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CAUGHT UP IN RED TAPE: THE IMPACT OF FEDERAL REGULATIONS ON SMALL BUSINESSES AND CONTRACTORS

HEARING

BEFORE THE

SUBCOMMITTEE ON CONTRACTING AND WORKFORCE

OF THE

COMMITTEE ON SMALL BUSINESS
UNITED STATES
HOUSE OF REPRESENTATIVES

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CONTENTS

OPENING STATEMENT

	Page
Hon. Mick Mulvaney	1

WITNESSES

Colonel Charles O'Cain, USAF, Ret., Owner, Owl Business Consulting, LLC, Rock Hill, SC	4
Mr. Doug Meyer-Cuno, President, Carolina Ingredients, Rock Hill, SC	10
Mr. Monty Felix, CEO, Alaglas Pools, Saint Matthews, SC	16
Curwood Chappell	23
Jeff Carrington	23
Ken Speirs	25
Warren White	27

APPENDIX

Prepared Statements:	
Colonel Charles O'Cain, USAF, Ret., Owner, Owl Business Consulting, LLC, Rock Hill, SC	31
Mr. Doug Meyer-Cuno, President, Carolina Ingredients, Rock Hill, SC	41
Mr. Monty Felix, CEO, Alaglas Pools, Saint Matthews, SC	32

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THURSDAY, JUNE 14, 2012

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON CONTRACTING AND WORKFORCE,
COMMITTEE ON SMALL BUSINESS,
Washington, DC.

The Subcommittee met, pursuant to call, at 10:05 a.m., in the Rock Hill City Council Chambers, 155 Johnston Street, Rock Hill, South Carolina, Hon. Mick Mulvaney (Chairman of the Subcommittee) presiding.

Present: Representative Mulvaney.

Chairman MULVANEY. Good morning. I am going to call this hearing to order. Thank you all for being here. I am going to deal with a couple of housekeeping matters first.

First, I want to tell you why we are here and thank you all for coming. A lot of folks do not realize, this is a formal and official Congressional hearing. This has the same scope and the same gravity that it would if we were doing this in the Longworth House Office Building in Washington, D.C. It is just that as the Chairman of a Subcommittee, I have the ability to do this anywhere that I like. We have done one of these hearings in Los Angeles, California, we have done one of these hearings in Sumter, South Carolina. And I think it is a tremendous tool to allow us to go outside of Washington, D.C. and actually get input from real folks and from real people about real world experiences and how the law relates to them.

So today, before we begin, I want to thank everybody for being here, especially the witnesses. I appreciate their willingness to be here. I do have a request, gentlemen, that when you present your testimony, if you would do it, please, from the podium behind you, because there is a microphone there. We did not have three microphones for you up front.

The way it is going to work today, folks, because this is part of the formal Congressional Record, is that you are going to hear me read an introduction. You are also going to hear me read some questions when the gentlemen are finished. Each of the gentlemen will have as much time as they like to tell us about the reasons that we are here, which is to try and look at the ways that government impacts their business when it comes to regulatory and health insurance issues. So with that, I will begin with my formal

introduction and my statement and we will go to you gentlemen and we will take questions and stuff after that.

The House Small Business Committee has kept a particular focus on federal regulations and policies that are adding to the assortment of uncertainties confronting small business, particularly when those uncertainties add to our nation's stubbornly high unemployment rate.

We have held numerous hearings in Congress related to various regulations and have heard continuously that the entire regulatory process is flawed and that it often punishes job creators and stifles economic growth. Even President Obama launched an effort to evaluate regulations that create unnecessary burdens. The President has issued an Executive Order mandating that agencies do more than the bare minimum required to ensure that stakeholders have an opportunity to communicate their views on agency regulatory actions. Unfortunately, the regulatory agencies under his administration have gone in the exact opposite direction from time to time.

On October 24 of last year, Gallop released a poll that outlined small business owners' most pressing concerns, and according to this poll, small business owners are most likely to say that complying with government regulations is the most important problem facing them today. That is more than taxes and more than the overall economy. The Gallop poll is mirrored by numerous trade association surveys, such as the one conducted by the United States Chamber of Commerce in March of 2012. That Chamber study found that almost half of small business owners said regulation is a greater threat to their business than taxation and litigation combined. Similarly, a poll conducted by the National Federation of Independent Business found that 63 percent of respondents believe the rules issued by the federal government have done more to hurt small business and 74 percent believe that the federal government should focus on creating jobs instead of issuing new rules and regulations. The message is clear—small businesses need Washington to stay out of the way.

Small business owners face unique challenges in navigating federal regulations. According to the study, "The Impact of Regulatory Costs on Small Firms," published by the SBA's Office of Advocacy in September of 2010, small businesses face an annual regulatory cost of over $10,500 per employee, which is 36 percent higher than the per employee regulatory cost facing large firms. It is oftentimes more expensive for small firms to implement regulatory rules and to abide by regulations than it is for large businesses.

And while regulations certainly have benefits, they also have costs that are barriers to entry, distort markets, and divert scarce capital away from job creation. Small businesses simply do not have the resources to navigate the ever-increasing maze of federal regulations.

Take the new healthcare law for example. Between now and full implementation in 2018, 46 new provisions of that healthcare law will need to be implemented. This is on top of the 46 that have already been implemented over the past two years. The sheer number of things to track and comply with has gotten to be so confusing for small mom and pop shops struggling to get by in tough

economic times, that many of them have simply given up. It all goes back to the question, why is Washington making things harder for small business and not easier.

EPA, another federal agency that has consistently drawn the ire of the small business community, has proposed rules to regulate greenhouse gases, the proposed utility maximum achievable control technology rule, and the potential regulation of coal ash. All have the capacity to increase the cost disproportionately on small businesses. Each of these rules on their own and in combination could directly and indirectly lead to substantially higher energy costs and reductions in employment.

Direct costs incurred by small businesses when complying with regulations present a significant problem, but it is not just direct costs that hinder growth. Dodd-Frank is an excellent example of how indirect costs can hurt small businesses as well. While very few of the 500 rulemakings required by Dodd-Frank will apply to small business, these new rules will have the potential to hit them where it hurts them the most, their access to capital. In the last few years, lending to small firms has plummeted to record lows. The stricter regulatory environment created by Dodd-Frank and the new Consumer Financial Protection Bureau combined with the uncertainty brought by many of the law's main provisions could very well be the reason why we have seen such weak growth in small business lending.

Unfortunately, these are but a few of the regulatory burdens facing America's small business owners. Washington must do a better job of helping small firms grow to become tomorrow's big businesses.

I look forward to listening to the testimony from each of the gentlemen today and hope you can help me and this Committee identify these regulatory barriers and discuss options that are available to us. Again, I welcome you.

And what we will do is I will read a brief introduction for the record for each of you gentlemen, and then we will start with you, Colonel O'Cain, and move down the table and take your testimony. Please take as much time as you like. If we were in Washington, we would be limited to five minutes, but the nice thing about doing these hearings here is that we have got as much time as you like. So please do not feel rushed at any time.

I know you have all submitted written testimony, which will be part of the record. Feel free to go beyond that in your verbal testimony. Again, what we are trying to do here today is take the story, take the real world stories of what happens when small businesses try and deal with what Washington gives them, and take those stories back to Washington to try and see if we cannot improve things.

The introductions. Our first witness today is retired United States Air Force Colonel Charles O'Cain. He spent 30 years as an acquisition executive on active duty and in the Reserves working in various capacities from base level to the Pentagon. He has also worked for 25 years in the private sector as a contracts executive for Texas Instruments Defense Group and for Raytheon. For the past five years, he has been the owner of Owl Business Advisors, helping small and medium sized businesses conduct business with federal, state, county, and city governments as a consultant.

Thank you again, Colonel, for being here.

Next will be Douglas Meyer-Cuno. Mr. Meyer-Cuno founded Carolina Ingredients in July of 1990 with a vision of creating a customer-service driven and value-added distribution company. After 10 years, Carolina Ingredients built a blending facility which allowed the company to create even more value for its customer base. And over the past two decades, the company has evolved into a well-known regional blending manufacturer with sales throughout the United States. Mr. Meyer-Cuno has been actively involved in managing the sales department but now dedicates the majority of his time to the company's vision and planning. Today, the company proudly employs 37 people and is located right here in Rock Hill. Thanks, Mr. Meyer-Cuno, for your time as well.

Rounding out the panel is Mr. Monty Felix, owner and CEO of the Alaglas Pools in Saint Matthews, South Carolina. He is the immediate past president of the American Composite Manufacturers Association, which represents composite manufacturers across a wide variety of industries, including aerospace, automotive, architecture, custom molding, marine, recreation and transportation industries. Thank you again for making the trip up the road from Saint Matthews, Mr. Felix.

So with that, Colonel, we will begin with you. I understand you are going to talk to us a little bit today about the difficulties that sometimes businesses face when contracting with the federal government, something very near and dear to my heart. Again, if you would not mind, perhaps moving to the podium while you speak, that would be extraordinarily helpful.

STATEMENTS OF COLONEL CHARLES O'CAIN, USAF, RET., OWNER, OWL BUSINESS CONSULTING, LLC, ROCK HILL, SOUTH CAROLINA; DOUG MEYER-CUNO, PRESIDENT, CAROLINA INGREDIENTS, ROCK HILL, SOUTH CAROLINA; AND MONTY FELIX, CEO, ALAGLAS POOLS, SAINT MATTHEWS, SOUTH CAROLINA

STATEMENT OF COLONEL CHARLES O'CAIN

Colonel O'CAIN. Good morning, Mr. Mulvaney and everyone else who is attending the hearing.

Maybe I should start by explaining the difference between a large business and a small business. A large business, all these problems that Mr. Mulvaney has alluded to regarding regulations are not a problem for large business. They are a cost, but not a problem, because in each one of those areas where a regulation has to be complied with, they simply have a vice president or senior vice president or director with an army of people who take care of all that. They make all the right submissions and they do not get in any kind of trouble with the government, because they have the resources to be able to do that.

But mom and pop, they do not have these vast resources to call to help them navigate their way through these shark-infested waters. It is daunting enough that a number of small businesses will not even try to do business with the government because they see that it is too complicated, too complicated. And then there are other small businesses who want to do business with the govern-

ment and they attempt to do business with the government. Because resources are vital to them, financial resources, they generally try themselves. So they will go online and search websites and read this site and that site and what-have-you. And normally after a few weeks, they are more confused than when they started. They have no idea where to start to begin doing business with the government, and if they think they have begun the process, they have no idea when they are done. How do you know when you are done. How many certifications does it take before you can actually submit a bid and negotiate a contract with the government.

This is what I do now as a consultant. As Mr. Mulvaney pointed out, I have considerable experience on both sides of the negotiating table, both on the government side and the private sector side. I worked for large businesses—Texas Instruments and Raytheon are huge billion dollar businesses. And so, you know, we did not have problems with the regulations, we just had a vice president that took care of all that for us and we went on about doing our business.

What I do to help small businesses be in a position to do business with the government is I guide them through the process. I know what it takes. There are about 15 things that you have to do in order to be able to do business with the government, unless you want to do also business with GSA, which adds another four or five. But the way the process is set up, you cannot start with step six because you need—in step six, you need the certificate you got from step five to go to step six. And so when businesses try to work their way through the process, they find something and say, look, I need to do this in order to be able to do business with the government. So they try to go do it. Halfway through the form, they find out there is a code that they do not have. They have no idea how to get that code, there is no step, there is no note out to the side that this code comes from, you know, step five. And so on and so forth. So you have to go step one through step X in order to be able to do business with the government.

Most small businesses understand the reason that some of this is difficult. I think all of us would understand that. Would you like your government to do business with terrorist organizations or convicted felons? Or how would your like your taxpayers' dollar spent by businesses that have a long history of providing terrible goods and services?

Part of the process that a small business goes through is to vet those out, is to get the non-players out of the way so that the legitimate, sound, honest, hard-working small business organizations can do business with the government. So the small businesses do not argue that yeah, this is necessary, some of this is necessary in order to ferret out the non-players, but there are other things that enter into a small business' decision to do business with the government. There are a lot of products and services where they are required to be done by U.S. firms. A lot of small businesses get their base products, their raw materials overseas because a lot of it comes from overseas. And so someone has to advise them that you cannot get your material from Taiwan any more, you are going to have to get it within the United States in order to do business with the government. The good thing is that everybody has to do

that. Your competitors also have to get their raw materials from the United States and not outside.

There are certain countries that you cannot do business with. Cannot do business with North Korea—not sure why you would want to, but you cannot. Iran is also a country that you cannot do business in, and there is a list of them, they are all listed. You just have to know where to go find them, you know. Everything you need to do in order to be able to sell goods and services to the government is online somewhere. And the problem is that small businesses do not know where to go to start and they do not know when they are finished with all the processes that are necessary in order to do business with the government.

There is what is called a CAGE code, it is an identification code that without that, you cannot do business with anybody. Well, how do you get that? How do you know you need that? And then how do you go get it? Well, that is like step four, so you have got to have gone through one, two and three before you can get to a CAGE code which comes electronically from the government. Back in the old days, it was all done by paper and this process could easily take a year and a half or two years in order to be able to do business with the government. The good news is that the government has all of these regulations and requirements online, it is just a matter of finding them and knowing what step to go through, the order to go through in order to be able to do business with the government.

I do not have solutions for all the problems that Mr. Mulvaney brought up, with regulations and that sort of thing, but again, a lot of these regulations are good regulations. OSHA, you know, do you want to have a safe work environment. I have gone into clients and gone into their warehouse and just walking around, looked up and seen a heavy item up on the top shelf just teetering up there waiting on a thunderstorm to send that crashing down on somebody's head. And as I walk through, now I am an OSHA rep—not really, but I am trying to help them stay clear of violations that when the OSHA rep comes in they are going to find. These make sense. I say you are going to have to move that box back because it is going to fall on somebody and kill them and if the OSHA guy comes in here, he will shut you down. And so a lot of these have practical reasons for being there, you know.

The government gets over-zealous though, you know, and there's this reason and that reason and the other reason and what-have-you. Unfortunately, I do not have the answers to all of that—I do not. What I do have answers to is how can we make it easier for small businesses to be able to do business with the government, to be able to submit proposals, submit bids, go in and negotiate contracts. That I can do. The good news is that it is easy to do in that there is a light at the end of the tunnel, the solution is there and it is a matter of implementing that. I am not a computer whiz, but I can sit down with a computer whiz and knock this thing out in a short period of time. So what you would have then maybe is a flood of small businesses coming in trying to do business with the government and now they are learning about OSHA and healthcare and all the other stuff.

But the way it is now, they do not have to worry about that, because they never can get to the table. What I can do is bring them to the table. And that is my expertise.

All the other regulations, I am sorry, I do not have answers to them.

Chairman MULVANEY. Colonel, let me interrupt you and ask you a question because you have hit on some of the key items.

Thank you, by the way, for mentioning the fact that taxpayers do not want the government dealing with terrorists and felons and folks who have a reputation for really shoddy materials and there is a public interest in making sure that folks that are dealing with the government are following all the OSHA regulations, for example. I think it is important to remember that we are not here today, there is no movement in Washington to get rid of those types of regulations. There are some that all of us accept actually are helpful to the process and also protect the taxpayers in the long run.

However, at the other end of the extreme, I am reminded of the hearing that we conducted in Sumter and in Sumter, there was a $103 million government contract to build the new Third Army Headquarters at Shaw Air Force Base. Third Army moved from Fort McPherson in Atlanta up to Sumter, and they did so with a $103 million contract. We found out as a result of the hearing down in Sumter that less than $250,000 of that money actually went to small local businesses. And when we asked why, we heard a lot of what you just talked about, which is it was simply too hard for folks to get qualified. You mentioned that there are 15 steps plus another four if you are GSA. You did not talk about the additional 10 steps if you are trying to be an 8A minority owned business or something like that.

Colonel O'CAIN. That is actually in there. That is part of the 15 steps because with a client, I asked them, I said, you know, you are a man, but does your wife own this business or own 51 percent or does your wife work in the business and could you convert to being an 8A contractor and that sort of thing. So part of those 15—I cover a lot of that with them to give them the best advantage. But yeah, that is part of——

Chairman MULVANEY. If you and I sat down with that 15-step list and I said, Colonel, help me streamline this, what would be the first place you would look at to maybe either combine a couple of steps, skip a couple of steps, what are the opportunities you have got to make that easier?

Colonel O'CAIN. Well, actually, Mr. Mulvaney, I can step someone through the 15 steps in about two weeks, and that is submission time and receipt time for the various codes and all. All those codes have a reason in the government, there are reasons for those codes that go to the efficient operation of an organization as large as the United States government. So to combine those steps, it would take someone smarter than me to go do that.

The point is, if those steps are there, how can you get through them as quickly as possible. That I can go do. It is like how do you do away with OSHA.

Chairman MULVANEY. You and I were talking beforehand, before the hearing, about what it used to be like before the internet and how the internet actually has created the opportunity to try and

improve things that used to be done by mail back and forth, which I think was much longer. We also talked about the fact that there is so much information available on the internet that it is sometimes difficult to navigate.

Could you talk about what the advantages or disadvantages or the online system are?

Colonel O'CAIN. Yes. First of all, that is a vast improvement. When I was a second lieutenant, I was telling Mr. Mulvaney, someone would submit a written form and the checker of the form would get down to box three and there is an error, so they would mail it back to them and there is mail time, you know, a week, 10 days, whatever. And then when the small business gets a chance, they would get the form at night and would go through and correct the error in box three and resubmit the form. And then the checker would get all the way down to maybe, you know, box eight and find an error and mail it back to them, and so on and so forth, and a year and a half later, you know, they finally are able to do business with the government.

All of that can be done in two weeks now, can be done in two weeks if you know where to go and you know what the boxes mean—two weeks. So we have gone from a year and a half to two weeks. So I see that as a vast improvement. The problem is is that there is no place out there on the internet that will take a small business and say here are the 15 things you need to go do with little notes out to the side, you know, click on this and we will tell you what this step is.

Chairman MULVANEY. Have you tried the SBA website for that?

Colonel O'CAIN. Have I tried what?

Chairman MULVANEY. Is there an SBA—Small Business Administration—website?

Colonel O'CAIN. Oh, yes, and a lot of the stuff is in there. In fact, a lot of the codes and the things and what you have to do is in there. But you have to know which little tab to go to to click on to work on step two and so on and so forth.

The point is is that somewhere there ought to be some key phrases like "Doing business with the government" or "How to do business with the government" or "Government business" or something that will take you to a table and say, you know, if you want to just do business with the local base—Army, Navy, Air Force, Marine base—here are the 15 things you need to go do and here is the order that you need to go do them in, because you need a code from step one to go to step two and the code from step two to go to step three and so on and so forth. And when you get through, you will be able to do business with the government.

If you want to do business with GSA also, then here are the four or five other steps that you need to go through. And this is why they are there. One of the steps with GSA is you have to take a course, you have to take an online course that will take an average person several hours to go complete. And the reason for that is that GSA—their base is so big, they do business with the entire federal government, most state, county and city governments are able to order some things from GSA. And so in order to be able to do business with GSA, they do not have time to call up every small business that does not know what they are doing and say you cannot

do that. And so what they do is they require anyone who wants to do business with GSA to take this course and you have to successfully complete that course and get a certification that you have finished that before you can go on to the other three steps. That is not bad.

Chairman MULVANEY. We just did an entire hearing last week on the GSA schedules and the process by which you can get your materials on the schedule. It was scintillating, I can assure you.

Colonel O'CAIN. Yeah.

Chairman MULVANEY. I am going to ask you one last question and then I am going to ask Mr. Meyer-Cuno to step up.

Colonel O'CAIN. Okay.

Chairman MULVANEY. I am going to ask all of today's folks the same question, which is one of the things that we are charged with in Washington is trying to prioritize. And with the limited amount of time between now and the end of the year and the election, I was really stunned by the Gallop poll numbers, the ones that said that small businesses considered regulation to be their biggest concern, above taxation and litigation. And my initial reaction to that was that wait a second, but we spend all of our time on taxation in Washington, D.C. and if we fix taxation, we'll fix small business and so forth. But then I thought back to my days owning and running a restaurant, while the tax code was certainly something that I paid attention to, I did not actually worry about the tax code until after I started making money. And litigation, I felt like I had a handle on it, if I did things right, that I knew were right, I was fairly convinced I was not too worried about being sued over something. But I lived in constant fear of forgetting to check a box on a piece of paper some place that would subject me to some type of fine or fee or penalty from the federal government.

So I will just ask you, Colonel, if you think—are the results of that Gallop poll consistent with what you have seen with your customers?

Colonel O'CAIN. Yes, it is. And you know, there are two types of small businesses, one of them is already doing business with the government and they have had some problems somewhere for something; and then the other one is the ones who are afraid to do business with the government because of all the horror stories they have heard and they have gone into the internet and hit a brick wall and have no idea, you know, how to proceed forward in order to do business with the government.

The thing is most reasonable people and small business owners, if they ever get the chance to get in there, they can figure a lot of that out. Okay? Depending on the type of business, you mentioned restaurant, you know, obviously you are going to be inspected to make sure it is sanitary. Is that bad, you know, that people do not get diseases from eating in your restaurant? I do not think that is bad, you know. Most restaurants are cleaner than my wife's kitchen, because it has to be, you know. But, you know, those are not necessarily bad, but somebody starting a restaurant needs to know that there are going to be inspectors coming around and these are the kinds of things they are going to look for. They are not going to inspect it like it is your home kitchen, they are going to inspect it far beyond that. You know, crawling underneath the stove to see

if they can find a little crumb of bread or whatever, you know, and all these count against you.

So yes, regulations can be daunting and that sort of thing. There are places where a small business can go to get help. Right here in town, Winthrop University has mentors or something like that.

Chairman MULVANEY. The Small Business Development Center.

Colonel O'CAIN. Exactly. And these people have various levels of experience in different kinds of business and that sort of thing. And sometimes you can go there and maybe get a question answered or that sort of thing. Or you can hire someone like me.

Chairman MULVANEY. Colonel, thank you very much. We may have some follow-up questions at the end, but I will ask Mr. Meyer-Cuno to step up now and tell us a little bit about——

Colonel O'CAIN. Thank you very much.

Chairman MULVANEY. Thank you, Colonel.

Mr. Meyer-Cuno, you are going to talk today a little bit about your business and how it is going to deal with the new healthcare law.

STATEMENT OF DOUG MEYER-CUNO

Mr. MEYER-CUNO. First of all, thank you, Chairman Mulvaney for inviting me today.

So a lot of what you have heard I am going to repeat but try to give you a story. First of all, I am not a governmental policy wonk and I am not an expert on public healthcare. However, I am a businessman and I know a few things about managing a company, creating jobs and perhaps most importantly keeping my employees employed.

So when I was asked to testify on the impact of the Patient Protection and Affordable Care Act, otherwise and affectionately known as Obamacare, I thought I could provide a business perspective.

First, and you mentioned this earlier, I respect the government's role in prudent legislation that provides a template for businesses to function, pay taxes, and establish laws which create the boundaries for our citizens. We need a balance of laws and regulations and taxes. We have to have that, it creates long-term sustainability. So I am not advocating we do not need that kind of scenario.

So I am going to give you a little bit about my story. Carolina Ingredients was started in 1990 as a food ingredient distribution company out of my home. The first 10 years of business, we grew to 12 employees—not very many. Then we created additional value by adding a spice and seasoning manufacturing plant. Fast forward two decades to 2010, we built the first LEED certified seasoning manufacturing company in the country, here in Rock Hill. That was at the end of 2009. We employed 21 people at that time. Now we employ 37 people. So why do I share this with you? Well, I humbly submit our company is an example of the American dream.

I would like to talk a little bit about the country's core culture because I think we are getting away from that and it goes to the legislation. Our model that this country was founded on over the last 200 years was based on entrepreneurship, based on self-reliance, independency, creativity and individual accountability. The

first 200 years of this country's success, this phenomenal success we have had, is based on these core cultures. And there are many others, but that conversation is not for today.

It is no secret that the regulations our governments have in place today are much different and far exceed what existed in 1776, not even to mention 1976. And frankly, that is not a bad thing. We talked about that earlier, we need regulations in all aspects of our lives. Balance must be created to ensure long-term sustainability. However, the Obamacare swings the pendulum to the extreme and destroys the balance. And that is what I would like to talk about.

So I mentioned, I am a small businessman. It was a slow transition, it emulates the success of many small businesses. You mentioned this earlier, Chairman Mulvaney, according to the Small Business Administration, small businesses employ 59.7 million workers, with large corporations employing 60 million, so it is about 50/50. Out of that, the small business community supplies 43 percent of high tech work force. That includes your scientists, your engineers, your computer programmers. We also hire a large percentage of the non-skilled workforce. So overall, from 1993 to 2009, we supply 65 percent of all jobs in the private sector.

Well, why is this important? Only 30 out of 100 companies that are created today will survive their first two years. Out of the remaining 30, half will survive the first five years and only five will make it to their tenth birthday. Of those five companies, only a quarter will make it to their 15th birthday. So the reality is, two percent of the corporations will meet or exceed their 20th birthday. So let us take it back a little, 70 out of 100 companies that are created today will not see their second birthday two years from now, and only two percent will be around in 20 years.

So we have this Obamacare. The legislation is over 2000 pages and to be precise, it is 2074. For all of the Senators and Congressmen, I respectfully suggest or say, really? Are you serious? Do we really need a healthcare program or a bill that is 2000 pages? And can frankly anybody tell me what is in it, accurately? It just cannot be done. It is a quagmire.

So my question would be what are the long-term costs to the citizens and to the government? And who knows? Here is what I do know. All government regulations cost small business time, money, and manpower—without a doubt. The more time you allocate towards compliance, the less time you have to create jobs, manage our businesses, and compete in the global market. Regulations are costly. We talked about this too. For small businesses with less than 20 employees, regulations cost $10,500, a little bit more than that, per employee. And you are right, large corporations, it is less than that. So for young corporations or small corporations, it is 36 percent more than it would cost a large organization.

That does not even include Obamacare here. Now in Obamacare, there are multiple regulations that have nothing to do with healthcare. There are items like the tanning tax, the 1099 reporting forms, the Cadillac tax, the employer mandates, the individual rebates. Oh, by the way, if you survive all those regulations, we have a bonus, it is called the healthcare insurance tax, just cannot get enough of those. In the end, the legislation is evasive, it is punitive and overwhelming to the business community.

Ever heard of death by a thousand cuts? This is the type of things that are death by a thousand cuts. My best guess, Carolina Ingredients' healthcare cost will increase between 100 and 150 percent. These are annual healthcare costs today of $125,000 will eventually range between $200,000 and $300,000. That is based on a payroll of about 51 people, because we are growing. It is based on the healthcare tax of $500 per person, the Cadillac tax of 40 percent, Medicare payroll tax, employer mandates.

With such cumbersome regulations and costs, I predict many small businesses will default to the government managed healthcare insurance plan. They do not want to be subjected to penalties and they do not want to be subjected to mandates. In truth, we do not know the real costs because we do not know what type of healthcare plan is going to be the benchmark that the government sets to compare to the private sector. That is not established yet. So in reality, the potential cost will continue to escalate and we really have no idea what the cost will be. And this frankly is not the model that our country was built on.

The unknown. We cannot predict our future. And if we cannot predict our future, the cost to employ hard-working Americans becomes a guessing game. Already the CBO projects the healthcare law will now cost $1.8 trillion, which is twice what was predicted by them two years ago. Okay? To date, the current administration is unable to articulate the cause of this increase. Where is the accountability? As the years progress, does anybody truly believe the cost will stop or decline? No, it will not.

Back to the penalties. There is a serious concern the employer and the individual mandates will be so intrusive, companies will defer to government healthcare plans as to avoid potential penalties. Frankly, we would rather spend our time building businesses, not tackling insurance mandates. I thought we were a partnership. You, the government, create the rules, the laws, the regulations that are specific, reasonable, and understandable. They are not meant to be punitive, they are not meant to destroy the backbone of America's small businesses. In return, we take calculated risks. We hire people and build businesses that are profitable and we pay taxes on those profits. And I realize in today's political environment, we have the have-nots and haves apparently, according to President Obama. I know that using the word profits is a dirty word and we should not murmur such a phrase. But the truth of the matter is this, without profits, companies do not survive. Without companies, employees are not hired. No employees, no tax base; no tax base, no money to fund legislative policies. This is fact, no doubt about it. You can follow world history, no government created a sustainable society by the government creating jobs and then becoming a global economic model to emulate. I might remind you of countries like Cuba, Russia, the entire Soviet Bloc countries, North Korea, and even China until the last 25 years.

So what is the moral of this? The moral is do not cook the golden goose. If you regulate us to death, surely you will suffocate us all. At best, Obamacare will weaken our entrepreneur fortitude, thus minimize the country's sustainability as the world's greatest economic engine—and we are the greatest economic engine. At worst, we will become a society dependent upon the government to make

our decisions that they think are in our best interest, much like countries I mentioned above. This is not the model our country was founded on and it has not been the model we followed for 200 years.

Or perhaps our politicians think they know what is best and then we will fall under what history demonstrates happens to all governments, eventually they all fail under this philosophy—that is a fact. Do I want Obamacare to fuel the government's desire to mandate me and our business through unaccountable regulations? No, thank you.

I will take my two percent chance of creating a company and surviving 20 years over our government regulating me to death. Historically speaking, the odds are on my side.

Thank you, sir.

Chairman MULVANEY. Thank you, Mr. Meyer-Cuno. Let me ask you a couple of questions specifically about the healthcare bill. There is a part of the bill that has gotten some attention. It is the 35 percent tax credit for employers' health insurance costs if they meet certain criteria. According to a study the GAO just did, there were four million small businesses that qualified for that program but only 170,000 took advantage of that. Some said they did not know about it, some said they knew about it but it was too hard for them to qualify for it or do the paperwork for it, others said it was simply not worth it in terms of the amount of money.

Let me ask you a question. Were you aware of the tax credit program that was part of the healthcare bill?

Mr. MEYER-CUNO. We are not, we were not aware of it. And probably the reason would be, again, we have 37 employees. My controller is our HR person, we only have so much time in the day. For us to labor through such a maze would be very complicated and at this time, we do not have the manpower to do it. So we just simply do not know.

Chairman MULVANEY. And no offense intended to Colonel O'Cain, who I understand runs a business doing this, but one of the options would have been to hire somebody to look into that, but that would have had a cost that you would have to factor into the overall profitability of the operation, right?

Mr. MEYER-CUNO. That is correct. But not only that, you do not know what you do not know. So if you do not know it exists, you cannot go hire somebody to find something that you do not know is out there.

Chairman MULVANEY. Colonel.

Colonel O'CAIN. Mr. Mulvaney, a number of these regulations exempt certain size businesses. In other words, if you have less than 500 employees, you are exempt; if you have less than 100 employees, you are exempt; if you have less than 50 employees, you are exempt.

Chairman MULVANEY. Correct.

Colonel O'CAIN. If you have less than 10 employees, you are exempt. So there are varying levels of who it applies to. This particular part of the Obamacare, I have no idea, but it could be that because he has only got 37 employees, maybe he was not eligible for it, I do not know.

Chairman MULVANEY. Sure. But to his point, I think you would have to actually do the research to find out if he's exempt from it in the first place.

Colonel O'CAIN. Exactly.

Chairman MULVANEY. You know, when my family ran a small business, Mr. Meyer-Cuno, and I ran a business, I wanted to give my folks healthcare and we did for a long period of time.

One of the reasons we asked you to be here, your company is in not a unique situation but in an interesting situation where you have got I think it is 39 employees, you have grown over the last couple of years from 22, you are on your way to getting to that magic 50 number. And you know where I am going with this question, which is would you take the impacts of the healthcare law into consideration as you go from hiring that 49th and 50th and 51st employee. And conversely, if you had 52, would you take into consideration the cost benefits of going back down to 49 in order to get one of those exemptions that the Colonel talked about?

Mr. MEYER-CUNO. The quick and easy, down and dirty answer is water seeks the path of least resistance. Right? So companies—look, we are here to make money, we are here—we are out working every day. We just do not have the time and the bandwidth to deal with all these things. So you will take the path of least resistance if it comes—the short answer is we would do what we can to minimize our healthcare costs but to take care of our employees the best way we can.

Chairman MULVANEY. At the end of the day, you are going to do whatever makes you more profit.

Mr. MEYER-CUNO. We are going to do what we can to be profitable and take care of our employees the best way we can. So for example, we might consider setting up a separate organization to take 10 employees and put it in that organization and call it ABC Company in order to prevent what you are just talking about, in order to stay away from the 50.

Chairman MULVANEY. I remember when we ran our business, we would go from 50 to 52 if we thought that was the best thing for the company and for the shareholders. Never did we have to consider that growing the company might actually make us less money because of the impact of something like the healthcare bill.

Mr. MEYER-CUNO. And on top of that, we have to go—well, if I grow to 52 and we have an economic downfall, a recession, what happens if I lay those people off? What is the healthcare cost to me at that point? For example, COBRA. So you have to take all of those into consideration. But the easiest thing we will do when we are running eight, nine hours a day, we are busy, we are going to take the path of least resistance because we just do not have the time or bandwidth to try to figure out all these answers.

Chairman MULVANEY. One of the stories I have heard from small businesses and big businesses alike in South Carolina, in fact all over the country, is that—they hit on something you mentioned and something that we dealt with in my family business, which is that we wanted to provide our employees with healthcare. It is one of the things that we felt a moral obligation to do, especially being a family-owned business—that may be a stronger connection. And several of them said that while it might be cheaper for them to dis-

continue healthcare entirely, to simply pay the fee, the fine for not meeting employer mandates, but they did not want to do that.

Then I asked them, I said well what if your competition does not feel the same moral compulsion to provide that healthcare program and your competition thus acquires a competitive advantage by dumping their employees onto the public exchanges. And obviously that changed the character. What are your thoughts on that?

Mr. MEYER-CUNO. I would first like to say our employees have full coverage. We used to pay 100 percent of their coverage until a year or two ago and they pay—last year, they paid 85 percent—we paid 85 percent, so they cover 15 percent. First time ever. We have a program called Target Care, which is an independent company that actually comes in once a month and meets with every single employee and reviews their statistics. Once a year, we do a complete blood work on them at our cost, we do it at our cost. And they meet with them and go over their blood pressure, their BMI, cholesterol, potential for diabetes. The reason why I bring that all up is because we feel compelled to take care of our customer. At the end of the day—I mean our employees, sorry. At the end of the day, we have to compete. And if we have all of that and if we take care of our employees at the end and our competitors are not, eventually we will have to compete. If we have to drop the coverage, we will have to compete.

So, you know, we do not want to do that. We do not want to not take care of our employees and we want to offer healthcare. We just do not feel that the government should be frankly in our shorts doing it. Let the markets take care of themselves and frankly maybe it should go strictly to the individual.

Chairman MULVANEY. Let me ask you one more question. You mentioned the fact that because of the rising cost you had to switch from 100 percent coverage to 85 percent.

Mr. MEYER-CUNO. Right.

Chairman MULVANEY. I am no longer a small business, I had to sell my business, so I do not employ anybody any more. We have all been told that once the Affordable Healthcare Act passed, that the cost of providing healthcare would go down. What has been your experience the last 18 months since that bill has passed?

Mr. MEYER-CUNO. It has not gone down. I think our increase last year was just a tad over five percent and in order to achieve that—and we use Blue Cross-Blue Shield—we offer an HSA program and another program which is——

Chairman MULVANEY. HSA is healthcare savings account?

Mr. MEYER-CUNO. Savings account. So we offer that program and then we offer a standard full program. But we changed the dynamics by saying, okay, if you, the employee do not meet five of these characteristics, your BMI, your cholesterol levels, your heart rate levels, other things, if you do not meet that, then we pay 75 percent; if you meet three, then we pay 85 percent; if you meet four, we are going to pay 90 percent. So there is an incentive program for our employees to stay healthy and we cover more of their insurance. But if they do not want to—they are assets, employees are assets and we want to take very good care of our employees. But if they do not take care of themselves, it is just like a machine that breaks down. If they are unhealthy, it is a cost to us.

But at the end of the day, in order to keep at that five percent increase, that is what we had to do. But we do incentivize our employees on a positive side, not a punitive side, to stay healthy and then we will—you know, long term, that helps us.

Chairman MULVANEY. Mr. Meyer-Cuno, thanks very much for your testimony today. If you stick around, we might have some questions at the end.

Mr. Felix.

And by the way, I am going to do something—one of the advantages that we have in doing these field hearings that we do not have in Washington, D.C. is we have a lot more flexibility over the hearing, and I thank everybody. I see a lot of unfamiliar faces, I imagine there are a lot of other small business people here. When Mr. Felix is finished with his testimony and I ask him a couple of questions, it is my intention to go ahead and open the microphone up to anybody else who wants tell what their business is going through, to tell their experiences so far, so that we have a chance to get as much information as we can today before we close the hearing.

So, with that, Mr. Felix, please proceed.

STATEMENT OF MONTY FELIX

Mr. FELIX. Chairman Mulvaney, thank you for the opportunity to speak today. My wife and I bought Alaglas Pools in 1999. Some of you may know where it is, it is right off I–26 as you go from Columbia to Charleston. The business was started in 1987.

Prior to that I was President and Chief Operating Officer of a local company here in Fort Mill, CCC, the garbage company. And prior to that, I was President and COO of a power distribution company up in Richmond. So I have had kind of a broader sense in terms of business experience.

We bought it in 1999 and we grew it ten times up until about 2007, 2007 was our best year and then we came into 2008—we are a very seasonal business, so I pretty well track the bell curve. We came into May, business was half what it was before. We went to the bank and said hey, we have got some real problems here and of course in September 2008, everything tanked. My wife and I liquidated all of our personal assets to keep the company alive and over the course of the succeeding three years, we lost two-thirds of our revenue and 80 percent of our people. It was a matter of survival.

I also served for seven years and was appointed by the previous Governor of the State of South Carolina as Chairman of the South Carolina Small Business Regulatory Review Committee which is patterned after the federal RFA. And previous to that, I was also appointed by the previous Governor for a one-year stint as the Deputy State Director for the Department of Social Services. I had all the operations in the state, about 3500 people. So I have been on both sides of the aisle here relative to agencies and regulations and then on the business side.

And I currently serve as past president of ACMA and continue to sit on their board. And I am a retired United States Marine Corps Colonel. I had to put that in when I saw the Colonel's tag over there. Add some dignity to this.

Colonel O'CAIN. Semper Fi.

Mr. FELIX. Semper Fi.

I have some prepared statements and then I have got some additional statements that I would like to share.

As an owner of a small company, I depend on the federal government to regulate industry based on valid and transparent reviews of the scientific, economic, and other relevant facts. Unfortunately, recent regulations and other actions by EPA and the HHS are not based on valid assessment, but appear to be driven by policy decisions that hide the real facts.

For example, in April of 2011, the National Academy of Sciences released a major peer review of EPA's Integrated Risk Information System, commonly known as IRIS. The NAS was very unhappy that EPA had failed to implement many longstanding NAS recommendations aimed at improving the scientific quality of EPA's decisions. EPA's IRIS program can have profound impacts on our economy. As just one example, municipal drinking water system managers are very concerned that recent EPA risk levels will bankrupt city budgets, without any health benefit. In my written comments, I include a summary of the potential impacts of EPA's IRIS program.

Congress also recently ordered an NAS peer review of the HHS Report on Carcinogens, commonly known as the RoC, to address similar concerns about scientific quality. My own company is dealing with the fallout from an RoC assessment that was mismanaged by the HHS staff and ignores the best science and the many international experts who concluded this chemical is safe—talking about styrene. I also provide a written summary of the problems with this RoC assessment in my handout. Americans are being misinformed about health risks and good manufacturing jobs and innovation will continue to move to other countries.

On April 23rd, the Small Business Committee held a joint hearing with the House Science Committee to look into the HHS Report on Carcinogens. Business owners at this hearing testified that they are having trouble with increases in insurance costs and employee turnover as a result of biased and incorrect HHS assessments. And scientific experts testified that HHS fails to employ the modern valid assessment methods long recommended by the NAS. And I ask the Subcommittee to refer to the record for the April 23rd hearing for more information.

Biased, policy-driven analysis will also lead to increased electricity costs for manufacturers in South Carolina and across the country, which will also send jobs offshore. EPA's Utility MACT rule justifies a requirement for utilities to install very expensive control equipment by pointing to claimed health benefits. Yet according to expert testimony before a February 8th hearing of the Energy and Commerce Committee, EPA based its benefits estimate on a small number of cherry-picked, non-representative and flawed studies, and double counted emission reductions already achieved under other rules. I encourage the Subcommittee to refer to the record for the February 8th hearing for information. As a result of the bad analysis, EPA grossly over-estimated the rule's benefits.

When President Obama first took office, he made a commitment to the use of sound science and sound analysis. However, it seems

this administration believes that an analysis is sound as long as it supports this pro-regulation agenda.

I strongly encourage the Small Business Committee to continue its efforts to promote business viability, innovation, and job growth by holding the administration to the President's promises to base regulatory and other decisions on sound, fair, and transparent analysis of the relevant facts.

Couple of things. When I was Chairman—I was Chairman of the South Carolina Small Business Regulatory Review Committee for seven years. That Committee, five appointed by the Governor, three by the Senate Pro Tem and three by the Speaker, all business people. The purpose: to look at every single proposed South Carolina agency regulation that comes out, to ascertain whether or not there could be a potential for an adverse economic impact on small business. And we did that for seven years. And by and large, this is a very small-business friendly state. It may be 50/50 in people, but 90 percent of the businesses in this state are small businesses.

What did we do when we ran across a situation with an agency? And this gets to your last question, I am going to hit it right here. What can be done? There are a couple of things that can be done. When we had a situation with an agency that created or had a proposed agency regulation that we felt could have an adverse business effect on small business, we required that agency to do an economic impact analysis and a regulatory flexibility analysis. And there was a series of things they had to go back to, they had to look at what is the market we are talking about in small business. Agencies do not do that. I was in that agency of DSS for a year. Business is business, there is no differentiation between a small business and a big business.

In the Regulatory Flexibility Act that was passed by the Governor in 2004, it actually lays this out, it's law in this state. And there is also an interesting part of that law that says if a small business is—if there is a notice of violation to a small business, that small business can rectify that in 30 days and the agency has the authority to issue no fine. There is one, sir, that you can do.

Another one is reporting. I take chemicals, I take resins and catalysts and fiberglass, and I make stuff. And as a result of that, I have to report to EPA under Title 5, which is a certification. But every month I have to report to SC DHEC, you know, exactly my emissions and what-have-you, et cetera, et cetera. And I am a one-man guy too, you know, death by a thousand cuts is a beautiful way to say it because if something gets done, it is me. Yet I have to report every month. Well, look, if you take my total emissions on a yearly basis and you double them, I will not even be in the .01 percent of the total emissions in the state. So where am I going? There should be different reporting standards for big and small companies. I should only have to report on an annual basis. Big guys, you know, if you are five percent or more, or two percent or more, in terms of emissions, then your reporting standard should be more credible because if you screw up in a month because of your volume, you are going to have an adverse impact. But small business can be dealt with differently.

Those are two concrete ways.

Tax credits versus revenue. I love this one. I get a call from Department of Commerce. Monty, if you hire 10 people, we will give you a tax credit. I said I do not need a tax credit, I need somebody to buy a swimming pool. You know, it amazes me how bureaucrats have this misunderstanding that everything happens below the line. Okay? It does not. Nothing happens until somebody sells something. When we sell a swimming pool and we sell a bunch of them, then I will go out and I will hire somebody to go build more pools. But I can tell you right now, sir, that going forward, and all the small business owners I know, we are holding onto our cash and we are not hiring anybody unless it is absolutely essential. And a tax credit is nice, but if you are not making money, what is a tax credit? It is a loss carry forward, it means nothing to me, but I still have to make that guy happy.

I think in my closing comments here, it really comes down to a couple of things. Mr. Meyer-Cuno mentioned it. I think we have evolved to a point in our country where we have to take a real hard look, are we going to be a society of self-reliant people or a society of government-reliant? And until we answer that question, we cannot get a handle on regulations because if we continue to drift towards government reliance, then there are going to be more and more regulations because if we are government reliant, then there is the acceptance of the philosophy that government has to be involved in everything. But that is where this balance has to come from, there has to be a balance.

And one last comment when it comes to EPA regulatory and what-have-you. There is always a balance—as businessmen, there is always a balance between, as I see it, safety concerns and what I will call operational practicality. The health insurance thing was a great example, right? In my market, when I go to hire people, and we went from 95 to 12 and now we are back to 17, healthcare is not an issue in hiring. I might want to give it, but why should I? I am not being penalized for it, I am not losing people to other companies because everybody is out there just scrambling for a job. So I am not saying it is not important, and there will come a time in the next two, three, four years, as we continue to grow back where it will become important and then I will have to take a hard look at it.

But I think that is the fundamental issue, sir, relative to regulations. And that issue is if you are government-reliant—if you believe in government reliance, then your bureaucracy will always look for rules and regulations to maximize complete safety, let us say, at whatever cost. And that is not healthy for the United States and that is not healthy for big or small companies, and to be quite honest with you, we need to get back to a self-reliant philosophy. Once we begin to do that, I think you are going to see businesses flourish. And like I said, you know, it really comes down to, when people start buying swimming pools, that is a good thing and I can start hiring people.

Thank you.

Chairman MULVANEY. Mr. Felix, thank you for that. I have got a couple of questions all over the board and I think I know the answer to this one, but I want to just be clear.

You said that you and many other folks you know in small business are not investing their capital and not hiring people right now. And like I said, I think I know the answer, but tell me why.

Mr. FELIX. Uncertainty. I mean what is going to happen with the Bush tax cuts? My gosh, you know, if those are not renewed, there is going to be a huge tax bill. Why am I going to take working capital, cash, and go hire somebody or put it in a piece of capital equipment if I am going to be faced with a huge—I am a Sub S, everything flows over to my 1040. You know, according to our President, I am a super-millionaire. And this is what is going to happen. My belief is that people are going to hoard cash. If you do not believe small companies, look at big companies, everybody is looking around the corner. They want to see stability and I think that is the key issue. Until there is a comfortable feeling on my part and others where I believe that I can invest a dollar either into a human asset or a fixed asset, knowing that the dollar of investment is going to return to me something and I will not have to go back and take that dollar away a year from now, until we get back to there, my belief is that we are going to hoard cash.

Chairman MULVANEY. I will tell you one of my experiences, one of the things that you do not—there is no analog to, there is nothing to compare it to in the whole world, is firing somebody. I have had to do it before, and it is one of the least enjoyable things I think I have ever done in my entire life. And unless you have had to do it before, I do not think people realize how you might be slow to hire somebody if you really are afraid that you might have to lay them off. It is easy to fire somebody if they goof off, that is not what I am talking about. I am talking about laying off people because business has taken a downturn. That is an extraordinarily difficult thing, because to a certain extent, you have to admit your own failings as a leader, as a business owner. I am sorry, I was not good enough at what I did to keep you here and I have to let you go. That is something that until you have to do it, you do not realize how difficult it is and wanting to avoid that and be extraordinarily cautious in hiring people, especially when you talk about—you know, it is uncertainty.

Folks think that means uncertainty in the market. Uncertainty is part of the marketplace. Whether or not I can find the customers or you can find the customers, that is the uncertainty that we are made to deal with. It is the uncertainty to talk about healthcare and tax rates and government regulation. That is the type of uncertainty that I think you are talking about and that I experienced when I was a small business. It is not the uncertainties of the market, it is not whether or not we can make a product that folks will want to buy and will buy. That is what we are programmed to deal with as businesspeople. It is the other stuff that made me pull my hair out.

You mentioned something that got my attention early on, on a different topic, about how the Report on Carcinogens—and I am assuming now we are talking about styrene in particular——

Mr. FELIX. Yes, sir.

Chairman MULVANEY [continuing]. Would have an impact on municipal water services. Tell me about that. Am I making that linkage correctly or are those two separate topics?

Mr. FELIX. The implication of any additional regulation has a financial impact and that is the implication on city budgets.

Chairman MULVANEY. But you specifically mentioned water; why is that?

Mr. FELIX. Because with enhanced regulations relative to water purification, the city or the county government is going to have to go buy additional capital equipment and it is going to take cash and money.

Just like in my business, in my business when I deal with styrene, if I am a big company and I do more than 100 tons a year, I have to put a thermal oxidizer out there. That is a five or six million dollar non-value-added cap ex that I have to put in that draws down cash but I have no value from that.

Chairman MULVANEY. Mr. Felix, you just mentioned something that I think a lot of folks are not familiar with. Tell me the difference between a non-value-added capital expenditure and a value-added capital expenditure.

Mr. FELIX. Fair question. I am a manufacturer of swimming pools, build swimming pools. As my business grows, I need another spray unit, because I have got more—I need to add capacity because I have got more business. So I go out and I spend 25 grand and I buy a spray unit, and that is a value-add. Why? Because when I use that, I build more pools and when I build more pools, I sell more pools, I make more money.

What is a non-value-added? Let us say—by the way, I was involved with the EPA in setting the MACT standard for our particular industry, and it took us about seven years to work through that. But what is a non-value-added expenditure? Let us say, for instance, the EPA came out and said, Monty, you are a small business, but you know, you spray this and you spray that and there is some styrene here, and you are going to have to—we are going to require you to go spend $2.3 million to put in a thermal oxidizer, because we do not want styrene anywhere. So in order for you to have your Title 5, you are going to have to make that capital expenditure. Well, first of all, I am a small business, I am a private company. I cannot go to the capital markets, I cannot go issue stock. If I want money, I have got to go to a bank and sign a note. So getting capital is exceedingly difficult for a small business. Number two, let us say I get it and I put that $2.3 million thermal oxidizer in. It provides no value. Does it help me build more pools? No. It costs me cash, yeah, but it is non-value-added. The value-added, to me, is something that I buy that provides for me capacity, let us say, to do more pools so I can sell. Non-value-added is a requirement, a regulatory requirement, which in many cases is nothing more than a regulatory tax, that requires me, in order to stay in business, to buy this thing and it provides no value add in terms of my capacity.

Chairman MULVANEY. Who ultimately pays for the price of that particular piece of non-value-added capital expenditure?

Mr. FELIX. Sir, you know and I know, the customers. But then again, what happens if you have a company out there that is under the radar and they are making swimming pools but they are not being regulated because they are small or they choose not to com-

ply with the law. Now their cost structure is less than mine; I cannot compete.

You see, that is the problem. I think that there needs to be some sensible regulations that do not inhibit what I call the operational practicalities of running a business and being successful. And what has happened now is that practicality has been overshadowed by too many regulations.

Chairman MULVANEY. You mentioned utility MACT and I want to talk about that for a second. MACT, by the way, is an acronym, M-A-C-T, and there are actually several of these initiatives going through Washington right now. I am more familiar with boiler MACT and cement MACT. Again, maximum achievable control technology. And what it really means, especially in the boiler circumstance, for example, the federal government is trying to regulate a standard that cannot yet be hit. The technology does not exist yet to achieve the containment or the control technology that the standard requires. And the impact here locally, where we have large wood and paper products industries; for example, Resolute Paper, Chesterwood Products, boiler MACT is a big deal for those kinds of folks.

We talk about cement MACT. I remember the discussions in Congress about cement MACT which was going to do the same thing for the cement industry and someone opined that we would not be able to make cement in this country any more if this rule went into place and one of the responses from the proponents of the cement MACT rule was that was okay, there was plenty of capacity in Mexico, where they do not have those types of rules. I was stunned by that admission.

Let me ask you, Mr. Felix, about the impact of utility MACT on consumers and businesses in South Carolina if it goes in place.

Mr. FELIX. The utility MACT?

Chairman MULVANEY. Yes, sir.

Mr. FELIX. I'm not familiar with the utility MACT. I am familiar with——

Chairman MULVANEY. I am sorry, I must have asked——

Mr. FELIX. Must be the other guy. In my industry, because we use resins, it is regulated and there is a MACT for that, maximum achievable control technology for that. And again, what it is is one huge algorithm that says if you do X, Y, Z, then you cannot do A, B, C. And if you are going to do A, B, C you have to go by this and what-have-you. So I imagine—and I am only guessing—that any MACT is going to be some regulatory effort to control emissions or flow or something like that. But I am not familiar with that one.

Chairman MULVANEY. I appreciate it and it was one of the other witnesses, who actually was not here today. So thank you and my apologies.

Mr. Felix, thanks very much.

Mr. FELIX. Thank you.

Chairman MULVANEY. At this point, I am going to open the podium up to anybody else who wants to come up and ask a question of the panel or of me or anybody else who has had an experience that they want to share. This is a public hearing and if you want

to take the opportunity to tell us what is happening with your business, please do.

There is a gentleman in the back who I recognize, a young man.

STATEMENT OF CURWOOD CHAPPELL

Mr. CHAPPELL. Do I need to come up to the mic?

Chairman MULVANEY. No, sir. You are blessed with a voice that carries, Mr. Chappell.

Mr. CHAPPELL. Thank you, Mr. Congressman and the panel here and the people that are asking the questions. Where I come at, talk is cheap, it takes money to buy land. You have got to start somewhere, we have gotten too much control.

You know who I am. Mr. Mick, I want to take a minute to say that I have done this in the county, with the help of councilmen. We can cut out a lot of red tape for small businesses with our bureau, we want a bureau. We are going to try to get one for small business. We cut the red tape and we have got small business, convenience stores and other things and paint shops and so, so, so, so and repair shops. We cut our county regulations down to get that. You have got to do the same thing in Washington. Do not let me give you advice, but let me make statements. I am no authority on the subject, but I am opinionated on most. [Laughter.]

I appreciate what you are doing and we started back here and we just killed a couple of bills that was damaging to our people and our business and we are going to probably kill some more and promote what you are promoting. I admire your spunk in that and I appreciate you very much, and come back to see us sometime.

Chairman MULVANEY. Thank you, Councilman.

Anyone else? Yes, sir.

And if you could give your name for the record, please. The first gentleman was Curwood Chappell, who everybody here except the court reporter knows. [Laughter.]

She is not from here, Curwood.

STATEMENT OF JEFF CARRINGTON

Mr. CARRINGTON. Thank you, Mr. Chairman, I appreciate this opportunity. My name is Jeff Carrington, I am the president of a startup company here in South Carolina. The organization is Crown Sea Brands, LLC, we are former combat Marines who have formed a service-disabled owned company.

Colonel O'CAIN. Semper Fi.

Mr. CARRINGTON. Semper Fi, Colonel.

We have a few others in the audience here, it is a secret society. But my purpose today—I will make it brief, with the Chairman's indulgence and the other attendees' indulgence, I want to flip the coin slightly and tell you a little bit about a case of under-regulation. And it specifically relates to—and let me start first by expressing my gratitude and appreciation for Mr. Mulvaney's work on H. 3893—is that correct, sir?

Chairman MULVANEY. We do not track them by the number. I apologize.

Mr. CARRINGTON. The STAR Act.

Chairman MULVANEY. Yes, sir, thank you.

Mr. CARRINGTON. Your bill, which apparently I think the long title was the Subcontracting Transparency and Responsibility Act, do I have that right?

Chairman MULVANEY. I think it is Reliability.

Mr. CARRINGTON. Well, Title 2 specifically relates to enforcement of the regulations—and this is my point—that are written into the Code concerning subcontractors, to promote the utilization of subcontracting capacity by major federal contractors. There is a whole string of legislation, U.S. Code stuff and SBA rules and regs and executive orders, and it all cuts to the idea of promoting opportunities for veterans and service-disabled veterans.

We are obviously in that latter category and we have formed this company really under the understanding that the opportunity is valid and challenging but rewarding. I am really a serial entrepreneur, this is my fourth startup. Just a stipulation for the record. I do not need really a handout, we are really looking for a handup. My last company was an acquisition by Berkshire Hathaway, so I know the rules of business, I know the survivability issues that Mr. Meyer-Cuno talked about, the mine field of growing a business, getting it on the board and, ultimately in my case, getting Berkshire Hathaway to buy my little company. It sounds grandiose, it is probably the smallest acquisition they ever did.

So I am not here looking for really a handout, we are really looking for a handup. And let me be specific. The large contractors—we are in the agricultural products and food area. The large contractors that supply DoD, particularly, four to five billion dollar annual expenditure, are organized, it is almost an oligopoly and it is done so for valid reasons, because of concentration and streamlining and cost-saving. I understand that, I am perfectly okay with that. But built into the regs that are supposed to stimulate opportunities for service-disabled veterans are explicit requirements where there are subcontracting opportunities that, I think the magic phrase is "maximum practicable opportunity," exists or should be created to benefit service-disabled veteran-owned companies, if we just focus on my specific category for a moment—maximum practicable opportunity.

Well, I have been out there for two years, I have done everything that I think ought to be required to do the due diligence, to make the rounds, to meet the people, to assert our bona fides in terms of our products, our qualifications, all of that, if you will just accept that on faith for the time being is in order, and I can tell you, and here is my bottom line, that the major contractors out there, I will name names—U.S. Foods would be one, Sysco another, Sodexo another, SoPakCo another, the big South Carolina based company, are paying virtually no attention to those rules and regs.

I will get back to my conclusion and why I appreciate your legislation so much, your bill. The Title 2 of that Act is exactly what is required. This is the point about flipping the coin and the under-regulation versus non-regulation. These major contractors are not being held to account for providing maximum practicable opportunity for service-disabled veterans.

I am a big guy and I can take the hard knocks, I am a former Marine, but what really sticks in my craw is I am a two-time Vietnam veteran, I spent the better part of two years over there, that

homecoming was less than good, but we dealt with it. And now, fast forward and we have the opposite situation where there is all this encouragement and sentiment and positive rhetoric about helping veterans and it is almost like Alice in Wonderland. It is deja vu all over again because I am being killed with kindness. I am being encouraged that there are these opportunities and the reality on the ground is those opportunities are really——

Chairman MULVANEY. Mr. Carrington, I appreciate that. I do not mean to cut you off, but I do want to point out, and you did not know this, that that Act actually came out of the hearing that we had in Sumter. That is why these things are so inherently valuable to us as lawmakers, because we went down to Sumter and talked to some of the local businesses down there, and they told us exactly what you just said, many of them veteran-owned. You can imagine in Sumter, a large retired veteran population.

Mr. CARRINGTON. Yes.

Chairman MULVANEY. And they said look, we do not mind not getting the bids. We do not mind submitting our bid and getting beat, that is what we do as business people, sometimes you win, sometimes you lose. What we do not like is the fact that we never get a chance.

Mr. CARRINGTON. Amen.

Chairman MULVANEY. And what was happening is that large businesses were—on their contracts with the government were formulating the contracts, manipulating the contracts in such a fashion to where small businesses could not get them. For example, the contract for concrete was ten times as large as any local concrete company could provide. So by manipulating that contract, the large contractor was able to effectively cut out the local businesses. And that is what gave rise to the STAR Act, which we would not have known about if we had not done that hearing.

Mr. Carrington, I appreciate you being here.

Mr. CARRINGTON. I appreciate the opportunity.

Chairman MULVANEY. No, I appreciate you doing this.

Anybody else before we wrap up? The gentleman in the back and then the gentleman in the front.

Yes, sir. And I am sorry, was there a young lady behind? No? Okay, all right.

Yes, sir, and if you could tell us who you are.

STATEMENT OF KEN SPEIRS

Mr. SPEIRS. My name is Ken Speirs, I am a general contractor here in Rock Hill. I apologize, I have been out working today, so I am not properly dressed for this. But I wanted to come in and speak. We actually spoke when you were running for election.

Being a contractor in this area, a small contractor, we have really been hit hard. A couple of things, talking about regulation, I will give you one quick thing that you can think about and everybody here will really understand part of what we are facing.

DHEC regulated us several years ago. I have been doing this work for over 30 years. You can do a septic tank anywhere for $3000 to $3500. That same septic tank now is an engineered system which has gone up a minimum—minimum—$18,000–$19,000.

Chairman MULVANEY. Eighteen thousand or hundred?

Mr. SPEIRS. Eighteen thousand. And we are putting one in now at a school that may run into $35,000, for a school that has less than 50 systems for an engineered drip system. So the government is regulating us to death.

When the economy hit, the federal government gave the banks big piles of money to bail them out. What did the banks do? They turned around to people like me that had credit scores of 800 and better, and said we are going to cut your line of credits out. At the time I was doing metal buildings. Well, for those that do not build metal buildings, you order the metal building, you put a deposit down. When the building is delivered, you give them a check on site for the building in full before they unstrap and unload the building. So we live on credit. We live on credit from the banks and the banks came in and cut our credit, cut our credit cards, not because we were late, it is because we, quote, were contractors.

At the same time, for years I have bought properties, different properties, slipped them, rent them, do different things to them, sell them, a lot of bank foreclosure properties and things like that. Used to be you could go in and do these properties, some of them, within 20 days you could do them, regulate them out, sign them, do a good job. That same work that was taking us two months, some of it takes you two years because of regulations. The banks are not working with us.

So they come to me, and this has happened, and they come to me and they say, Mr. Speirs, I would like to upfit this building, $150,000–$200,000 upfit. Well, everybody says okay, that is no big deal. The people cannot get the loans to do the work. It is not because they have bad credit, it is not because they are a startup business. It is they cannot get the loans.

Rock Hill has a great thing for small businesses, they try, York County has a small business association, South Carolina has. But the problem is if the banks are not willing to work with them, then the people cannot get the money, then that comes down to me, it comes down to your larger general contractors and we cannot get the work. And what happens, and what has happened around here is I am a small general contractor, I do not do million dollar type things. But the million dollar jobs are not out there now. Your big jobs are not there, they are not going, so what happens when those contractors do not have work, they come down the line.

Chairman MULVANEY. Mr. Speirs, before you move on, I want to pick your brain on a specific. Oftentimes, it helps us to have a specific example, as opposed to general concepts.

Tell me one thing that changed about septic tanks that drove that cost up from $3000–$3500 to $20,000.

Mr. SPEIRS. I will be glad to give you one. I am working with a school now with Dennis Gooch out on Board Road. There is a field beside him that has cows in it, the cows do their business on top of the ground. Years ago, he had a septic system put in there and what you would do is you would dig this system out, depending on the soil type, on an average you would dig it out and put two foot of rock or two foot of fill, some parts of South Carolina use tires. You would put drain pipe in, level it out, put your rock, your grass—not grass but straw— on top of it and cover it up.

Now that same system, they are coming up with an engineered system, you pump it out into a tank that pumps it through a filter that pumps it through another system that pumps it to another system versus draining out in the ground like we did here for years and years. You actually run it through a filtering system and it is what they call a grid system, and a lot of these systems will only do up to 450 gallons a day. So they have come in with a system and come in with these companies that said you will use these systems, you have no options.

So where the average person would say okay, I am going to spend $3000–$4000 on a system, now they have to have this new engineered system and they cannot come in and dig it out and bring red dirt in or whatever, bring rock in and do it. So now, they are like, I cannot do this.

Chairman MULVANEY. Mr. Speirs, I appreciate that. What we will do in my office is try and figure out—oftentimes even though that is a DHEC issue, oftentimes it is actually driven by federal regulation. So we will try and figure out if that is something that the federal government is mandating that DHEC is simply implementing, and see if we can look at it from that perspective. So I appreciate that input.

Anything else?

Mr. SPEIRS. If the people from your office—I would make this invite, if I can do this, I would like to bring you out to the one project that we are looking at and let somebody in your office look at the system and see exactly how silly I think this is. If somebody in your office would be willing to meet with us, I will be willing to leave a card and I would be willing——

Chairman MULVANEY. Actually I would like to do that myself. We used to build septic systems, it would be interesting to see how they work today. So if you want to give your name to the gentleman in the back, we can do that.

Thank you, Mr. Speirs, I appreciate it.

Chairman MULVANEY. The gentleman up front.

STATEMENT OF WARREN WHITE

Mr. WHITE. Good morning, my name is Warren White, and I am the Chief Operating Officer of a company called Komet USA. We are a wholly owned subsidiary of Gebr. Brasseler, which is a large German manufacturer of dental and medical cutting tools.

I will give you a good example of what we do. We are actually the people who make the tools that dentists cut your teeth with. We are the largest in the world.

Chairman MULVANEY. Does this make you a popular person?

Mr. WHITE. Absolutely. [Laughter.]

Makes everybody look great, those smiles look really good.

I am going to give you a little company history before we get to our problem. Our owner started our company in 1923 with two brothers, so it was the Brasseler brothers. They took their mother's sewing machine, retooled it, put it in the garage and actually started making little cutting tools out of steel in the garage, and the one brother was, we will say the manufacturer, the other two brothers were the sales people. They put their goods in a wheelbarrow and they sold them door to door in Dusseldorf and became a pretty big

regional manufacturer in Germany. It grew and grew and became the number one manufacturer of cutting tools in Germany.

Well, in 1939, things changed a little bit. They became manufacturer of dental rotary instruments for the German Army, which made them very productive. However, in 1944, the American Air Force had relocation plans for them. They went over the top and bought them out and they actually had to move to a small village and Lemgo, Germany is right now where our headquarters is. We employ about 1000 people there and we manufacture everything from the smallest cutting tool to the largest cutting tools or blades that an orthopedic surgeon would use or an ENT surgeon would use or oral surgeon, dentist, for example.

In 2005, we moved here to Rock Hill and we employ about 100 people now in various positions, primarily sales and marketing and we are now one of the leaders in sales of rotary instruments in the United States and we are definitely a worldwide leader, market leader, in rotary instruments. So there is the background.

Here is the problem. We are becoming competitively disadvantaged to our competitors because of a federal agency and that federal agency is the FDA. The FDA is holding import packages as we send our inventory to the United States—and by the way, we ship directly to our end user from Germany FedEx every day. We send 500, 250 to 500 packages every day to our end user, whether it is in San Francisco, whether it is in Dallas, Texas, these packages are going there. And when they get hung up by the FDA, a two-day delivery is quickly a ten-day delivery and that ten-day delivery puts us at a tremendous competitive disadvantage to our competitors.

This situation changed from one day to the next. One day the switch was turned from a two-day delivery, to a five to ten-day delivery.

Chairman MULVANEY. Mr. White, what was the justification for the delay?

Mr. WHITE. Mr. Mulvaney, we have been in contact with FedEx who is our agent in this, with the FDA and we have had no answer, none, except we have inadequate amount of staff. Well, I could accept an inadequate amount of staff if it happened over a period of time, but from one day to the next when the light turns on and off, somebody—they cannot explain that to me. It is too fast. Business does not happen that way. Business is an evolution, not a light switch. Something happened in their system.

And by the way, this is not happening just to Komet, this is happening to the dental industry from China, the implant business. By the way, people probably do not realize this, but about 30 percent of prosthetic work, that is the teeth that are coming in like if you need a crown, that is coming from China now, that is not coming from the U.S.

And so companies in China actually ship that product one-day air, two-day air, back to the United States and it goes into your mouth as an American product, which frankly, I am not very proud of that. But it goes back to the simple fact that our government is in our way and that the FDA is a tremendous competitive disadvantage to Komet and to my other colleagues in the dental industry.

And I appeal to you to somehow loosen this up. This is unbelievably restrictive to us. I have sent Mr. O'Neal a number of correspondence, I have sent you some and we have talked personally about this. This issue is not going to end until somebody puts their foot in it. And I appeal to you to take care of that, because we are a contributing entity in South Carolina, we have choices of a lot of states that we could move to, but people like Kelly and Mr. Chappell, I mean we have got a great community here, but if we are going to be profitable and if we are going to stay profitable, we have to get the government out of our business.

One other point that I think is important. I know Mr. Meyer-Cuno said something about—quite a bit actually about the healthcare. I do not know if everybody realizes that starting next year, your dental costs—I can only speak for dental and medical—because of President Obama, the price of dental instruments, medical instruments, will go up at least two percent because everything that is coming over now will have an additional two percent tax on every dental instrument, medical instrument that is sold in the United States, just as a premium for this wonderful healthcare act that they have passed into law.

Chairman MULVANEY. Thank you, Mr. White. I appreciate you taking the time to let us know. And my staff is telling me that they have spoken to you and we will talk to you further on your specific issue after the meeting.

Mr. WHITE. I appreciate that. Thank you very much, and I enjoyed today's meeting, I think it was very fruitful for me.

Chairman MULVANEY. This gives me an opportunity to mention the medical device tax, which the House passed a bill on last week that would actually repeal that medical device tax which is part of the healthcare bill.

Thank you to everybody for coming. We will go ahead and read a statement for the record as we close.

Before we end, I want to state that I do not feel that all regulations are bad. Regulations are necessary and could be beneficial to society, as several of our witnesses today acknowledged. They protect our food supply, ensure that drugs work and to keep financial markets transparent. But they also have costs by erecting barriers to entry, distorting markets, diverting scarce capital. What we were talking about today are regulations that go above and beyond just serving the public interest and disproportionately hinder small businesses in a multitude of ways.

Responsive regulations require agencies to balance the intended benefits against the economic costs of the rules that they impose. Historically, federal agencies appear to have been much better at uncovering the benefits of the regulations than they are at calculating the costs of those.

Of course, this makes selecting the appropriate balance needed to protect the public much more difficult, but particularly since most businesses subject to regulation are small and therefore not always capable of making their concerns known.

It is a very important issue to me and that folks I know in both parties are very passionate about and we will continue to work on back in Washington. Small businesses are in fact the foundation of our economy.

You heard one of our witnesses talk about the fact that half the people in the nation work in small businesses. Actually in South Carolina, it is closer to 80 percent. And the large majority of our new jobs created every single month nationwide are in small businesses.

I want to thank each of you gentlemen for coming up today. I want to thank everybody for participating, especially those of you who came from long distances. There is a formal opportunity that I have and other members will have. By the way, other members will have the opportunity to read the transcript and to submit questions for the record, statements for the record, and so forth. So just because I am the only member of Congress who is here does not mean that I am the only member of Congress, number one, that is interested in this; and that, number two, will participate in this hearing, albeit after the fact. So with that, I will ask for the record that we have five days to submit additional questions.

Unless there is anything else, I thank everybody for participating and we will call this hearing of the Small Business Committee to an adjournment.

Thank you.

[Whereupon, at 11:45 a.m., the Subcommittee was adjourned.]

Testimony of
Colonel Charles O'Cain, USAF, Ret.
Owner
Owl Business Consulting, LLC
Before The
House Small Business Subcommittee on Contracting and Workforce
Caught Up In Red Tape: The Impact of Federal Regulations on Small Businesses and Contractors
June 14, 2012

Large businesses do not have a problem doing business with the government. They simply hire someone like me to run their government business department for them – problem solved. Small businesses can not afford to hire someone like me full time so they try to do it themselves. There is no one place a small business can go to find out what they have to do to be able to do business with the government. They do not know where to start and they have no idea when they are finished. Most will go on line and log on to multiple government web sites looking for that one place that will tell them what they have to do. Of course they never find it because it is not there so they give up in frustration. Everything a company needs to do to conduct business with the government is on line – somewhere. This is a big improvement over the paper submissions that were made when I was a U.S. Air Force second lieutenant. A small business would submit a form to a military base close to them. A clerk would check it until a mistake was found and send to back to the company, all by U.S. mail. A second submission would be made and checked until another error was found – form returned and so on and so forth until that form was correct and then work on the next paper form could be started. Many small businesses just did not have the time it took to be able to do business with the government. Unfortunately the same is true today. Instead of submitting paper forms by mail and receiving them back by mail, a small business has hundreds, maybe thousands, of government web sites to look at to try to navigate their way through the process. Most small businesses understand and agree that a business should be vetted by the government before being allowed to do business so that the U.S. government does not end up doing business with terrorists, convicted felons, companies that provide poor goods and services, etc. The bottom line is that the process for a company to go through to do business with the government is complicated and they simply do not know where to go to find out what is necessary. The end result is that everyone loses. The small businesses end up not doing business with the government and the government loses by not having millions more businesses providing excellent goods and services they need to buy. I can help the government solve these problems!

June 14, 2012
Rock Hill, South Carolina

Before the

Committee on Small Business Subcommittee on Contracting and Workforce

Comments of

Monty Felix
Alaglass Pools, St. Matthews, South Carolina

Chairman Mulvany and Ranking Member Chu, thank you for the opportunity to testify before this hearing. My wife and I own a small company here in South Carolina. And for several years I served as the Chairman of the South Carolina Small Business Regulatory Review Committee.

As an owner of a small company, I depend on the Federal government to regulate industry based on valid and transparent reviews of the scientific, economic and other relevant facts. Unfortunately, recent regulations and other actions by EPA and HHS are not based on valid assessments but appear to be driven by policy decisions that hide the real facts.

For example, in April 2011, the National Academy of Sciences (NAS) released a major peer review of EPA's Integrated Risk Information System (IRIS). The NAS was very unhappy that EPA had failed to implement many long-standing NAS recommendations aimed at improving the scientific quality of EPA's decisions. EPA's IRIS program can have profound impacts on our economy. As just one example, municipal drinking water system managers are very concerned that recent EPA risk levels will bankrupt city budgets, without any real health benefit. (In my written comments, I include a summary of the potential impacts of EPA's IRIS program.)

Congress also recently ordered an NAS peer review of the HHS Report on Carcinogens (RoC)

program, to address similar concerns about scientific quality. My own company is dealing with the fallout from an RoC assessment that was mismanaged by the HHS staff and ignores the best science and the many international experts who concluded this chemical is safe. (I also provide a written summary of the problems with this RoC assessment.) Americans are being misinformed about health risks, and good manufacturing jobs and innovation will move to other countries.

On April 23, the Small Business Committee held a joint hearing with the House Science Committee to look into the HHS Report on Carcinogens. Business owners at this hearing testified that they are having trouble with increases in insurance costs and employee turnover as a result of biased and incorrect HHS assessments. And scientific experts testified that HHS fails to employ the modern valid assessment methods long recommended by NAS. (I ask the Subcommittee to refer to the record for the April 23 hearing for more information.)

Biased, policy-driven analysis will also lead to increased electricity costs for manufacturers in South Carolina and across the country, which will also send jobs offshore. EPA's Utility MACT rule justifies a requirement for utilities to install very expensive control equipment by pointing to claimed health benefits. Yet according to expert testimony before a February 8 hearing of the Energy and Commerce Committee, EPA based its benefits estimate on a small number of cherry-picked, non-representative and flawed studies, and double-counted emission reductions already achieved under other rules. (I encourage the Subcommittee to refer to the record for the February 8 hearing for more information.) As a result of the bad analysis, EPA grossly overestimated the rule's benefits.

When President Obama first took office, he made a commitment to the use of sound science

and sound analysis. However, it seems this Administration believes that an analysis is "sound" as long as it supports its pro-regulation agenda.

I strongly encourage the Small Business Committee to continue its effort to promote business viability, innovation and job growth by holding the Administration to the President's promises to base regulatory and other decisions on sound, fair and transparent analysis of the relevant facts.

Thank you very much for the opportunity to share my comments with you.

EPA'S IRIS PROGRAM REQUIRES MAJOR OVERHAUL.

American Chemistry Council

In the mid-1980s, the U.S. Environmental Protection Agency (EPA) created the Integrated Risk Information System (IRIS) to facilitate the development and dissemination of risk assessments for chemicals. This platform was intended as a tool to support and guide scientifically sound and consistent risk management decisions.

Since its inception, IRIS has become a point of contention, rather than an asset, for EPA, due to conclusions on risk that are not supported by science in all cases. The IRIS program must be overhauled to improve its scientific rigor if it wants to be credible and an asset to risk managers. In fact, many IRIS risk assessments have been referred to the National Academy of Sciences (NAS), which recently concluded that systemic flaws in IRIS methodology lead to poor quality assessments. The NAS and other expert panels frequently criticize the IRIS assessments for their poor scientific quality – a result of the IRIS's unnecessary reliance on overly conservative and default assumptions and outdated scientific information. These weaknesses are most clearly seen when IRIS-recommended "safe" levels for chemical exposures are below the levels formed every day in our bodies or are below environmental background levels.

Below are just a few of the examples that illustrate the illogical challenges the IRIS risk assessments create for risk assessors, and how these inconsistencies further undermine the credibility of the IRIS program.

ACETONE
IRIS Risk Assessment Level: 0.9 mg/kg/day
Naturally Occurring Level in Humans: 1.5 mg/kg/day

The estimated daily dose to infants from the acetone normally present in mother's milk (1.5 mg/kg/day) exceeds the IRIS-estimated safe level of 0.9 mg/kg/day by nearly two-fold. Thus, the IRIS analysis suggests that the daily doses of acetone in mother's milk are unsafe to the nursing child. This analysis also does not account for the fact that the human body normally produces 2,000 to 3,000 mg of acetone each day, which is more than 40 times the IRIS-estimated levels – information that was available to IRIS in 2003,[1] but was not used in their revised risk values.

FORMALDEHYDE
IRIS Risk Assessment Level: 0.008 parts per billion (ppb)
Naturally Occurring Level in Humans: Up to 8.0 ppb

The World Health Organization reports that humans form formaldehyde in their bodies and exhale it at concentrations up to 8.0 ppb. The IRIS-proposed cancer risk value of 0.008 ppb would set a cancer risk value that is significantly below the levels that naturally occur in the environment. The EPA's proposed cancer risk value would suggest that human breath poses an unacceptable risk of cancer, yet experience, common sense and science tell us that this couldn't possibly be the case. In fact, a comprehensive National Academy of Sciences report recommends that the IRIS risk assessment be consistent with the World Health Organization's guidelines.

ACRYLAMIDE
IRIS Risk Assessment Level: RfD of 2 µg/kg/day
Naturally Occurring Level: 0.3 to 1 µg/kg/day

This chemical is created from the cooking process of bread and cereals. IRIS established a Reference Dose (RfD) for acrylamide at 2 µg/kg/day based on findings from a study reporting degenerative nerve changes in rats.[2] Yet acrylamide exposure estimates for a USDA-recommended diet range are up to 1 µg/kg/day. These estimates indicate a very small margin of exposure, meaning that there is very little difference between recommended dietary intake of acrylamide and the dose at which we'd expect to see toxic effects.

There has not been a sudden increase of degenerative nerve changes occurring in any population associated with the introduction of manmade acrylamide over the last few decades, calling into question the validity of IRIS results. In fact, this IRIS guideline level would suggest the USDA advocates dietary consumption of unacceptable levels of acrylamide.

ARSENIC
The inorganic arsenic IRIS review inappropriately uses a linear, no threshold approach based on a single epidemiology data set, although all available evidence on carcinogenic mode of action points to non-linear mechanisms. The arsenic IRIS document does not consider any literature after 2007, excluding over 300 articles, including detailed mechanistic data and epidemiology studies of U.S. populations. In this IRIS assessment, EPA failed to conduct an "integrative analysis" of newer epidemiology studies of U.S. and other western populations as had been requested by an independent peer review panel. Instead, the IRIS program ignored this peer review finding and chose to rely only on very dated (1968 and 1977), high exposure data from Taiwan. The "acceptable exposure levels" derived from the proposed new IRIS cancer risk evaluation would be below background levels in many soils and water supplies. Food grown and produced in the U.S. contains inorganic arsenic from natural sources, and the cancer slope factor currently being proposed by IRIS would indicate background levels of arsenic in soil and food would pose more than a minimal cancer risk and this could create unnecessary and unreasonable concerns about the safety and wholesomeness of the U.S. food supply.

METHANOL
IRIS Risk Assessment Level: RfD of 0.4 mg/kg/day
(producing an estimated blood level of 0.08 mg/L)
Levels in the Blood Stream[3]: 0.25 to 4.7 mg/L

Methanol is ubiquitous in the environment and in many foods that make up a healthy diet. It is also metabolized differently by different species. EPA has acknowledged these facts, yet recently re-released a draft assessment on methanol that does not consider the range of background/endogenous levels or currently accepted data on comparative pharmokinetics.

Studies have shown that even people on diets restricting methanol-producing foods have background blood levels ranging from 0.25 to 4.7 mg/L. Higher levels would most certainly be expected in the general population. Yet IRIS has proposed an RfD of 0.4 mg/kg/day, which clearly falls within the range of background/endogenous levels.

The IRIS assessment thus implies that Americans are already at risk of methanol-induced developmental effects – without being exposed to external methanol – and that consuming certain foods and beverages, such as orange juice, may put them at even greater risk. For example, a single 6.6 oz serving of orange juice would exceed the RfD of methanol for an adult; in children, a single 1.9 oz serving would exceed it.[4]

Risk Values Should Be Based on Best-Available Science, Not Simple Assumptions: Revise the IRIS Process

The IRIS process must be revised to follow appropriate and transparent guidelines and incorporate best-available science rather than convenient assumptions. When appropriate data are available, they should be used, not ignored, to drive realistic risk evaluation. The EPA should also offer meaningful opportunities for diverse stakeholders to contribute, including EPA managers, government and non-government agencies, industry and others so the IRIS program can be a credible and comprehensive tool for risk managers.

For information regarding the government agencies supporting these policies, go to:
The U.S. Environmental Protection Agency (www.epa.gov)
The Integrated Risk Information System (www.epa.gov/IRIS/)

[1] American Chemistry Council Acetone Panel – Submission to EPA's Voluntary Children's Chemical Evaluation Program (VCCEP): Acetone (CASRN 67-64-1), September 10, 2003.

[2] Based on degenerative nerve changes in a chronic rat study with a point of departure dose of 0.053 mg/kg/day, which was calculated as the Benchmark Dose Lower-Confidence Limit (BMDL), and applying a total uncertainty factor of 30 (3 for uncertainty in toxicokinetic differences, 10 for interindividual differences)

[3] Background/endogenous levels in people on diets that restricted methanol-producing foods.

[4] Methanol Institute – Comments on the U.S. EPA Draft Toxicological Review of Noncancer Effects of Methanol (IRIS), June 17, 2011, p. 23

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CARCINOGENS

TOXIC SUBSTANCES

The authors of this article contend that the National Toxicology Program's recent decision to classify styrene as "reasonably anticipated to be a human carcinogen" in its 12th *Report on Carcinogens* is not scientifically supported, given that the available data do not meet the criteria for such a classification. Studies on styrene's health effects in humans show no consistent increased incidence of or mortality from any type of cancer. Tumors in laboratory animals have been observed in only one species—mice—and the known plausible biological mechanism by which styrene could cause cancer is specific to the mouse lung and is not relevant to humans, the authors write.

Why Styrene Should Not Be Classified as a Human Carcinogen And Does Not Belong in the NTP's 12th Report on Carcinogens

By Julie E. Goodman, Lorenz R. Rhomberg and Robyn L. Prueitt

On June 10, 2011, the U.S. Department of Health and Human Services' (HHS) National Toxicology Program (NTP) listed styrene as "reasonably anticipated to be a human carcinogen" in the 12th edition of its *Report on Carcinogens* (RoC). The RoC is a congressionally mandated report of "reasonably anticipated to be" and "known" human carcinogens. The HHS secretary delegates its preparation to the NTP.

NTP included styrene in the RoC based on what it said was "limited" evidence of styrene's cancer-causing potential in humans, "sufficient" evidence of carcinogenicity in animals, and supporting data on the mechanism by which styrene acts biologically. But in point of fact, the listing of styrene in the RoC is not scientifically supported because the available styrene data do not meet these criteria. Styrene's listing is unwarranted, and the "reasonably anticipated" listing of styrene should be withdrawn. As we discuss below, there are several reasons for this; these reasons include:

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- Studies on styrene's health effects in humans (epidemiology studies) show no consistent increased incidence of mortality (death rates) from any type of cancer.
- An increased incidence of tumors (mostly benign) in laboratory animals has been observed only in certain strains of one species (mice), and only at one site (lung).
- The tumors hypothesized to occur in humans are not the same as those observed in mice, indicating not only a lack of concordance among laboratory animals—even within the same species (mice)—but also with humans.
- The only known plausible biological mechanism by which styrene could cause cancer—one that is specific to the mouse lung—is not relevant to humans.

Therefore, the evidence does not support styrene's characterization in the RoC as "reasonably anticipated to be a human carcinogen."

NTP Criteria for 'Limited' or 'Sufficient' Evidence

NTP states that in order to be listed in the RoC, a substance must show "limited" evidence of carcinogenicity from studies in humans and "sufficient" evidence of carcinogenicity from studies in experimental animals.

Concerning humans, NTP does not precisely define standards for when the "limited" criterion for carcinogenicity is deemed to be satisfied. In our view, when all the human evidence is evaluated, one reaches the conclusion that a causal relationship between styrene exposure and cancer is not supported and that NTP's loosely defined standards of "limited" evidence are not met.

While NTP does outline more precisely the criteria for what constitutes "sufficient" evidence of carcinogenicity in laboratory animals, as we explain in the following sections of this commentary, the data show that those NTP criteria also are not met for styrene.

Epidemiology (Human) Studies

In our peer-reviewed commentary[1] that will appear later this year in the journal *Human and Ecological Risk Assessment* (HERA), which is based on an analysis we submitted to NTP on the carcinogenicity of styrene, we point out that the key human studies on styrene involve workers in the reinforced plastics and composites (RPC), styrene-butadiene latex rubber (SBR), and styrene/polystyrene (PS) industries. The highest styrene exposures occurred in the RPC industry, followed by the SBR industry, and then the PS industry. In the SBR industry, workers were co-exposed to an established carcinogen, 1,3-butadiene.

The NTP styrene listing suggests that these studies together indicate increased incidence of or mortality from lymphohematopoietic cancers, such as leukemia, and that some studies of RPC industry workers provide suggestive evidence for increased incidence of or mortality due to pancreatic and esophageal tumors.

In our re-examination of the human data for the HERA commentary, we note some statistically significant associations with some styrene exposure measurements for the aforementioned cancers, but that:

- risk estimates were not markedly large, and for each cancer type, studies purporting to show an effect were far outnumbered by studies showing no association with styrene;
- co-exposure of SBR industry workers to an established carcinogen confounded the findings from that cohort;
- most analyses were based on a small number of observed cases, which resulted in unstable estimates; and
- negative associations (apparently reduced rates of tumor incidence with increasing exposure) were reported for certain cancer types that were often as strong as positive associations reported for others. Just as it is unlikely that these negative associations reflect a protective mechanism for styrene, the few positive associations are unlikely to reflect a causal association.

When considering the human evidence as a whole, there are no consistent associations between styrene exposure and any specific cancer type either within or among studies.

Laboratory Animal Studies

Chemical testing in mice and rats is used extensively to determine the likelihood that humans exposed to the same chemical may be affected in a similar manner. The rationale for using rodents as indicators rests on the broad similarity among mammals in anatomy, physiology, and biochemistry.

The applicability of a mouse or rat response as an indicator of potential human risk amounts to hypothesizing that, owing to this underlying biological commonality, the cancer-causing process responsible for the animal results also plausibly could occur in humans. Such rodent tests underpin most of the current government regulations on chemicals today.

But is a mouse's reaction to a test chemical a good predictor of human health? The short answer is, it depends. For this reason, the Environmental Protection Agency's *Guidelines for Carcinogen Risk Assessment* emphasize that risk assessors need to understand as best they can the "mode of action" (MOA) by which a substance acts biologically within and upon an organism.

In many cases, this understanding will help confirm that humans are likely to react the same way as the test animal. But in some cases, this will show that what happened in the test animal is unlikely to happen in humans because of the differences between the species. Such is the case with styrene.

In the mid-1990s, several published studies raised questions about styrene's cancer-causing potential in humans. Specifically, the studies found tumors in exposed mice, but no tumors in rats. It was clear that the processes responsible for the tumor formation found in mice did not occur in rats. In short, the proposed generalization of effects across mammals—in this case mice and rats—was contradicted, calling into question the use of any presumed commonality of processes to apply these animal results to human risk potential. Scientists launched an effort to determine why and whether humans were more likely to be like mice or rats.

[1] Rhomberg *et al.* 2012. "The Weight of Evidence Does not Support the Listing of Styrene as 'Reasonably Anticipated to be a Human Carcinogen' in NTP's Twelfth Report on Carcinogens," *Human and Ecological Risk Assessment*. In press.

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Why Mice Develop Lung Tumors from Styrene Exposure but Rats Do Not

The answer to why mice develop lung tumors from styrene exposure would be revealed over a period of years through investigations into styrene's MOA in the mouse lung. Numerous studies published from the late 1990s to the present demonstrate that the differences in styrene-induced toxicity and carcinogenicity among mice, rats, and humans largely can be explained by differences in styrene metabolism between mice and both rats and humans.

In addition, the early research showed that the lung tumors in mice most likely were not caused by damage to DNA, which is a "genotoxic" MOA. Rather, it indicated that the tumors resulted from cell toxicity (cytotoxicity). In this case, the damaged cells are replaced by new cells at a rate faster than normal cell turnover—so fast, in fact, that it leads to the opportunity for some damaged cells (which the body would eliminate under normal circumstances) to replicate, eventually resulting in tumors. This finding was consistent with results from rat studies, where no lung tumors were seen and there was no evidence of cell toxicity.

These early studies also reported that "styrene respiratory tract toxicity in mice and rats, including mouse lung tumors, is mediated by ... metabolites.[2] The [applicable] model predicts that humans do not generate sufficient levels of these metabolites in the [lung's] terminal bronchioles to reach a toxic level. Therefore, the postulated mode of action for these effects indicates that respiratory tract effects [of styrene] in rodents are not relevant for human risk assessment."[3]

The essential finding from this research is that mouse lungs exposed to styrene produce sufficient quantities of certain metabolites to develop tumors, but rat lungs do not. The question remained: What were the metabolites responsible for these phenomena? With the answer, one could examine whether these same metabolites are of concern for humans.

Identifying Metabolites That Mediate Tumor Formation

From 2002 through 2009, scientific journals published a number of papers based on research to identify responsible metabolites and, accordingly, answer the fundamental question of why humans and rats exposed to styrene do not develop tumors while mice do. In 2009, the *Journal of Regulatory Toxicology and Pharmacology* carried a review by Cruzan *et al.*[4] summarizing the body of MOA mouse lung tumor research.

Overall, the studies reviewed by Cruzan *et al.* demonstrated that for toxicity to occur, styrene must be metabolized in mouse, rat, and human lungs by similar enzymes—called CYP2F enzymes. These enzymes are designated CYP2F1 in humans, CYP2F2 in mice, and CYP2F4 in rats. The CYP2F enzymes in mice and rats can more readily metabolize styrene than CYP2F1 in humans, but the mouse lung has a greater capacity to metabolize styrene compared to rats and humans because of differences in the presence of certain cell types.

Clara cells are the major cell type in the lung that metabolizes styrene following inhalation exposure. In mice, Clara cells are numerous and are spread throughout the airways. In rats, these cells are significantly fewer in number; in humans, Clara cells are rare. Mouse Clara cells produce five times more total styrene oxide (an intermediate metabolite of styrene) than rat Clara cells. Thus, the cells that metabolize styrene in the lung differ in their number and location among mice, rats, and humans.

Recently, some of the authors of the MOA review conducted a study[5] using mice with the gene encoding the CYP2F enzyme removed ("knock-out mice") to determine whether they would be susceptible to styrene toxicity. This study demonstrated that styrene toxicity in the mouse lung does, indeed, require metabolism by CYP2F, and that the metabolites responsible for toxicity are further metabolic products of styrene and styrene oxide.

Since the metabolism and metabolic products of styrene are different in mice, rats, and humans owing to the different effects of the enzyme active in each species, it should be expected that styrene toxicity is different in mice, rats, and humans as well.

Lack of Concordance Among Human, Laboratory Animal, and Mode-of-Action Data

The NTP profile for styrene states: "Although styrene disposition differs quantitatively among species, no qualitative differences between humans and experimental animals have been demonstrated that contradict the relevance of cancer studies in rodents for evaluation of human hazard. Detection of styrene-7,8-oxide-DNA adducts at base-pairing sites and chromosomal aberrations in lymphocytes of styrene-exposed workers supports the potential human cancer hazard from styrene through a genotoxic mode of action." This statement is incorrect for several reasons.

First, there is no concordance among the human and laboratory animal data on the effects of styrene. The styrene-induced lung toxicity and tumor formation observed in mice are species-specific, and the mechanistic data strongly suggest that these tumors result from lung toxicity that depends upon the localized metabolism of styrene by the mouse CYP2F enzyme. In humans, this enzyme does not have the same capacity to metabolize styrene.

[2] Foreign substances are typically broken down and removed from organisms through a "metabolic" process in which specific enzymes chemically alter the substance into "metabolites" (the products of the breakdown process) that are either removed from the organism or, in turn, are subject to further metabolic processes.

[3] Cruzan *et al.* "Styrene Respiratory Tract Toxicity and Mouse Lung Tumors are Mediated by CYP2F-generated Metabolites," *Regulatory Toxicology and Pharmacology*, 35:308-319 (2002).

[4] Cruzan *et al.* "Mouse Specific Lung Tumors from CYP2F2-Mediated Cytotoxic Metabolism: an Endpoint/Toxic Response Where Data from Multiple Chemicals Converge to Support a Mode of Action," *Regulatory Toxicology and Pharmacology*, 55:205-218 (2009).

[5] Cruzan *et al.* "CYP2F2-generated Metabolites, not Styrene Oxide, are a Key Event Mediating the Mode of Action of Styrene-induced Lung Tumors." *Regulatory Toxicology and Pharmacology*, 62:214-220 (2012).

Although the detection of styrene oxide-DNA adducts[6] in styrene-exposed workers indicates that humans can metabolize styrene to some extent, they do so markedly less than rodents. Furthermore, in rodents this metabolism does not lead to a genotoxic MOA and does not produce the lymphohematopoietic cancers that the NTP statement suggests as the basis for human cancer risk.[7]

Second, the epidemiology data do not suggest that styrene exposure is associated with any specific cancer type in humans, either within or among studies. The NTP listing, however, interprets these data as suggesting that styrene exposure may increase the incidence of three types of cancer (lymphohematopoietic, pancreatic, and esophageal) in humans. Even if one accepts this interpretation, no corresponding responses have been observed in experimental animals, as no increases of those types of cancer have been reported in styrene-exposed animals.

Third, a genotoxic MOA for styrene, either in animals or humans, is not plausible. The genotoxicity data for styrene are inconsistent, and the sole clear animal tumor response (mouse lung) is attributable to increased cell proliferation that results from the cellular damage induced by styrene metabolism at a greater rate than any human tissues are capable of producing.

Taken together, the human, experimental animal, and MOA data for the effects of styrene do not support the classification of styrene as a human carcinogen.[8]

[6] A DNA adduct is a piece of DNA bonded to a chemical. The presence of DNA adducts in an individual indicates prior exposure to the chemical itself or to a metabolic precursor of the chemical.

[7] Studies of animals exposed to styrene oxide itself have shown induction of tumors in the forestomach (an organ that humans lack) only when directly injected into the forestomach by stomach tube, an effect attributable to the cellular damage and increased cell proliferation induced by direct local toxicity of styrene oxide. Styrene oxide is not produced at any site in humans by metabolism of styrene in sufficient quantities to be able to produce similar carcinogenic effects. Thus, the ability of humans to form some amount of styrene oxide is not germane.

[8] Readers are encouraged to explore this subject more fully by reading the four scientific reports cited in this commentary. All four papers are available upon request to the Styrene Information and Research Center (http://www.styrene.org or http://www.YouKnowStyrene.org), 910 17th St. N.W., 5th Floor, Washington, D.C. 20006.

Conclusion

For styrene, it is clear that the processes responsible for tumor formation observed in mice do not occur in rats. It is not only that rats do not show a tumor response from styrene inhalation, but also that the specific MOA is not present. In short, the proposed generalization of effects across mammals is contradicted. Moreover, there is no indication that the MOA would be present in humans.

To bring together experimental animal, human, and MOA data into an overall weight-of-evidence analysis about the potential for human carcinogenicity, one seeks to characterize the likelihood of a common thread that ties together the evidence from the different sources and proposes a plausible line of reasoning as to why a potential hazard in humans is indicated. For styrene, there is no such commonality.

The NTP classification of styrene as "reasonably anticipated to be a human carcinogen" based on "limited" evidence of carcinogenicity in humans, "sufficient" evidence in animals, and supporting mechanistic data is not scientifically supported, given that the available data do not meet these criteria. Styrene should not have been listed as "reasonably anticipated to be a human carcinogen" in the NTP's 12th *Report on Carcinogens*.

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The opinions expressed in this article are solely those of the authors and do not reflect a position of Bloomberg BNA, which welcomes other views.

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Congressional Subcommittee
US House of Representatives
Committee on Small Business
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Thank you, Chairman Mulvaney for inviting me to testify today. I'm not a government policy wonk nor am I an expert on public health care. However I am a businessman who knows a few things about managing a company, creating jobs, and perhaps more importantly, keeping our employees employed. When I was asked to testify on the impact Patient Protection and Affordable Care Act, otherwise known as Obamacare, I thought I could provide a small business owner's perspective.

First, I respect the government's role in creating prudent legislation that provides a template for businesses to function, pay taxes, and establish laws which create the boundaries for our citizens. We need a balance of laws, regulations, and taxes to create long term sustainability.

My Story:

I started Carolina Ingredients in 1990 as a food ingredient distribution company out of my home. In the first ten years of business we grew to 12 employees and created value by building a spice and seasoning facility. Fast forward two decades to 2010 and we built the first LEED Seasoning manufacturing plant in the USA. At the end of 2009 we employed twenty one people. As of today, twenty two years later, we have 37 employees. Why do I share this with you? I humbly submit our company is an example of the American Dream.

Our Country's Core Culture:

The model in which our country was founded is the foundation is similar to Carolina Ingredients and its employees. Those core culture values are: entrepreneurial, self-reliant, independent, creative, and individual accountability. The first two hundred years of the United States' phenomenal historical success can be directly associated with these fundamental characteristics. There are many others, but that conversation isn't for today.

It is no secret the regulations our government has in place today far exceed what existed in 1776 not to mention 1976. Frankly, that isn't a bad thing. As in all aspects of life, balance must be created to insure long term sustainability. However, Obamacare swings the pendulum to the extreme and destroys the balance. Let me explain:

Small Business' Economic Influence:

As I mentioned our company grew from one employee to 37 over 22 years; it was a slow transition and emulates a successful small business. According to US Small Business Administration, small businesses employ 59.7 million workers with large corporations employing 60 million. We hire over 43% of the high tech work force which include scientists, engineers, and computer programmers. We also employ a large percentage of the non-skilled work force. Overall, we account for 65% of all jobs created between 1993 and 2009.

Small Business Survival:

Why is this important? Only 30 out of 100 companies that are created today will survive the first two years. Out of the remaining thirty, half will survive five years and only five will make it to their 10th anniversary. Of those five companies, only a quarter of those companies last to their 15th birthday. The reality is less than 2% of companies created today will last more than twenty years. Seventy out of the hundred won't see their second birthday and only 2 percent will celebrate their 20th.

Patient Protection and Affordable Care Act:

This body of legislation is over 2,000 pages long; to be precise, it is 2,074 pages. Really, are you serious Senators and Congressmen? Can anyone truly tell me with a straight face we need a 2,000 page health care bill and what legislative quagmire actually means? What are the long term costs to the citizen and to the government? Who knows?

Here is what I do know: All governmental regulation cost small businesses time, money, and man power. The more time we allocate towards compliance, the less time we have to create jobs, mange our businesses, and compete in a global

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Carolina Ingredients

market. Regulations are costly. For small businesses with less than 20 employees, current governmental regulations cost $10,585 per employee which is 36% more than larger firms. This doesn't include the perils of Obamacare.
There are multiple regulations in Obamacare that have nothing to do with health care. There are items like a tanning tax, 1099 reporting forms, the Cadillac tax, employer mandates, and individual mandates. If we survive all of these regulations, we are rewarded with a bonus called Health Care Insurance tax.
In the end, the legislation is invasive, punitive, and overwhelming to the business community. Ever heard of a death by a thousand cuts? My best guess is Carolina Ingredients' health care cost will increase between 100 to 150%. That means our annual health care cost of $125,000 will eventually range between $200,000 and $300,000. (This is based on a payroll of 51 people, the expected health care tax of $500 per employee, the 40% Cadillac Tax, Medicare payroll tax, and employer mandate). With such cumbersome regulations and costs, I predict many small businesses will default to the government managed health care insurance rather than be subjected to mandates and the penalties associated with them. In truth, we don't even know the real costs because no one knows what type of health plans the government will select as the "fair plan which all private plans will be benchmarked. This isn't the model our country was built upon!

The Unknown:

Under such regulation, we can't predict our future and the cost to employ hard working Americans becomes a guessing game. Already the CBO projects Obamacare will now cost $1.8 trillion, which is twice as much the CBO predicted in 2010. To date the current administration is unable to articulate the cause of the increase. Where is the accountability? As the years progress, does anyone truly believe the costs will decline?
Penalties: There is serious concern the employer and individual mandates will be so intrusive companies will defer to government health care plans as to avoid potential penalties. We'd rather spend our time building businesses not tackling insurance mandates. Heck, I thought we were a partnership? You, the government, create rules, laws, and regulations that are specific, reasonable, and ones that are understandable. They aren't meant to be punitive and destroy the backbone of America's small businesses. In return, we take calculated risk, hire people, build businesses that are profitable, and pay taxes on those profits!

Profits:

I know it seems that making money is a dirty word these days and we shouldn't murmur such a phrase. The truth of the matter is this: without profits, companies don't survive, without companies, employees aren't hired, no employees no tax base. No tax base, no money to fund legislative polices. This is fact, in all of world history; no government created a sustainable society by its government creating jobs and becoming a global economic model to emulate. Would you like a few reminders of abject failures: Russia, Cuba, the entire Soviet Bloc countries, oh I failed to mention North Korea.

The Golden Goose:

So, the moral is don't cook the golden goose. If you regulate us to death, surely you will suffocate us all. At best, Obamacare will weaken our entrepreneurial fortitude; thus, minimizing our country's sustainability as the world's greatest economic engine. At worst, we'll become a society dependent upon government to make our decisions that they think are in our best interests. Much like the countries I mentioned above. This isn't the model our country followed for the first 200 years! Or perhaps our politicians think they know what is best for me. History demonstrates all governments eventually fail under this philosophy. Do I want Obamacare to fuel the government's desire to mandate me and our business through unaccountable regulations?
No thanks, I'll take my 2% chance of creating a company and surviving twenty years over our government regulating me to death. Historically speaking, the odds of survival are on my side.

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