explicitly bundled only if the evidence of bundling occurs during an historical four-year period up to and including the fiscal year being analyzed. For instance, to determine if a contract that was active in FY 1992 was explicitly bundled for the analysis of that year, all actions placed against that contract from FY 1989 up through the end of FY 1992 are analyzed for variations in the SIC, type of contract and place of performance codes. Similarly, to determine if a contract active in FY 1999 was explicitly bundled, all actions placed against that contract starting in FY 1996 are studied.

Also note that even though a contract's bundled status may change from unbundled to bundled over the life of the contract, indications of bundling are not retroactive in the year-by-year analysis. If a contract is bundled only after the year being analyzed, it should not be and is not counted as bundled for that year. For instance, a contract initially awarded in FY 1991 that showed no signs of bundling in FY 1991 or FY 1992 could have become a bundled contract in FY 1993. Such a contract would be considered bundled in FY 1993 and thereafter, until it is closed out. The contract would not be counted as bundled in FY 1991 and FY 1992. This eliminates any bias toward bundling that would otherwise tend to inflate the numbers of bundled contracts in the earlier years of this analysis.

We selected a four-year period in order to capture a good portion of bundling but still have eight years (FY 1992-FY 1999) to compare with each other. While this captures a good deal of bundling, it by no means captures all bundling. This is illustrated by an analysis of how bundling occurs as contracts age. This analysis looked at the 1,316,127 contracts that began[17] during the period FY 1989 - FY 1999, or

[17] Defined as showing no actions in the period FY 1984 – FY 1988.

94.7 percent of the 1,383,161 contracts acted upon during this period.

Of the 120,324 contracts that began during FY 1989, 3,843 contracts (3.19 percent) were bundled during the same year. By the end of FY 1990, another 3,574 contracts had been bundled, for a total of 7,417 contracts bundled (6.16 percent). By the end of FY 1999, a total of 10,593 contracts that began in FY 1989 had been bundled by the eleventh year, or 8.8 percent. Similar calculations were done for contracts that began in FY 1990, but the bundling could only be followed for ten years instead of eleven. As we looked at bundling that occurred on contracts that began later and later, the bundling histories that we could observe became shorter and shorter, until for contracts that began in FY 99 we could only look at bundling that occurred during the same year. Thus we had eleven observations on bundling that occurred during the same year as the beginning of a contract, ten observations on bundling that occurs within the year after that, and so on. We calculated the percentages of contracts that were bundled, and the averages of these percentages by the corresponding years in the life of the contract. These averages are shown in Table A.1 (below).

The percentage of contracts that are bundled rises steadily as contracts age, reaching 8.8 percent of all contracts in the eleventh year that these contracts have existed. The percentage of dollars that are bundled rises steadily through the eighth year and then begins a three-year decline. This is partly the result of a quite large percentage (59.1) of dollars in contracts that began in FY 1991 that were bundled by FY 1995.

Because large contracts are more likely to be bundled, the percentage of dollars bundled in each year is much greater than the percentage of contracts bundled. The ratio of these percentages also increases with age from four to six. (As contracts get older, not only are more contracts bundled, but more dollars are put into the contracts already bundled.)

Because some new bundling will occur after the eleventh year, looking forward three years after the year of birth of a contract captures 75 percent of the contracts that are eventually bundled and less than 50 percent of the dollars that are eventually bundled. This suggests that a three-year look-back from an action leaves out considerable bundling, making our estimate of bundling more conservative. As stated above, however, the look-back was limited to three years in order to have eight years of data to analyze for trends.

Table A.1: Contracts Bundled by Age of Contract (averages of percentages of all contracts)

Year in Contract	Number of Observ Yrs	Bundled Contracts as % of All Contr	Index with Year 11 = 100	Bundled Dollars as % of All Dollars	Index with Year 11 = 100
1	11	2.57	29	22.66	44
2	10	5.07	58	38.22	75
3	9	6.10	69	45.17	88
4	8	6.62	75	48.7	95
5	7	6.88	78	51.49	101
6	6	7.02	80	52.97	104

7	5	7.24	82	55.06	108
8	4	7.56	86	55.45	109
9	3	7.93	90	55.14	108
10	2	8.35	95	51.43	101
11	1	8.8	100	51.1	100

In the original study, the procedure to determine bundling was quite limited: the only evidence of bundling used was that which occurred in the year of the action. Consequently, the number of explicitly bundled contracts in this study are properly greater than the number of "candidate" bundled contracts in the original study.

3. Markets in the Analysis of One Fiscal Year at a Time

For a given fiscal year, we first select all actions that have a product-service code in the market being analyzed. The sum of the obligations and de-obligations in these actions is the dollar size of the market in the given fiscal year. Note that this excludes actions on contracts acted upon during this year that had a product-service code in this market in an earlier year but not in the year being analyzed.

These actions in the given market are then grouped by contract number. The result is the number of contracts acted upon by actions in this market during this fiscal year. (The ratio of actions to contracts includes just the actions in the market and year being analyzed but not in other markets as well if they are actions upon the same contracts.) We then count the number of contracts that are flagged. The result is the number of explicitly bundled contracts acted upon by actions in this market during this fiscal year.

The original study at this point excluded contracts with negative or zero net dollar values in total actions in the fiscal year being analyzed, on the grounds that any bundling here may have actually been unbundling. But the size of the market is thus increased and is then greater than the size of the market in various tabulations of others. Keeping such contracts would facilitate cleaner comparisons with other studies. And a deobligation in this case will still represent action upon a bundled contract.

4. Large Contracts in the Analysis of One Fiscal Year at a Time

The original study defined large contracts to be contracts acted upon in the fiscal year and market being analyzed that had a total value of actions in that year in that market (but not in another market) in excess of a dollar threshold. This excluded contracts that were large in a prior year but were acted upon in the current year in an aggregate amount less than the dollar threshold. It also excluded contracts that were large in another market but not in the market being analyzed. Since the indicator of bundling in this study can occur in a different market and/or an earlier year, the small and large breakdown should be on the comparable basis. Contract size is therefore defined to include the dollar value of all actions in any market during the period used to determine bundling.

5. New Contractors

In the original study, a "new" contractor was defined as an establishment that had not received an award during any previous year. In the present study, we use instead a file that Eagle Eye has constructed linking establishments to their parent companies. A "new" contractor is defined as a parent company that had not previously received an award in the period used to determine bundling.

6. Type of Contractor

Contractors are grouped in the appendix into the following categories: small disadvantaged business, other small business, large business, and other (which consists of sheltered workshops, other nonprofits, other state/local government institutions, foreign contractors, domestic contractors performing outside the U.S., historically black colleges/universities or minority institutions,[18] and unknown). Actions that do not have a code for type of contractor are not attributed to large business even though they are almost exclusively DoD actions with a firm specified by a foreign government or by an international organization, or DOD actions in some other special program. Counts of contractors by type will sometimes add to a total that is greater than the total for all performers if actions awarded to the same performer have been coded with more than one type of contractor on separate actions.

[18] Contracts with historically black colleges/universities or minority institutions are undercounted in the overall (FY 1989 - FY 1999) tabulations because they were not indicated on the data form before May 1996.

APPENDIX 2: AGENCY AND BUREAU ACRONYM TRANSLATIONS FOR TABLES 4.8 AND 4.9

The following table provides translations of agency acronyms appearing in Civilian Agency Table 4.8, page 33:

Rank	Acronym	Agency
1	DED	U.S. Department of Education
2	EEOC	U.S. Equal Employment Opportunity Commission
3	OPM	Office of Personnel Management
4	FEMA	Federal Emergency Management Agency
5	FTC	Federal Trade Commission
6	DOC	U.S. Department of Commerce
7	PEACE	Peace Corps
8	DOJ	U.S. Department of Justice
9	USDA	U.S. Department of Agriculture
10	SEC	Securities and Exchange Commission
11	TREAS	U.S. Department of the Treasury
12	SMITH	Smithsonian Institution
13	SSS	Social Security Administration
14	NRC	Nuclear Regulatory Commission
15	ITC	International Trade Commission
16	HUD	U.S. Department of Housing and Urban Development
17	AID	Agency for International Development
18	NARA	National Archives and Records Administration
19	CPSC	Consumer Product Safety Commission
20	STATE	U.S. State Department
21	DVA	U.S. Department of Veterans Affairs
22	EOP	Executive Office of the President
23	GSA	U.S. General Services Administration
24	NLRA	National Labor Relations Board
25	HHS	U.S. Department of Health and Human Services

The following table provides translations of Defense bureau acronyms appearing in Table 4.9, page 34:

Rank	Acronym	Bureau
1	USSOC	U.S. Special Operations Command
2	AFIS	Armed Forces Information Service
3	WHS	Washington Headquarters Service
4	DMA	Defense Mapping Agency
5	DNA	Defense Nuclear Agency
6	CHAMPUS	Civilian Health and Medical Program of the Uniformed Services
7	DLA	Defense Logistics Agency
8	USUHS	Uniformed Services University of the Health Sciences
9	DISA	Defense Information Systems Agency
10	COE-CPF	Corps of Engineers -- Civilian Programs
11	DOA	Department of the Army
Rank	**Acronym**	**Bureau**
12	NAVY	Department of the Navy
13	AF	Department of the Air Force

14	DARPA	Defense Advanced Research Projects Agency
15	SDIA	Strategic Defense Initiatives Agency (BMDO)
16	DCA	Defense Commissary Agency
17	DODSEC	Office of the Secretary of Defense
18	OSIA	On Site Inspection Agency
19	DFAS	Defense Finance and Accounting Service
20	ODS	Office of Dependents Schools

APPENDIX 3: TOP 100 BUNDLED CONTRACT RECIPIENTS FY 1999

Rank	Parent Company	Total $000	Rank	Parent Company	Total $000
1	LOCKHEED MARTIN CORP	8,551,298	47	LUCENT TECHNOLOGIES INC	192,595
2	BOEING CO.	6,141,976	48	KPMG PEAT MARWICK	192,558
3	RAYTHEON CO.	4,672,154	49	AZIMUTH TECHNOLOGIES, INC.	191,829
4	GENERAL DYNAMICS CORP.	3,107,695	50	CACI INTERNATIONAL INC	189,805
5	NORTHROP GRUMMAN CORP.	2,014,562	51	FOUNDATION HEALTH CORP.	189,127
6	UNITED TECHNOLOGIES CORP.	1,540,251	52	BURSON-MARSTELLER INC	187,766
7	CLASSIFIED DOMESTIC CONTRACTOR	1,477,477	53	MANTECH INTERNATIONAL CORP	185,774
8	TRW, INC.	1,394,438	54	JOHNSON CONTROLS, INC.	183,859
9	SCIENCE APPLICATIONS INTL CORP	1,365,978	55	URS CORP.	175,166
10	GENERAL ELECTRIC COMPANY	1,260,982	56	HOLZMANN PHILIPP AG	171,762
11	TEXTRON, INC.	1,108,730	57	BINDLEY WESTERN INDUSTRIES	170,827
12	LITTON INDUSTRIES, INC.	1,102,928	58	AMS	170,573
13	COMPUTER SCIENCES CORP.	859,695	59	COMPAQ COMPUTER CORP.	168,272
14	CARLYLE GROUP	802,742	60	HARRIS CORP.	161,049
15	HALLIBURTON CO.	654,259	61	TYCO INTERNATIONAL LTD	157,396
16	HUMANA, INC.	619,800	62	GATEWAY	155,824
17	HONEYWELL, INC.	560,870	63	RENCO GROUP	153,770
18	UNISYS	531,734	64	ARINC, INC.	152,544
19	ELECTRONIC DATA SYSTEMS CORP.	528,363	65	CH2M HILL COMPANIES LTD	150,206
20	AMERISOURCE DISTRIBUTION CORP	524,571	66	ROLLS ROYCE P.L.C.	149,480
21	ANTHEM, INC.	510,807	67	TETRA TECH, INC.	148,228
22	BECHTEL GROUP, INC.	504,076	68	JACOBS ENGINEERING GROUP INC	142,530
23	BATTELLE MEMORIAL INSTITUTE	499,425	69	VSE CORP.	141,704
24	DYNCORP	475,295	70	ADVANCED COMMUNICATION SYSTS	141,279
25	IT GROUP, INC.	444,574	71	AT&T	139,283
26	BAE SYSTEMS	419,007	72	SPRINT CORP.	139,055
27	MITRE CORP.	417,288	73	PRIMEX TECHNOLOGIES, INC	137,842
28	TRIWEST HEALTHCARE ALLIANCE CO	413,509	74	SRA INTERNATIONAL, INC.	136,743
29	DELL COMPUTER CORPORATION	395,178	75	ORACLE CORP.	130,646
30	RAYTHEON/MARTIN JAVELIN JV	394,958	76	BTG INC	128,619
31	OCCUPATIONAL HEALTH SERVICES	391,110	77	FOSTER WHEELER CORP.	127,912
32	GOLDMAN SACHS & COMPANY	387,490	78	**ITC**	**127,128**
33	MOTOROLA, INC.	363,619	79	OLIN CORP.	124,902
34	IBM CORP.	342,246	80	MCKESSON CORPORATION	123,543
35	BOEING/UNITED TECHNOLOGY JV	316,038	81	OAO CORP	122,985
36	BOOZ ALLEN & HAMILTON, INC.	304,197	82	ITALY, GOVERNMENT OF	122,341
37	JOHNS HOPKINS UNIVERSITY	292,808	83	MICRON TECHNOLOGY INC	122,236
38	**GTSI**	**278,600**	84	COMPUTER ASSOCIATES INTL	120,949
39	HIGHMARK, INC.	273,655	85	TELOS CORP.	116,058
40	ITT INDUSTRIES	266,940	86	DAY & ZIMMERMANN, INC.	115,876
41	ALLIANT TECHSYSTEMS, INC.	262,589	87	PEMCO AVIATION GROUP	114,644
42	BELL ATLANTIC CORP.	239,735	88	OGILVY GROUP INC	112,493
43	AFFILIATED COMPUTER SYSTEMS	232,664	89	XEROX CORP.	111,217
44	ROCKWELL INTERNATIONAL CORP.	229,624	90	**INTEGRITY MANAGEMENT INTL**	**110,047**
45	OSHKOSH TRUCK CORP.	218,711	91	MCI WORLDCOM	110,041
46	U.S. MARINE REPAIR, INC.	197,783	92	PRICE WATERHOUSE COOPERS LLP	109,522

APPENDIX 3: TOP 100 BUNDLED CONTRACT RECIPIENTS FY 1999 (CTD)

Rank	Parent Company	Total
93	**MCBRIDE & ASSOCIATES INC**	**109,351**
94	GETRONICS	106,289
95	**SIGNAL CORP**	**105,518**
96	ANTARCTIC SUPPORT ASSOCIATES	102,707
97	MORGAN GUARANTY TRUST OF NY	102,390
98	INTERGRAPH CORP.	97,671
99	VERIDIAN CORP.	96,324
100	OAK RIDGE ASSOC UNIVERSITIES	95,600
	Total, Top 100 Bundled Contract Recipients	**55,436,284**
	Total Bundled Dollars, FY 1999	**79,290,234**
	Top 100 Share of Bundled Dollars FY 1999	**69.9%**

Note: Bolded Entries are small businesses.

The Office of Advocacy of the U.S. Small Business Administration was established in 1976 by Congress under Public Law 94-305 to, among other things, examine the current role of small business in the economy, present current and historical data on the small-business sector, and identify economic trends which will or may affect the small-business sector and the state of competition. In fulfillment of this mandate, the Office of Advocacy funds research and publishes reports, such as *The State of Small Business*, *Small Business Profiles*, the *Small Business Answer Card*, and *Small Business Economic Indicators*.

For more information, write to the Office of Advocacy at 409 Third Street S.W., Washington, DC 20416, or visit the Office's Internet site at *http://www.sba.gov/advo/*.

DEPARTMENT OF DEFENSE

Competitive Sourcing Program

mary of Execution Trends for FY 95 through April 2003

Source: DoD Commercial Activities Management Information System

VISIT
SHARE A-76!
The DoD A-76 Knowledge Management Web Site at
emissary.acq.osd.mil/inst/share.ns

DEPARTMENT OF DEFENSE
Competitive Sourcing Program
Execution Trends

- Completed Competitive Sourcing Initiatives = 1,064 (76,281 Spaces)
  - ✓444 Cost Comparisons
  - ✓572 Direct Conversions
  - ✓48 Streamlined Cost Comparisons

- Decision Percentages for **All** A-76 Types of Competition Averages
  - ✓44% In-house (53% of spaces) & 56% Contract (47% of spaces)

- Decision Percentages for **Cost Comparisons** (Public-Private Competition)
  - ✓66% In-house (60% of Spaces) & 34% Contract (40% of Spaces)

- Average Cost Comparison Duration
  - ✓Single Function Cost Comparison= 20 Months
  - ✓Multi-Function Cost Comparison = 35 Months

- Average Competition Manpower Savings = **34%**

DEPARTMENT OF DEFENSE
Competitive Sourcing Program
Execution Trends

- Impact of Size on Cost Comparison Decisions
  - ✓Large (>99 spaces) = 63% In-house and 37% Contract
  - ✓Small (<100 spaces) = 67% In-house and 33% Contract

- Impact on Small Business -- 67% of all Contracts Awarded under A-76
  - ✓395 of 591 for All Types of A-76 Competitions (10,738 of 35,557 spaces)
  - ✓64% Cost Comparisons with Contract Decisions
    - 97 of 151 Competitions (6,932 of 25,274 Spaces)
  - ✓68% Direct Conversions to Contract
    - 297 of 439 initiatives (3,802 of 10,279 Spaces)

- Civilian Reductions in Force (RIF) Resulting from A-76
  - ✓ 2,785 Permanent Employees
    - Out of 76,281 Spaces Competed

300

Contract Bundling

A Strategy for Increasing
Federal Contracting Opportunities
for Small Business

October 2002

Executive Office of the President
Office of Management and Budget
Office of Federal Procurement Policy

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

OFFICE OF FEDERAL
PROCUREMENT POLICY

October 29, 2002

The President
The White House
Washington, DC 20500

Dear Mr. President:

In March of this year, as part of the Small Business Agenda, you called upon the Office of Management and Budget to prepare a strategy for unbundling federal contracts. On behalf of the Office of Federal Procurement Policy within the Office of Management and Budget, I am pleased to submit the enclosed strategy for increasing federal contracting opportunities for small businesses.

As you know, the number and size of bundled contracts within the executive branch have reached record levels. Although contract bundling can serve a useful purpose, the effect of this increase in contract bundling over the past ten years cannot be underestimated. Not only are substantially fewer small businesses receiving federal contracts, but the federal government is suffering from a reduced supplier base. American small businesses bring innovation, creativity, competition and lower costs to the federal table. When these businesses are excluded from federal opportunities through contract bundling, our agencies, small businesses and the taxpayers lose.

The enclosed report provides an aggressive strategy for holding agencies accountable for eliminating unnecessary contract bundling and mitigating the effects of necessary contract bundling. The recommendations propose a series of regulatory changes to ensure maximum compliance with current contract bundling laws and full use of the resources of the Small Business Administration and agency Offices of Small and Disadvantaged Business Utilization.

With successful implementation of this strategy, we will be making a significant step forward towards ensuring that small businesses and entrepreneurs have access to federal contracting opportunities.

Sincerely,

Angela B. Styles
Administrator

Enclosure

PREFACE

On March 19, 2002, the President unveiled a Small Business Agenda that proposed several substantive steps toward creating a dynamic environment where small businesses and entrepreneurs can flourish. The plan included new tax incentives, health care options, and a reduction in regulatory barriers. And for those small businesses seeking to do business with the federal government, the President announced several proposals to improve the access of small businesses to federal contracting opportunities. Specifically, the President called upon the Office of Management and Budget (OMB) to prepare a strategy for unbundling contracts.

In late March, the Office of Federal Procurement Policy (OFPP), within OMB, created an interagency working group to develop strategies for unbundling contracts. This group, chaired by Michael Gerich from OFPP, met on many occasions during the summer and early fall and was instrumental in creating the final report.

OMB and the interagency working group sought significant public comment. On May 6, 2002, OMB issued a notice in the Federal Register requesting public comments. We received 27 public comments on contract bundling and issues related to the access of small businesses to federal contracting opportunities. On June 14, 2002, OMB held a public meeting where interested parties were given an opportunity to express their views. Fourteen individuals made presentations at that public meeting. Comments received from the public, both in writing and at the public meeting, were considered in the preparation of this report.

Special thanks should be given to the following people for their participation in the development of this report: Janis Coughlin, OMB; Luz Hopewell, SBA; Janet Koch, DOD; Karyn Richman, OMB; and Linda Williams, SBA.

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I. Executive Summary

A strategy for unbundling contracts must recognize the combined challenges and benefits of a reduced acquisition workforce and the need to maintain an overall acquisition system that is fair, efficient, and transparent. We cannot afford to revert back to the paperwork and labor-intensive system of the past. Nor can we pursue operational efficiencies at the expense of reducing small business opportunities. The challenge is to strike an appropriate balance between operational efficiency, opportunity, and fairness.

To address contract bundling in the executive branch, the following actions will be taken:

1. Ensure accountability of senior agency management for improving contracting opportunities for small business.

2. Ensure timely and accurate reporting of contract bundling information through the President's Management Council.

3. Require contract bundling reviews for task and delivery orders under multiple award contract vehicles.

4. Require agency review of proposed acquisitions above specified thresholds for unnecessary and unjustified contract bundling.

5. Require identification of alternative acquisition strategies for the proposed bundling of contracts above specified thresholds and written justification when alternatives involving less bundling are not used.

6. Mitigate the effects of contract bundling by strengthening compliance with subcontracting plans.

7. Mitigate the effects of contract bundling by facilitating the development of small business teams and joint ventures.

8. Identify best practices for maximizing small business opportunities.

9. Dedicate agency Offices of Small and Disadvantaged Business Utilization (OSDBUs) to the President's Small Business Agenda.

II. Background

Each year, the federal government awards over $200 billion in contracts. In fiscal year 2001, there were 11.4 million contract actions valued at $234.9 billion. Federal

agencies state that they generally award nearly 23 percent of the total dollars spent on federal procurements each year to small businesses. In addition, in fiscal year 2001, large businesses subcontracted approximately $35.5 billion in federal work to small businesses.

A. What is Contract Bundling?

The Small Business Reauthorization Act of 1997 defines contract bundling as "consolidating two or more procurement requirements for goods or services previously provided or performed under separate, smaller contracts into a solicitation of offers for a single contract that is unlikely to be suitable for award to a small business concern." The Act lists several factors that might cause unsuitability for award to a small business. These are - -

- the diversity, size, or specialized nature of the elements of the performance specified;
- the aggregate dollar value of the anticipated award;
- the geographical dispersion of contract performance sites; or
- any combination of these criteria.[1]

The Act requires each federal department and agency, to the maximum extent practicable, to: (1) structure contracting requirements to facilitate competition by and among small business concerns, taking all reasonable steps to eliminate obstacles to their participation; and (2) avoid unnecessary and unjustified bundling of contract requirements that may preclude small business participation in procurements as prime contractors.

Prior to bundling any contracts, agencies are required to conduct market research to determine whether contract bundling is necessary and justified. To justify contract bundling, agencies must demonstrate "measurably substantial benefits," such as cost savings, quality improvements, reduction in acquisition cycle times, or better terms and conditions.[2] The Small Business Administration's implementing regulations further define "measurably substantial benefits" by requiring agencies to demonstrate - -

- for contracts of $75 million or less - - benefits equivalent to 10 percent of contract value (including options), or

[1] The definitions of "bundled contract," "bundling of contract requirements," and "separate smaller contract" are codified in section 3(o) of the Small Business Act (15 U.S.C. § 632(o)).

[2] The statutory requirements for agencies to conduct market research to determine whether consolidation of procurement requirements is necessary and justified, including identification of "measurably substantial benefits," are codified in section 15(e) of the Small Business Act (15 U.S.C. § 644(e)).

- for contracts over $75 million - - benefits equivalent to 5 percent of contract value (including options) or $7.5 million, whichever is greater.[3]

Several provisions of the Federal Acquisition Regulation (FAR) establish responsibilities for agency personnel who are considering contract bundling. The FAR places responsibility on agency acquisition planners to structure requirements, to the maximum extent practicable, to facilitate competition by and among small business concerns, and avoid unnecessary and unjustified bundling. Agency contracting officers are required to: (1) perform market research to determine whether bundling is necessary and justified; (2) justify their determinations in acquisition strategy documentation that identifies measurably substantial benefits that meet the statutory and regulatory requirements; and (3) consult with SBA representatives on their acquisition strategies.[4]

B. Why Are Contracts Bundled?

Increased demands to make the acquisition process quicker and less complex coupled with reductions in the overall acquisition workforce have driven acquisition managers to bundle requirements. To meet these demands and increase customer satisfaction, agencies have increasingly consolidated contractual requirements into larger contracts and used limited and simplified competition procedures for acquiring products and services.[5]

C. What is the Impact of Contract Bundling on Small Businesses?

According to a report prepared for SBA's Office of Advocacy, for every 100 "bundled" contracts, 106 individual contracts are no longer available to small businesses. For every $100 awarded on a "bundled" contract, there is a $33 decrease to small businesses.[6] Because these types of contracts "run longer and encompass a greater scope, competition is reduced in terms of frequency and the number of opportunities."[7] Analysis

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[3] SBA's bundling regulations are codified at 13 C.F.R. § 125.2.

[4] See FAR sections 7.103 and 7.107 (48 C.F.R. § 1, 7.103 and 7.107) for more information on acquisition planning. Also see FAR Part 10 (48 C.F.R. § 1, 10) and FAR Subpart 19.4 (48 C.F.R. § 1, 19.4) for more information on agency responsibilities to conduct market research and cooperation with SBA.

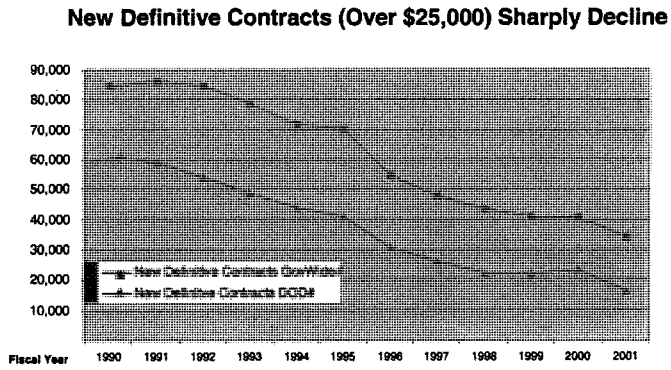
[5] For a more detailed description of the reasons for agency contract consolidation, see Case Studies in DOD Contract Consolidations: A Study for the Office of Small and Disadvantaged Business Utilization, Appendix C, Logistics Management Institute (LMI), December 2000.

[6] The Impact of Contract Bundling on Small Business FY 1992 - FY 1999 (Eagle Eye Publishers for the U. S. Small Business Administration, Office of Advocacy, September 2000). In Small Business: Limited Information Available on Contract Bundling's Extent and Effects (GAO/GGD-00-82, March 2000), GAO questioned the probative value of an earlier report by Eagle Eye, because the definition of contract bundling used by Eagle Eye did not correspond with the statutory definition. The later Eagle Eye report (cited above) relies on a similar definition, and thus is subject to the same scrutiny. Nevertheless, we use these figures as anecdotal evidence of the impact of contract bundling and similar practices that may not meet the statutory definition.

[7] LMI report, *supra*, note 5, pages 4-5 and 4-6.

of the data indicates that, even though the overall dollars spent in contracting with small businesses remained relatively constant, there has been a sharp overall decline in new contract awards. Figure 1 shows a decline in new contract awards (i.e., new contracts rather than contract modifications or orders under existing contracts), from a high of 86,243 in fiscal year 1991 to a low of 34,261 in fiscal year 2001.[8]

Figure 1: New Definitive Contracts (over $25,000)



We also found that significantly fewer small businesses are receiving federal government contracts. Figure 2 shows a dramatic decline in the number of small business contractors receiving new contract awards, from a high of 26,506 in fiscal year 1991 to a low of 11,651 in fiscal year 2000.[9] The significant reductions in new contract awards and the number of small business contractors receiving contract awards signals an increase in contract bundling and a decline in small business opportunities.

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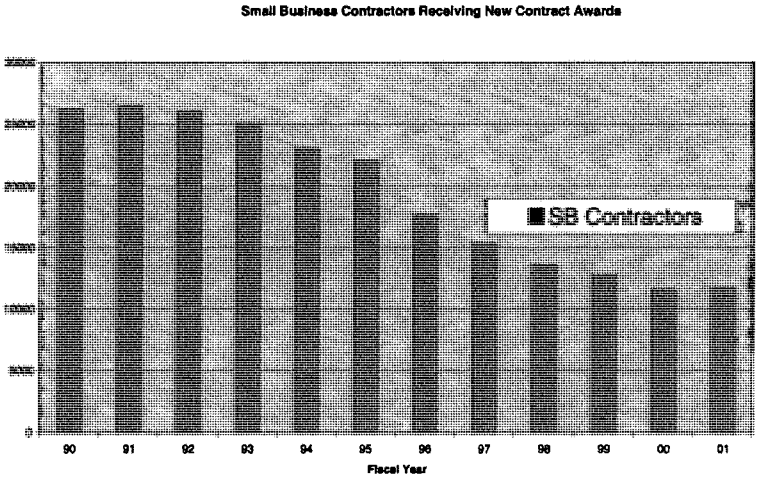
[8] GAO concluded in 2001 that "... small businesses received a higher share in fiscal year 1999 of expenditures in new contracts for most categories of goods and services than they did in fiscal year 1993." (Small Business: Trends in Federal Procurement in the 1990s, GAO-01-119, January 2001, page 12). However, as indicated in Figure 1, the total number of new contract awards declined significantly from fiscal year 1990 to fiscal year 2001. Figure 3 indicates that, during the same period, there was a substantial increase in orders under contracts.

[9] These figures are based on cumulative data obtained from the Federal Procurement Data System (FPDS).

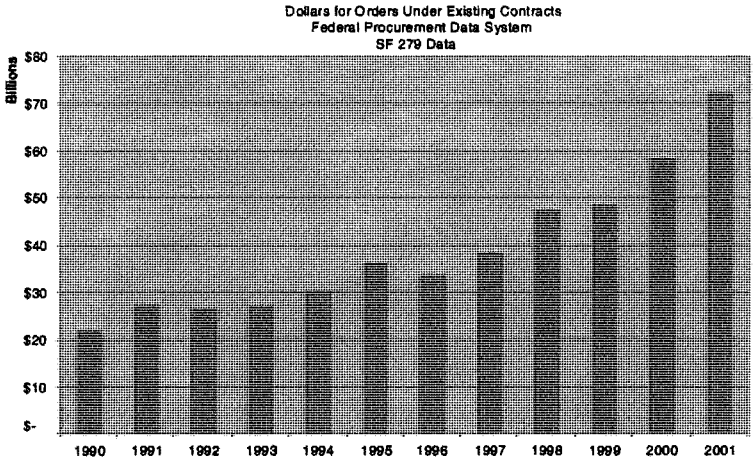
Figure 2: Small Business Contractors Receiving New Contract Awards



This decline in small business participation has been exacerbated by the use of contract vehicles that are not uniformly reviewed for contract bundling. Orders under agency multiple award contracts (MACs), multi-agency contracts, Government-Wide Acquisition Contracts (GWACs), and GSA's Multiple Award Schedule Program are not subject to uniform reviews for contract bundling issues. This lack of uniform review is a problem because, while there has been a sharp decline in other contract actions, there has been a significant increase in orders under these contracts.

Figure 3 shows an increase in department and agency expenditures for orders under existing contracts, from $21 billion in fiscal year 1990 to a high of $72 billion in fiscal year 2001. With total fiscal year 2001 procurements valued at $234.9 billion, orders under existing contracts represent about 31 percent of the total.

Figure 3: Dollars for Orders Under Existing Contracts



D. What Sectors of the Workforce are Responsible for Contract Bundling Issues?

A wide range of agency contracting personnel have responsibilities for fostering small business contracting opportunities and addressing contract bundling issues. For example, the Small Business Act assigns responsibility to agency Offices of Small and Disadvantaged Business Utilization (OSDBUs) to identify proposed solicitations that involve significant contract bundling requirements, and to work with agency contracting personnel and the SBA on procurement strategies to increase the participation by small businesses as prime contractors and subcontractors.[10] By regulation, agency contracting personnel must identify and report to SBA the bundled contracts that the agency has determined are necessary and justified and the small businesses that would be displaced by contract bundling.

1. Agency Acquisition Workforce

The acquisition workforce is composed of numerous career fields. Contracting and purchasing personnel are just a part of the overall acquisition workforce, but they hold

[10] See section 15(k)(5) of the Small Business Act, 15 U.S.C. § 644(k)(5).

primary responsibility for meeting various agency small business contracting goals. In addition, they perform a wide range of duties including: conducting market research; planning acquisitions; soliciting potential contractors; negotiating costs, prices, and terms of contracts; and awarding and administering contracts.

2. Offices of Small and Disadvantaged Business Utilization

The Small Business Act (15 U.S.C. § 631, et seq.) requires each department and agency with contracting authority to establish an OSDBU, with reporting authority to the head of the agency. These offices promote contracting opportunities for small businesses, including small business concerns owned and controlled by veterans, service-disabled veterans, women, and socially and economically disadvantaged individuals, as well as those small businesses located in Historically Underutilized Business Zones (HUBZones). OSDBUs are responsible for ensuring that small businesses have the maximum practicable opportunity to participate in the performance of federal contracts as both prime contractors and subcontractors.

With regard to contract bundling, OSDBUs work with SBA to: (1) identify proposed solicitations that involve bundling; (2) facilitate small business participation as prime contractors; and (3) facilitate small business participation as subcontractors and suppliers where participation by small business concerns as prime contractors is unlikely. OSDBU staff assigned to agency contracting offices, known as small business specialists, advise agency contracting and requirements personnel on small business issues and identify potential small business sources. They also review small business subcontracting plans and evaluate contractor performance under those plans. While some agencies may require participation of a small business specialist in the acquisition planning process, there is no government-wide requirement for participation by a small business advocate (internal or external to the agency) as a member of the acquisition planning team.

3. Procurement Center Representatives (PCRs)

SBA assigns Procurement Center Representatives (PCRs) to major contracting offices to implement small business policies and programs. PCR responsibilities include: reviewing proposed acquisitions and recommending alternative procurement strategies; identifying qualified small business sources; reviewing subcontracting plans; conducting reviews of the contracting office to ensure compliance with small business policies; counseling small businesses; and sponsoring and participating in conferences and training designed to increase small business opportunities. Forty-seven PCRs represent SBA at 255 department and agency contracting offices across the country. PCRs cover 11.6 percent of the 2,200 federal contracting offices. However, the 255 contracting offices award approximately $120 billion of the $200 billion awarded in federal contracts each year.

III. Strategy: Action Plan

To address contract bundling in the executive branch, the following actions will be taken:

1. Ensure accountability of senior agency management for improving contracting opportunities for small business.

Senior agency management will be held accountable for eliminating unnecessary contract bundling and mitigating the effects of necessary and justified contract bundling. Agencies will be required to report to OMB's Deputy Director for Management on a periodic basis on the status of agency efforts to address contract bundling issues. This approach will provide high-level accountability for contract bundling while maintaining a proper balance with mission critical issues. The first agency status reports will be due January 31, 2003.

2. Ensure timely and accurate reporting of contract bundling information through the President's Management Council.

Recording and distributing timely and accurate information on contract bundling is the key to accountability. OMB, agencies and the SBA can use this information to monitor contract bundling trends and adjust practices as warranted. The President's Management Council (PMC), composed of deputy secretaries and administrators from the 26 major executive branch departments and agencies, will ensure agency accountability for timely and accurate reporting on contract bundling efforts and statistics. The PMC will be tasked with assisting OMB's Deputy Director for Management with monitoring the status of agency efforts to address contract bundling.

3. Require contract bundling reviews for task and delivery orders under multiple award contract vehicles.

The definition of contract bundling in the FAR and SBA regulations will be clarified to require contract bundling reviews by the agency OSDBU for task and delivery orders under multiple award contract vehicles. Because contract bundling reviews are not specifically required by the FAR or SBA regulations for agency multiple award contracts (MACs), multi-agency contracts, Government-Wide Acquisition Contracts (GWACs), or GSA's Multiple Award Schedule Program, these contracts and the orders placed under these contracts effectively escape review. Recent and significant increases in this type of contracting make contract bundling review essential. Proposed regulatory changes will be prepared by January 31, 2003.

4. Require agency review of proposed acquisitions above specified thresholds for unnecessary and unjustified contract bundling.

SBA regulations and the FAR will be modified to require contract bundling reviews of proposed acquisitions above agency-specific dollar thresholds. Individual agency review thresholds for acquisitions between $2 million and $7 million should be established based on an agency's volume of contracts and in consultation with the SBA and agency OSDBU. The review will be conducted by the agency OSDBU under guidelines established by the SBA before an agency finalizes a specific acquisition plan. However, appropriate time limits will be established to ensure expeditious consideration. Proposed regulatory changes will be prepared by January 31, 2003.

5. Require identification of alternative acquisition strategies for the proposed bundling of contracts above specified thresholds and written justification when alternatives involving less bundling are not used.

SBA regulations and the FAR will be modified to require agencies to specifically identify alternative acquisition strategies that involve less bundling when an agency contemplates a bundled contract above a threshold between $2 million and $7 million. Where a bundled contract is used for an acquisition above the specified threshold, a written justification for using a bundled contract should identify these alternative strategies and the rationale for choosing a particular strategy over alternatives that could involve less bundling. Individual agency thresholds will be established based on an agency's volume of contracts and in consultation with the SBA and agency OSDBU. Proposed regulatory changes will be prepared by January 31, 2003.

6. Mitigate the effects of contract bundling by strengthening compliance with subcontracting plans.

In acquisitions where contract bundling is determined to be necessary and justified, actions will be taken to mitigate the effects of bundling by increasing subcontracting opportunities for small businesses. Federal contractors that receive contracts of $500,000 for products or services or $1 million for construction are generally required to prepare plans for subcontracting with small businesses.[11] Compliance with these subcontracting plans and agency oversight of contractor compliance with the plans has been inconsistent.[12] To encourage greater small business participation as subcontractors in bundled acquisitions, the FAR will be amended to require agencies to use contractor compliance

[11] See FAR Subpart 19.7 (48 C.F.R. § 1, 19.7).

[12] For an examination of agency oversight of contractor compliance with small business subcontracting plans, see Small Business Subcontracting Report Validation Can Be Improved. GAO-02-166R Subcontracting Data, December 13, 2001.

with sub-contracting plans as an evaluation factor for future contract awards. Agencies also will strengthen oversight of contractor efforts to comply with subcontracting plans by establishing procedures that designate personnel responsible for monitoring contractor compliance with subcontracting plans, delineate responsibilities of such personnel, and monitor their performance. These procedures will include specific requirements for agency monitoring of contractor efforts to comply with subcontracting plans for agency multiple award contracts (MACs), multi-agency contracts, Government-Wide Acquisition Contracts (GWACs), and GSA's Multiple Award Schedule Program contracts and orders under all of these types of contracts. Proposed regulatory changes will be prepared by January 31, 2003.

7. Mitigate the effects of contract bundling by facilitating the development of small business teams and joint ventures.

In acquisitions where contract bundling is determined to be necessary and justified, actions will be taken to mitigate the effects of bundling by encouraging the development of teams of small businesses to effectively compete for bundled or consolidated contracts that might be too large or diversified for individual small businesses to perform. SBA bundling regulations encourage the formation of teams of small business contractors to compete for bundled contracts.[13] However, small businesses face obstacles to forming these teams due to relatively limited time available to respond to agency procurement solicitations, time that could otherwise be used to prepare a proposal in response to the solicitation. Agencies will train and otherwise facilitate early development of teams of small business contractors to compete for upcoming procurements. Also, SBA will determine if regulatory changes are appropriate to encourage the development of these teams and joint ventures.

8. Identify best practices for maximizing small business opportunities.

Some agency acquisition plans and justifications for bundling contracts include successful strategies for maximizing prime and subcontracting opportunities for small businesses. In cooperation with department and agency procurement executives and OSDBU directors, SBA will collect and disseminate these examples and incorporate them in appropriate training courses and materials.

9. Dedicate agency OSDBUs to the President's Small Business Agenda.

In accordance with these recommendations, agency OSDBUs are expected to significantly increase reviews of proposed acquisitions for contract bundling as well as monitor contractor compliance with subcontracting plans. Heads of departments and agencies will ensure that agency OSDBU resources are dedicated to the President's Small Business Agenda by issuing guidance, training personnel, and reallocating resources as necessary.

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[13] See SBA's bundling regulations, *supra*, note 3.

Executive Office of the President
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Office of Federal Procurement Policy

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