THE PUERTO RICO OVERSIGHT, MANAGEMENT
AND ECONOMIC STABILITY ACT: STATE OF
SMALL BUSINESS CONTRACTING

HEARING

BEFORE THE

SUBCOMMITTEES ON CONTRACTING AND
WORKFORCE AND ECONOMIC
GROWTH, TAX, AND CAPITAL ACCESS

OF THE

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UNITED STATES
HOUSE OF REPRESENTATIVES

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THE PUERTO RICO OVERSIGHT, MANAGEMENT AND ECONOMIC STABILITY ACT:
STATE OF SMALL BUSINESS CONTRACTING

THURSDAY, JULY 13, 2017

The Subcommittees met, pursuant to call, at 10:00 a.m., in Room 2360, Rayburn House Office Building, Hon. Steve Knight [chairman of the Subcommittee on Contracting and Workforce] presiding.

Present: Representatives Chabot, Brat, Knight, Kelly, González-Colón, Velázquez, Evans, Murphy, Lawson, Chu, and Espaillat.

Chairman KNIGHT. This hearing will come to order. Trent Kelly is here so we are ready.

I would like to thank our witnesses for taking time to come and share their thoughts with us today, and I look forward to your testimony.

Today’s joint hearing on the Subcommittee on Contracting and Workforce and the Subcommittee on Economic Growth, Tax, and Capital Access will focus on findings by the Government Accountability Office, GAO, report mandated by section 408 of the Puerto Rico Oversight Management and Economic Stability Act, also known as PROMESA. This report takes a close look and evaluates the Small Business Administration’s contracting activities in Puerto Rico.

According to SBA size standards, 99 percent of all businesses on the island are considered small, but only a limited number of these firms are actually engaged in federal contracting activities. We often say on this Committee that small businesses are the backbone of this country. This is especially true in Puerto Rico. Therefore, it is important that small businesses are given every opportunity to ensure their success. The SBA’s federal contracting programs strive to do just that. These programs provide contracting preferences to small businesses based on specific socioeconomic designations such as service, disabled veteran, or woman-owned. This is done to ensure small businesses are given opportunities to access and compete fairly for federal contracts.

The island itself is dominated by small businesses, and thus, presents an excellent case study examining the effectiveness of SBA’s
federal contracting programs on the small business community. For example, the GAO found that small businesses in Puerto Rico are winning a significant portion of federal prime contract obligations, roughly twice the national average. While the findings appear promising, the report also states that most contract obligations were not won through SBA's federal contract programs, so this raises the question: are SBA small business contracting programs effective or influential? Additionally, the result of PROMESA's expansion of the SBA's historically underutilized Business Zone or HUBZone program in Puerto Rico also provides important insights into the program and small business contracting in general.

The lessons we take from today's GAO report will help in our understanding of how the SBA's federal contracting programs impact small businesses in the United States territories and nationwide. I look forward to hearing from our witnesses. We will benefit from your perspective, and I thank you for being here today.

I would now like to yield time to the ranking member, Ms. Murphy, for her opening statement.

Ms. MURPHY. Thank you, Mr. Chairman.

I am pleased that we are holding this hearing on the small business provisions contained in PROMESA on the GAO report that was produced as a result of one of those provisions, and on the possible steps this Committee and the SBA can take to empower small businesses in Puerto Rico and to help the U.S. territory address its economic challenges.

I want to thank Ranking Member Velázquez, who is a tremendous champion for the island. I also want to thank my colleague, Congresswoman Jennifer Gonzalez, who represents Puerto Rico in this chamber with skill and determination.

There are 3.4 million American citizens living in Puerto Rico. Because of the migration of Puerto Ricans from the island to the mainland, especially in recent years, there are now 5.4 million individuals of Puerto Rican heritage living in the States. The Puerto Rican population in Florida has increased by over 120 percent since the year 2000, and now stands at 1.1 million, running neck and neck with New York.

My district in Central Florida is home to about 100,000 Puerto Ricans, the second highest of any district in the Sunshine State. Many of my constituents have family and friends still living in Puerto Rico. They care deeply about the island, and so I care deeply about the island.

My view on Puerto Rico is simple: I believe the American citizens that live on the island should be able to vote for their president, should have a full delegation in the House and the Senate, so that Congresswoman Gonzalez does not need to do the work of seven people, and should be treated equally under all federal spending and tax programs. Our fellow citizens in Puerto Rico ought to have the same rights and the same responsibilities as residents of Florida or any other State.

Until Puerto Rico is treated equally in all respects, however, federal policymakers should be exploring both straightforward and creative ways to improve quality of life and spur economic growth on the island.
To that end, Congresswoman Velázquez and Congresswoman Gonzalez have introduced the Puerto Rico Small Business Assistance Act, which I am proud to cosponsor. This bill incorporates recommendations made by the bipartisan, bicameral Congressional Task Force on Economic Growth in Puerto Rico, which was established by PROMESA and which issued a comprehensive report in December 2016. I hope Congress acts swiftly on this legislation.

As the ranking member of the Subcommittee that oversees contracting, I will have specific questions for the two witnesses regarding the conclusions in the GAO report and the specific steps SBA can take at the agency level to better assist Puerto Rico’s 44,000 small businesses.

For now, I want to close by expressing a general concern. Puerto Rico firms, whether they are small, medium, or large, receive relatively few federal government contracts. As discussed in the report issued by the Congressional Task Force on Economic Growth in Puerto Rico, the territory ranks nearly last when it comes to the total dollar value of federal contracts performed within each State and dead last when considered on a per capita basis.

Compounding the problem, according to the Federal Procurement Data System, of the 571 federal contracts that were performed in Puerto Rico in fiscal year 2015, 346, which is approximately 61 percent, were awarded to firms located outside of Puerto Rico. That is a very high percentage compared to other jurisdictions. And in short, very few federal contracts are performed in Puerto Rico, and those that are performed in Puerto Rico are more often than not awarded to firms located off the island. That is an impediment to economic growth and job creation.

I hope the witnesses will address this broader point during the hearing. Thank you, and I yield back.

Chairman KNIGHT. Thank you very much.

And now we are going to yield time to Chairman Brat, as this is a joint hearing, for his opening statement.

Chairman BRAT. Thank you, Mr. Chairman. I would also like to thank our witnesses, first of all, for your willingness to be with us and speak to us today, and I look forward to your testimony.

I think we can all agree on both sides of the aisle that achieving and sustaining long-term economic growth is the key to unlocking Puerto Rico’s full potential. Unfortunately, the island has been, and continues to be, embroiled in economic crisis. I hope through our discussion today we can identify pro-growth policies and solutions from the GAO’s report.

As the chairman noted, the vast majority of businesses in Puerto Rico are considered small, but not many of these firms actually operate in the federal contracting space. Even fewer hold SBA certifications, which would allow them to receive federal contracting preferences. The GAO report also makes clear that less than a handful of government agencies actually award contracts to firms in Puerto Rico, and only in a few select industries. Having a strong, healthy, and diversified small business base has been critical to this country and is critical to Puerto Rico’s economic stability and financial independence.

We can start by taking steps to harness the power of the small business workforce in Puerto Rico. I look forward to hearing from
our witnesses on ways this Committee can help small businesses in Puerto Rico succeed.

Mr. Chairman, I yield back the balance of my time.

Chairman KNIGHT. Thank you very much.

And now we would like to hear from the ranking member, Mr. Evans, the ranking member on Economic Growth, Tax, and Capital Access.

Mr. EVANS. Thank you, Mr. Chairman. And also, I would like to thank my colleague Congresswoman Velázquez for her long history of working to help Puerto Rico.

Today is an opportunity for us to consider the dire economic situation facing Puerto Rico. While the cause of decline are debatable and outside the purview of today's hearing, what is very clear is the harm being done to Puerto Rico's small business community. More private sector workers in Puerto Rico are employed by small firms than here on the mainland, yet their needs are overlooked, their economic contribution unappreciated. Rather than bickering over the issues not under our control, we should be working together to improve the lending, contracting, and entrepreneurship development landscape on the island.

The Small Business Administration offers a wide variety of programs to support entrepreneurs in exactly those areas, yet the GAO report concludes that much more can be done, specifically as it relates to contracting. The GAO spoke with a number of stakeholders that identified challenges that small businesses in Puerto Rico may face in obtaining federal contracting opportunities. These include increasing use of contracting bundling or consolidation, difficulty in meeting contract procurement requirements, and a lack of knowledge about the federal procurement process. These barriers are compounded by challenges created by the island's geographic location and economic condition. Along those lines, I am greatly concerned about the lack of access to contracting officials for Puerto Rican entities. GAO referenced the uphill circumstances the island businesses face in forging relationships with agency representatives. These representatives are meant to be advocates for small contractors, but Puerto Rico does not have the same access as the mainland firms.

Small businesses in Puerto Rico also lack the knowledge about the federal contracting process. Despite SBA efforts to train them, GAO concludes that the small firms do not know how to complete proposals or even basic information about the existence of the small SBA federal contracting programs.

But most disappointing is the lack of access to capital and financing. In light of the fiscal realities facing the island, it comes as no surprise that small businesses cannot meet financial standards of surety companies and other lenders. The gap in financing reduces the ability of small contractors and small firms to generally do their part in rebuilding Puerto Rico's economy. While I applaud the approval of the first Puerto Rican surety company to be approved to participate in the Small Business Surety Bond Guarantee program, I believe more must be done to attract lenders and other programs' resources to partner to our own.

Doing nothing is no longer an option in that regard. I am encouraged to learn that the SBA is serious about its duty to Puerto
Rican entrepreneurs. I look forward to working with my Committee colleagues and with the SBA to move legislation forward to help small businesses in Puerto Rico because they are the engine needed to promote growth, drive stability, and achieve economic revitalization.

I thank the witnesses for testifying today and hope to learn more about how we can use the federal marketplace as a building block to help Puerto Rico.

Thank you. I yield back the balance of my time.

Chairman KNIGHT. Thank you, Mr. Evans.

And I am pleased to see the ranking member from the full Committee, and I would like to yield her some time for an opening comment from Ms. Velázquez.

Ms. VELAZQUEZ. Thank you, Mr. Chairman. I am very grateful for your indulgence.

I am very proud of the island, not only because it is where I was born, but because despite all the fiscal ailments it is facing, young entrepreneurs are leading its economic renaissance. While the bankruptcy process slowly unfolds, there is a degree of uncertainty that has forced banks to cut back markedly on their small business lending. When small businesses employ more than 80 percent of all private sector workers, this becomes particularly challenging. Yet, in the face of adversity, entrepreneurs are rolling up their sleeves and getting to work. They are harvesting the land and building upon their strong human capital to get out of their economic hole.

Just last week, I learned of a small 50-person 8(a) technology company that secured a contract with a large federal agency. I also learned of virtual office spaces and business incubators that are encouraging collaboration with likeminded businesses and supplying entrepreneurs scalable solutions for their particular needs.

The truth is that the people of Puerto Rico want and need jobs. I believe small businesses will be the driving force behind the island’s vitality. I commend Administrator McMahon for traveling to the island and hearing from small businesses. Understanding their challenges is vital to restoring economic growth. Assisting small businesses in Puerto Rico is not only good for entrepreneurs on the island; it is the right thing to do. We must remember that as citizens of the United States, Puerto Ricans have fought, shed blood, and given their lives in nearly every major American war. We owe it to the island to provide them the help and resources to jumpstart their economy.

In the agriculture space alone, Puerto Rico can become the leader in organic, tropical, and specialty crops. It has a year-round growing season, abundant rainfall, and it abides by the same legal structure and regulatory standards as crops in the mainland United States. Their universities graduate over 18,000 students annually in engineering and technology. I want for those students, for those engineers, to have the option to stay in Puerto Rico. I do not want for them to face the reality that the only option they have for themselves and their families is to leave the island.

The potential to increase agribusiness in the often overlooked territory is wide-ranging. Leveraging the existing assets can be as simple as increasing education. In fact, last year, the Federal Reserve Bank of New York released a report on a small business sur-
vey in Puerto Rico and found that 19 percent of respondents cited a need for training on federal government contracts. To that end, I welcome the GAO analysis of the trends and challenges in the federal contracting space. I take very seriously the responsibility of examining the effectiveness of SBA programs, both nationwide and in Puerto Rico, and that is why I introduced H.R. 2488, the Puerto Rico Small Business Assistance Act. It comprehensively addresses the needs of small firms on the island by expanding lending, contracting, and entrepreneurial development services and resources to Puerto Rico. I hope we will have the opportunity to move it through Congress as the first step towards the revitalization of the island’s economy.

And let me make a last point. We owe it to the people of Puerto Rico to have a final resolution to the political limbo that they find themselves. Puerto Rico is a colony and we need to resolve that issue. But it is not for these members of Congress who happen to be Puerto Rican to decide what is the best political situation for Puerto Rico; that is up to the people of Puerto Rico. And so our responsibility in the U.S. Congress is to provide for a fair, open, inclusive process that will allow for the people of Puerto Rico to resolve that issue once and for all.

And with that, Mr. Chairman, I yield back. Thank you.

Chairman KNIGHT. Thank you very much.

And I would like to say welcome to the chairman of the full Committee, Mr. Chabot is here, and we started off the day with the SBA secretary. And it was a nice morning, and she has got a lot of energy and is doing a great job so far.

So if Committee members have an opening statement prepared, I ask that they be submitted for the record.

I would like to take a moment to explain the timing. I think that both of our witnesses understand this, but you have 5 minutes. As the lights come on, you will be green until you get down to 4 minutes. You will go yellow and then you will go red. And when you get to red, either try to wrap it up or we will wrap it up. But it has been pretty easy so far, and both of you are veterans, so we are good to go. Okay.

Okay. I would like to introduce our witnesses today. Mr. Shear is a friendly face, been in front of this Committee many times. And our first witness is Mr. Shear, director of Financial Markets and Community Investment at the United States Accountability Office, or GAO. Mr. Shear has engaged with this Committee on a wide range of small business topics and having testified before the Committee on a number of occasions. We welcome you back today.

Our second witness today is Mr. Robb Wong. Mr. Wong serves as the associate administrator for the United States Small Business Administration Office of Government Contracting and Business Development. He recently rejoined the SBA in his role in March of 2017. Mr. Wong is responsible for overseeing more than $500 billion in total federal spending within the federal marketplace and ensures small businesses can compete for federal contracting opportunities. Mr. Wong is returning to his roots at SBA, having started his career there as an attorney with the Office of General Counsel and as SBA acting district director and counsel in the Lubbock District Office. We look forward to your testimony.
So we will start with Mr. Shear. And Mr. Shear, we welcome you back, and you have 5 minutes. Thank you, sir.

STATEMENTS OF WILLIAM SHEAR, DIRECTOR, FINANCIAL MARKETS AND COMMUNITY INVESTMENT, UNITED STATES GOVERNMENT ACCOUNTABILITY OFFICE; ROBB N. WONG, ASSOCIATE ADMINISTRATOR, OFFICE OF GOVERNMENT CONTRACTING AND BUSINESS DEVELOPMENT, UNITED STATES SMALL BUSINESS ADMINISTRATION

STATEMENT OF WILLIAM SHEAR

Mr. SHEAR. Thank you very much.

Chairmen Knight and Brat, Ranking Members Murphy and Evans, and members of the Subcommittee, and I also have to add that I am very honored that Chairman Chabot and Ranking Member Velázquez are also in attendance.

I am pleased to be here today to discuss, first, trends in small business contracting and the use of SBA programs in Puerto Rico that provide contracting preferences to small businesses, and second, stakeholder views on any challenges that small businesses in Puerto Rico face in obtaining federal contracting opportunities.

First, in discussing trends in small business contracting, we use nationwide statistics as a reference point. For fiscal years 2006 through 2017, a higher percentage of federal contracting obligations was awarded to small businesses within Puerto Rico for contracts performed there compared to the percentage for small businesses nationwide, particularly in the last fiscal years of the period. In fiscal year 2016, small businesses in Puerto Rico received about 47 percent of federal contracting obligations to Puerto Rico, compared to 23 percent of federal obligations awarded to small businesses nationwide.

As our mandate directed, we evaluated the utilization of four SBA programs that provide contracting preferences based on socioeconomic designations that can help small businesses obtain contracts. Of the four SBA programs that provide contracting preferences, a higher percentage of obligations was awarded in Puerto Rico through the 8(a) Business Development program, compared to the HUBZone, women-owned, and service-disabled, veteran-owned small business programs combined. More generally, full and open competition and the 8(a) program were the most prevalent basis for awards, and I certainly hope in Q&A we can talk about the success in full and open competition. I think it is a major point from what we found.

In June 2016, for its HUBZone program, SBA eliminated the cap on qualified census tracks for Puerto Rico and nationwide. Nearly all of Puerto Rico now qualifies as a HUBZone. We found that the number of applications submitted to the HUBZone program increased in Puerto Rico after this expansion. The number of certified HUBZone businesses in Puerto Rico increased from 25 to 40 for the first 6 months of fiscal year 2017.

As to our second objective, stakeholders GAO interviewed identified several challenges small businesses in Puerto Rico may face in obtaining federal contracting opportunities. Challenges identified include a lack of knowledge about the federal contracting process,
difficulty meeting procurement requirements, and difficulty accessing bonding, financing, and capital. Many of these challenges are similar to those we had identified in a 2012 report on challenges faced by small, minority-owned businesses in obtaining federal contracts. In our discussions with SBA, DOD, GSA, and VA, the officials identified examples of conducting outreach, providing training and seminars, coordinating with local organizations, and other efforts intended to help Puerto Rican small businesses obtain federal contracting opportunities.

Chairman Knight and Brat, Ranking Members Murphy and Evans, this concludes my prepared statement. I would be happy to answer any questions.

Chairman KNIGHT. Thank you very much.
And we will go to Mr. Wong for your 5-minute opening statement.

STATEMENT OF ROBB N. WONG

Mr. WONG. Good morning. Esteemed members of Congress, on behalf of the U.S. Small Business Administration, our inspirational administrator, Mrs. Linda McMahon, and the longstanding and dedicated team in the Office of Government Contracts and Business Development, thank you very much for the opportunity to meet with you today.

At SBA, Mrs. McMahon has encouraged us all to be efficient, effective, and customer-centric in executing our responsibilities; and so I will try to do that right now.

Our team has previously provided a much lengthier testimony that I understand is already included in the record. Therefore, instead of repeating something that you may have already read, I want to focus on your questions about SBA and how we can best serve the people of Puerto Rico. I will do my best to provide meaningful responses to you today or, if necessary, I will get the response to you as soon as possible. I look forward to working together so that the SBA can continue to help strengthen small businesses and to improve the opportunities for them.

I respectfully yield back the balance of my time, and I am ready for your questions.

Chairman KNIGHT. Mr. Chairman, my witnesses used 6 of their 10 minutes. This should be an example for what witnesses come in and yield back time.

I think that everyone has got many questions for what is coming. And I have read through the report and it is interesting. But I want to go to Mr. Shear on a couple of the things that you said.

One of them, and we see this with small businesses, whether it be in Puerto Rico, whether it be here in the States or wherever, access to capital and the requirements to go through to get what you need to do to expand your business and expand the ability to contract and make your business bigger is all part of what you are trying to do, and it is very difficult. It is very difficult for small businesses to kind of work through that system and to make sure that they can dot all the I's and cross all the T's.

So as you said in your opening statement, you want a little time, so I am going to give you a little time to go through that, and then I will shut you down because I have got other questions.
Mr. SHEAR. Okay, thank you. First, I am very glad that you asked questions about the challenges. And I will also make reference to Representative Chu as one of the requesters of our 2012 report addressing challenges. And what we find many times is that—as the Small Business Act and all the tools available recognize, and I think SBA and other agencies recognize—there is a need to reach out to small businesses to help them access the federal marketplace.

So what do we have? SBA has its Procurement Center Representatives that are intended to try to look at contracting and to try to develop contracts that are more accessible to small businesses. You have offices of small and disadvantaged business utilization that are part of the federal framework across 24 agencies to try to reach out, to have matchmaking events, things of that nature. You have the Department of Defense that funds PTACs to provide assistance and the regional centers that basically reach out to have matchmaking and other events. But what we find is that it is very difficult to get into the federal marketplace, and many times it can take small businesses years of concerted effort and working to get access to contracting officials and of getting the right types of financing to do that. So we found very much the challenges identified in Puerto Rico are very similar. There are a couple of others that had to do with building standards and past performance on contracts, but for now I will end there. I am happy to address follow-up questions.

Chairman KNIGHT. Mr. Wong, we talked to Mrs. McMahon this morning and we talked about WBCs and SCORE and all kinds of things that SBA does or performs that help small businesses. Can you kind of help us out with that, of how small businesses have the abilities and the different agencies to help them, and sometimes that they might not know what is out there to help them and how we can reach out to them?

Mr. WONG. Thank you very much for that question. This is actually an industry that I was in immediately prior to coming here. And one of the things I would just say is that one of the main challenges, particularly with a lot of the set-aside programs that we offer, there is a misperception, I believe, that having the license itself is going to be the key to the future. Sadly, it is not. I wish that it were so, but sadly it is not. It is an amazing tool to help. But there is no shortcut to educating and being an educated business so that they can learn about the federal procurement process. Something as simple as understanding what they can sell and being able to announce that to a client very clearly. Some of the things that I tell businesses when I have done this through SBA training, you know, first and foremost, do not lead with your certification, lead with quality. And tell people very simply what you are very good at. That will start a conversation.

My secret weapon used to be I could tell you something that this is what I do very well in 15 seconds, and then you lean in and say, but what are three things that you need and how can I help? And I guarantee you that that will start a conversation.

So what is the answer that SBA can do? We can teach those things to the small businesses. We have those resources available.
I believe that we have up to 20 resource partners located in Puerto Rico that have all sorts of different ways that people can educate people about the federal procurement process, as well as how to do business and how to grow your business.

Chairman KNIGHT. And I think that is one of the challenges, is getting out the information of what SBA does and all of the resources that SBA has. And sometimes businesses do not think of that. They think of, well, how do I get from A to B, and I have got to do it myself instead of saying there are resources out there that can help me. And sometimes that is an education issue. Sometimes that is just an advertisement of us telling you, hey, there are resources out there that can help you on these challenges.

I am out of time, so I am going to now ask Ms. Murphy for her questions.

Ms. MURPHY. Thank you, Mr. Chairman. And thank you to the witnesses for being here. It is great to see you again, Mr. Shear, and nice to meet you, Mr. Wong.

I would like to start with something that I mentioned in my opening statement. GAO concluded that 47 percent of federal contracting awards to be performed in Puerto Rico go to small firms, which is twice the national average. That is encouraging but it obscures a larger problem, which namely is that Puerto Rico receives relatively few federal contracts compared to the States, and 6 of the 10 of those awards are made to off-island firms. Do you have any views on why this is the case?

Mr. SHEAR. We find that the number that you reference is a fairly high share, but it is hard to say what a fairly high share is, like we refer to nationwide as a reference point. We really do not have a benchmark. What I will point out, which I think is trying to be informative here, is we have in the appendix to our underlying report State by State and territory by territory, how those contracts break out. And so you will see a wide range of variation. But as far as contracts performed elsewhere and what we found, we focus on contract obligations. We are looking at dollars. And what we find is those dollars that are going to small businesses are, for the most part, going to small businesses that are located in Puerto Rico; in terms of the contract obligations, going to small businesses. We focus on contract obligations. So in that sense you could say they are doing fairly well.

As far as how big is the base in terms of how much contracting is going on that is performed in Puerto Rico, we do not address that question. But one of the things that we observe is that that total has actually declined over time, over the last few years. One of the reasons the small business share went up since 2012 is just because the denominator fell as far as the total size of contracting, but I think our findings point, to some degree, some successes of small businesses in Puerto Rico of being able to compete for contracts.

Ms. MURPHY. Great. And my next question is for Mr. Wong. The GAO reports that the federal agency use of the 8(a) contracting program is higher in Puerto Rico than other SBA designations. You also reported that certified small businesses receive more contract opportunities through full and open competition than the set-asides. This nullifies the effect of any certification and price pref-
ference. Given the recent increase in HUBZone eligibility, is SBA advocating for federal agency use of HUBZone contracting preference to the same extent that they are for the 8(a) program?

Mr. WONG. With respect, Congresswoman Murphy, I am not sure, but it would match my hope. I am responsible for four programs and I want them all to do well.

Ms. MURPHY. Well, how are the other contracting programs doing given the high number of eligible veterans and women-owned businesses on the island?

Mr. WONG. That is a good question. I think first and foremost, if I can explain some of the differences between the programs. Our first program and our priority program, in my opinion, the longest standing program, has been the 8(a) program. It is so old that I actually helped to write some of the regulations in 1990. So, it has been a tried and true vehicle and I think that what we are trying to do, I think that every other program is basically based off of that program. It has been around the longest so it is not a surprise to me that it does better than others. But I think that my personal belief is with the HUBZone program, I think that it is an equally strong program. We have to do a better job of highlighting a lot of its capabilities because I think that it has the potential to have equal, if not wider, effect.

Ms. MURPHY. And given the large number of veterans on the island, what do you think the SBA can do to increase the presence of veteran-owned small businesses?

Mr. WONG. I am sorry for missing that part of the question. We do have a service-disabled veteran-owned program. One of the things I wanted to say, though, is that compared to the 8(a) program, the 8(a) program is a program that we internally have to approve. It is an analysis process. It is an eight-step analysis process to qualify for the program. The service-disabled veteran program is a self-certification program. So in that regard, we have less to do with the certifications. I do not know why more companies may not participate in that, but if they do both are qualified to do contracts. Again, it does go back to the number of contracts, the number of opportunities really is based upon the firm's ability to go out, market, and to find contracts.

Ms. MURPHY. Great. Thank you both. It looks like I am out of time so I yield back.

Chairman KNIGHT. Thank you, Ms. Murphy.

And we will go to Chairman Brat for his questions.

Chairman BRAT. All right. I was going to ask a certain set of questions more narrowly targeted, but then you guys got my economic juices going.

James Madison is from my country and Adam Smith is overseas a little bit. And if you follow those two, together you might get sustained economic growth over the long run. And so we are all talking about economics, and we want the best for everybody, and in my reading of economic history, a society has to choose a free market system or you will not get growth.

And so I heard you mention a few themes that struck my ear. Central governments do not work too good. We set up a control board. Control boards do not have a good history of producing long run, sustained economic growth. You said you need to lead with
quality, and that caught my ear. That is good, right? And you have
got to lead with quality that is demanded by somebody, right? And
so we are all struggling right now to compete, right?

The Indian economy is doing well. The Chinese economy has 2.5
billion people. They are now globally competitive. We are asleep at
the wheel growing at 1 percent last quarter, et cetera. And it seems
to me we all need to capture this free market logic. So I just kind
of want to hear your comments.

I worked at the World Bank about 25 years ago and they
propped up every economic variable except the one that mattered;
right? They were concerned about secondary education, caloric in-
take, infrastructure, the environment, et cetera. But if you do not
choose a free market economy in the first place, you can invest in
all those secondary variables and you will not get good perform-
ance.

And so when you said you have got to educate small businesses,
how is it going? And you also have to think business is morally
good. If you think business is morally bad and you are trying to
educate small business that this is the way forward, I am just in-
terested in both your commentary on how are we doing on edu-
cating that there is some hope that people want to get in this small
business entrepreneurial space.

And Mr. Wong, sorry for the liberal arts sermon, but what have
you got for me?

Mr. WONG. Congressman, that is okay. I am a liberal arts major
myself. Do you know what the great thing about that is? What they
teach you in liberal arts school, it does not teach you anything like
a trade school, but what it teaches you, I learned, is not to be
afraid of new things, right? Within 1 to 2 weeks, if you look at a
5-credit course and a 3-credit course, take 1 to 2 weeks and you
will be able to learn anything. So it teaches you the wide and the
depth. So I will take a liberal arts education from anybody all the
time.

My feeling is this, and I do not mean to sound critical, but I be-
lieve that it is the analogy that you can lead a horse to water, but
you cannot make him drink. We can provide the resources. We do
not have the authority to make people learn, but the best thing
that we can do, we can advocate. And to that degree, I think I have
given 11 lectures within 4 months. I have been traveling constantly
trying to educate people and tell the new things that we are trying
to do. Overall, I am trying to take our programs that are a little
bit dusty and I would like to make them simpler to apply for and
much more effective to use in 2017 and beyond.

One of the things that I cannot do is I cannot force people to be-
lieve me. I cannot force them to take the courses, but I can make
them available. So, what I do try to do, as an example, I try to be
a little bit different. So, for example, when I speak, I give out my
email address and I give out my phone number. And I return every
single email and I return every single phone call. Hopefully, by
demonstrating, leading by example, it shows that I am going to be
different. But at the end of the day, as you are saying, not every-
body believes what you and I believe. But we can certainly try to
help them.
Mr. SHEAR. I do not want to repeat what I just said before about challenges and the need to outreach, and Robb Wong just gave a very good answer as far as addressing that issue. But I will just say that I do not know if you are trying to wind me up or not. As it happens, I am an economist with a Ph.D. in economics, so I can get carried away with these issues.

So at any rate, the one issue that I will raise, and I think it is very pertinent to this hearing and to the expansion, the elimination of the cap for qualified census tracks, is that going back to 2008, I testified before this Committee on the HUBZone program. I said it is a pretty complicated program. It is an economic development program meant to serve depressed economic areas. And really what is needed is an economics framework to evaluate how well that program is working. That was one recommendation from that report that SBA did not implement. And I think we are still in a situation where we are trying to say, how can you use the HUBZone program to try to increase opportunities for low-income areas, whether they be in Puerto Rico or elsewhere, or to help to encourage small businesses that are located in depressed economic areas? And I think that is part of what is kind of missing here in terms of how to move forward with that program.

Chairman KNIGHT. Thank you, Chairman. I give out my personal cell phone, too, and as a congressman that is a thrill. Every day, let me tell you. Responding to those texts I get every day. But it is part of leadership, being there and being available. You are right, you can lead a horse to water, but you cannot make him drink. A thirsty horse will drink, and businesses that do not know about the resources do not know, but if you show them the resource, they will use it. And so I think that that is a big part of this. And we talk about this in small business all the time. If something is not working, stop doing it. And either reverse course or change course or do something else to make sure that your business can be successful. And if you do not have the resource, that is what we are trying to get you to. Some people know something other than you and the resources can help you. So I think that that is a big part.

Mr. Evans, we will go to you for your 5 minutes of questions.

Mr. EVANS. Thank you, Mr. Chairman.

Mr. Wong, it appears that some businesses in Puerto Rico have trouble meeting certain procurement requirements. From your experience, do you feel that these requirements need to be modified in terms of location specific?

Mr. WONG. Congressman, if you could be more clear it would be helpful.

Mr. EVANS. Basically, my understanding from listening is the question about procurement requirements, and the question is, particularly for the island of Puerto Rico, should they be modified relating to specifically Puerto Rico because of the location?

Mr. WONG. Well, at this point I would be hazarding a guess. I probably would want additional information. But in general, this is the way that I would look at things. If you do not have a result that you like, you have to look at what the potential causes are. So the procurement requirements could mean a thousand different
things to me, and I apologize, I am a lawyer by trade so, you know, I make things difficult for myself.

But in general, one of the things, I think that you might asking is, you know, part of the thing that we are dealing with in federal procurement is a changing environment. For example, with 8(a) set-asides, there were lots of them because there were not very many competitive vehicles. What happens when you make a rule or a law? People start to pivot. People start to become tactical, right? People get smarter, right? And people start changing their behaviors.

So where we are in procurement right now, one of the things that I think that we are talking about is bundling and we are talking about category management and making things more condensed. The problem is that what happens is that makes it more difficult for small businesses, and particularly newer small businesses, to compete.

So one of the resources that we have with SBA is the PCRs. And we work in tandem with the OSDBUs. Are you familiar with them? Okay. So the OSDBUs, the analogy that I would look at is, they go into that $500 million federal spend and they do the dirty work. They do the enforcement. They go in there and they grab things for small business and they fight with their agencies. And the PCRs fight with their agencies to make sure that small businesses get their share. And I am proud to say that we have achieved the 23 percent goal for at least 4 years running. Can we do better? We are analyzing that, and I always think you can do better. But it is going to take some analysis first.

Mr. EVANS. I want to go to Mr. Shear and then what I want to do is sort of come back to you because I really would like a yes or a no on the modification of the location. I heard what you just said but this is what I want to say, Mr. Shear. If you were on the ground in Puerto Rico on a day-to-day basis, what type of advice would you give to officials there who would like to increase the number of small businesses to engage with the SBA? Hearing what Mr. Wong said and understanding what we are trying to accomplish in terms of procurement to achieve a certain objective, I am interested in your reaction, your comments.

Mr. SHEAR. Let me go to a very specific case that we found based on our work in Puerto Rico that gets to very much the role of PCRs.

Very relevant to that. There are different building standards in Puerto Rico than there are in the 48 States. And the question is, so you have small businesses, construction businesses in Puerto Rico that feel that they are being disadvantaged because their construction standards are different than mainland standards. So, for example, SBA acknowledged that can be a problem. GSA, one of the three contracting agencies that we met with said that they try to strike a balance between what is appropriate for the territory with the requirements that tend to be part of kind of like the cloth that they come out of. But this is, to me, is like regardless of where the PCRs are located, whether they be in Boston or they be in Puerto Rico, this, to me, is begging for involvement by PCRs to try to look at are there ways that we can come up with changes in requirements for construction contracts that make sense for
Puerto Rico and expand opportunities for small businesses in Puerto Rico to compete.

Mr. EVANS. That is the key point I am making because I do not have much time. So did I hear you say that you think it should be modified?

Mr. SHEAR. I am saying that GSA in particular said we try to modify, but this is really a role for PCRs to ask are they modifying? How much are they modifying? How engaged are the PCRs from SBA in terms of looking for opportunities? We did not have the chance to drill down exactly what are the PCRs doing in Puerto Rico? We could observe where they are located, but this to me would represent a real opportunity. It seems that PCRs, if they are not heavily involved now, they should be heavily involved.

Mr. EVANS. Thank you, Mr. Chairman. I yield back the balance of my time.

Chairman KNIGHT. Thank you very much.

And we will now go to Mr. Kelly for his questions.

Mr. KELLY. Thank you, Mr. Chairman and the ranking members, for this important hearing.

Over my 32-year career in the Mississippi Army National Guard, I have had the pleasure of serving with many soldiers from Puerto Rico National Guard. As citizen soldiers, many of these men and women that I have served with owned small businesses in Puerto Rico. Starting with basic training in 1985 and the officer basic course in 1989 and Iraq in 2005, let me just tell you, Mississippi and Puerto Rico are a lot alike. We are very patriotic. A larger number than usual serve in the military services. So that being said, I think there is a lot of similarities and we both are poorer States or areas.

So Mr. Shear, in your testimony you state that stakeholders are complaining of a lack of access to agency contracting officials. I know how hard it can be, being from Mississippi, for service-disabled veterans from rural areas to connect with government officials, like federal contracting officers. Can you talk to me about what the SBA, the Department of Defense, and VA can do to increase access to service-disabled veterans?

Mr. SHEAR. Thank you for the question. I will start out first with VA is one of the three agencies that we interacted with because it is one of the three agencies that conduct the most contracting activity in Puerto Rico: the VA, along with GSA and DOD, obviously. VA has different statutory provisions, and what is often called Vet First for its contracting, and VA for its own contracting you have to have verification. So what I can observe from other work we have done for this Committee is that VA works with the PTACs, the Procurement Technical Assistance Centers, in trying to reach out to the veteran-owned small business community and the service-disabled, veteran-owned small business community.

And again, on this work, we did not have the opportunity to drill down exactly what they are doing in Puerto Rico, but this gives a certain framework for certain things that are going on in the VA contracting space that is leading to greater opportunities for service-disabled veterans to participate at least in VA contracting. And I would hope that with the veteran centers, whatever interactions there are with these other tools that are available through Small
Business Act provisions such as the PTACs, that SBA would explore looking for greater opportunities. I realize that they are already doing some, but I would hope that they could explore doing more.

Mr. KELLY. And I just think that is so important. Listen, these guys choose to serve our Nation, and I think they ought to get a leg up and be ahead of everybody else because they have chosen to serve this Nation and their patriotism.

Mr. Wong, I think everyone can agree that Puerto Rico has some unique geographical and economic challenges, as Mississippi has some of those same economic challenges. However, I believe that some of the challenges of small business contracting that affect Puerto Rico also affect areas like Mississippi. Only three agencies awarded contract obligations to firms in Puerto Rico and only three sector: manufacturing, construction, and professional services. Do you see this trend in other economically depressed areas, like Mississippi, as well as Puerto Rico?

Mr. WONG. With respect, Congressman, I am not sure at this point. I am still learning. I have been here 90 days, but it is something that if it is important to you, then it is important to me and I can take a look at it.

Mr. KELLY. Mr. Shear, do you have any comments on that?

Mr. SHEAR. I would just go back to what I just answered your previous question. Thank you.

Mr. KELLY. I thank you for saying. And Mr. Shear, you said at the very first, it was a program that I did not get it, I was not listening as well as I should have been, that you wanted to talk about the successes of. If you would address that in the last minute we have left I would appreciate it. In your opening comments you said there was a program that you wanted to talk about the success of.

Mr. SHEAR. I think one of the things I wanted to talk about was that you did have small businesses in Puerto Rico that, at least a fair number of them, that are successful with small business set-asides, outside of the four SBA programs, as being able to compete for small business set-asides and, also, competing in full and open competition. And to me that just points to the idea that there are at least some businesses in Puerto Rico that basically have found a way to manage even without preferences, or with just the small business set-asides in Puerto Rico. And hopefully, it means that if there is greater outreach by the agencies and other things that that could be something that could be leveraged.

Mr. KELLY. And with that I yield back, Mr. Chairman.

Chairman KNIGHT. Thank you very much. And we will now go to Mr. Lawson for his questions.

Mr. LAWSON. Thank you very much, Mr. Chairman. And welcome to the Committee.

Mr. Shear, we are all aware of the economic challenges that Puerto Rico has faced over the past several years. Do you think it could be helpful for GAO to study the impact that our overall economic market in the mainland U.S. has on the growth or the lack of growth of the Puerto Rico economy?

Mr. SHEAR. I feel like, I want to become an economics professor again, but I would just say that you raise a very good issue. And I think probably the best thing to do in response to that issue,
which happens with Committee staff all the time, which is there are ideas for GAO work and I and others on our team are always glad to come up and talk about work you might be interested in. So it sounds promising, but beyond that I am not that good at thinking on the fly.

Mr. LAWSON. Okay.

Mr. SHEAR. Okay.

Mr. LAWSON. My next question was, as you know, there are more small businesses in this country than any other type of business, and these businesses provide large support for the local economy. It appears that SBA has worked at its fully capacity in support of small business in Puerto Rico, particularly with regard to contracting. Can you describe SBA’s past effort in Puerto Rico, as well as SBA plans moving forward to build a stronger small business industry?

Mr. WONG. In Puerto Rico, sir?

Mr. LAWSON. Yes, sir.

Mr. WONG. I am unfamiliar with the efforts with the agency prior to PROMESA, but I do know that after PROMESA we are doing everything allowed under the law to maximize the participation of Puerto Rico firms, for example, for HUBZones. Mrs. McMahon has made this a priority. She has gone down to Puerto Rico for a week. She is debriefing me on the issues. Her priorities are my priorities, and so I am thankful for today’s meeting. I am taking a look at the strategies that we employ. I am looking at the education that we can provide. And I am looking at the outreach that we could provide as well. If what we were doing previously is not meeting with satisfaction, then I am looking for ways to improve that.

Mr. LAWSON. Okay. And from my research on some of the economic issues with Puerto Rico, it seems that Puerto Rico has a lack of access to a lot of resources, including agency officials’ knowledge, financing, and adequate communication with SBA. And I guess this might have a little bit to do with your statement about you can take a horse to the water, but you cannot make them drink. And so with that disconnect, how do you think that can be improved in order to guarantee full accessibility to SBA resources?

Mr. WONG. And let me please clarify, I did not mean that at all in a disrespectful or pejorative way. I know Janette Fasano, who is the Area Director for Puerto Rico, and I know that she does a great job. She has been with the agency for forever. I know that we deal with issues and I think our district office down there is bilingual, so we know we have the capability. And if that is not true, that is something easily that we can fix. You have my commitment that I will look into that. I apologize.

But again, I am still in the analysis phase of what we can do. If this will help, what I used to do is I used to help fix businesses, and what I tend to look at is their processes and their procedures and things like that. And in this case here, if we are looking at a specific market, then I am going to take a look at that as a business person and I am going to see what is working, what is not working, those things. To Chairman Knight’s admonition, if it is not working, we are going to stop doing it. But I do believe that going forward we can always make improvements.
Mr. LAWSON. Okay. Thanks for your answer.

Mr. Chairman, just before I yield back, I was talking about a business roundtable that I did in Jacksonville, Florida, and it still is a lot of disconnect, especially in a minority community in the U.S., and I can imagine what the disconnect might be from the distance of being in Puerto Rico and that is some gap that we ought to fill.

With that, Mr. Chairman, I yield back.

Chairman KNIGHT. Thank you very much.

And we are going to,—well, I am going to take a little latitude and I am going to give Ms. González-Colón a little extra time if you would like, and we would like to hear from you.

Ms. GONZALEZ-COLON. Thank you, Mr. Chairman. And I want to really thank Chairman Chabot and Ranking Member Velázquez and the chairmen of the Subcommittee and ranking member for allowing this hearing today regarding the island.

As you may know, the situation of the economic crisis in Puerto Rico, it is very important to fix, and having small business empowered to do that I think is the key to solve part of that situation. So thank you again to the members of the Subcommittee and the Committee for having this hearing. And thank you, Mr. Shear, for having been in my office for more than 2 hours discussing these same aspects of the methodology of the report that you are issuing regarding the SBA.

As you may know, I have got a lot of questions and a lot of recommendations. And one of them is the continuous situation with contracting bundling and assuming most of the contracts there have been awarded to companies on the island are in the lesser amount. Most of them have already been rewarded or the requests for proposal are not directed from the district office. They have already been requested from Washington, D.C., or an original office in the States and not in Puerto Rico. So when the award is already granted, even the local office, they never know what is going on between that process.

That is the official process to award those kinds of contracts with small businesses? I know we got 2 weeks ago SBA administrator Linda McMahon, and I was so happy we got a lot of roundtables with her, with the SBA, with the private sector, with the lending sector on the island. But we think we should improve the way Puerto Rico businesses are making contracts directly for their government. I want your input on both ideas and I have got other questions.

Mr. Wong? Contracting bundling.

Mr. WONG. Yes. The contracting volume, as I look at this, and sometimes I think it helps to be new to the process. So the tool that SBA has is again to advocate. So, for example, with Puerto Rico being the priority for Mrs. McMahon, there are two things that we can do. We can certainly help to improve our programs so that they will increase education and outreach and things like that going forward to Puerto Rican small businesses.

The other thing we can do in terms of contract volume is, again, using the PCRs, and also here in Washington, go to, some of the procuring activities and highlight the importance of Puerto Rico; ask them and advocate to them that when thinking about Puerto
Rico maybe should not bundle as much. And if I could work with you to help to announce the concerns that you have. I mean, at the end of the day, contracting officers, PTACs, OSDBUs, they are all people. I get an opportunity to meet them and they are very nice. But I am very persuasive.

Ms. GONZALEZ-COLO´N. That is good to hear. And I will tell you, in that matter, that we filed H.R. 2429, which is a bill, a bipartisan bill that has a lot of ideas regarding small business on the island. And one of the ideas is having on the island a full-time procurement center. We do not have that. So if we got a procurement center based on the island, I think that may improve the situation we are having. The same thing with the veteran outreach center in the island. And I want to thank Congressman Kelly for his statement regarding our people in the military. And that situation, our people in the military, they cannot even vote for the commander in chief, but we do serve proudly, but we do not have even a veteran outreach center for SBA. That, I request for you that you take a look at H.R. 2429. It has got a lot of provisions regarding SBA.

And there is another bill that we filed and that bill is bipartisan. Actually, the ranking member is a cosponsor of that bill. And there is another bill, H.R. 2488, which has similar amendments and try to fix those problems we are having. For example, and I do not know if the chairman is letting me have—thank you.

One of the situations we had with the SBA administrator 2 weeks ago, there was a vet owner, an IT contractor, highly experienced with excellent references, and what happened is that contractors from the mainland win prime contracts only to turn around and subcontract them. And that is happening all over again: IT, communications, construction. So if they even have a lower bid and they are going to be the final of the process doing the job, that contract went for $1.7 million and his original bid was $900,000. So what is going on? The bid has already been awarded in D.C., not in the district or not in the regional office. And those are the kind of things that are happening every time, not only in Puerto Rico, but I think in other territories.

With this situation, I do not want to extend the indulgence of the chairman of the Committee, but I do want to have SBA and the panel to come up with new ideas in terms of having pilot programs being implemented on the island regarding this. And we discussed that in our meeting, Mr. Shear, and I know you are very committed to this, and identify prime contractors located on the mainland—I am sorry, local contractors on the island can compete against contract bundling. So we need to fix that problem at the source.

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

Chairman KNIGHT. Thank you very much. And we will now go to the ranking member of the full Committee, Ms. Velázquez, for her comments.

Ms. VELAZQUEZ. Mr. Chairman, if I could ask that Ms. Chu be recognized before me because she has been there waiting. Thank you.

Chairman KNIGHT. Absolutely. We will go to Ms. Chu for her questions.
Ms. CHU. Well, actually, I would like to just ask one question, then yield to Ms. Velázquez.

And my question is on language barriers. I saw that stakeholders that were interviewed by GAO identified that language was an issue facing small businesses on the island and it may hinder the ability of these firms to complete the applications, to become certified, or to access the opportunities once certified. So, actually, I wanted to ask Mr. Wong, given that we have seen that agencies like the General Services Administration successfully staffed their Puerto Rico office with bilingual staffers, why does SBA struggle to hire an appropriate number of bilingual staff members in the Puerto Rico district office?

Mr. WONG. Thank you for that question, Madam Congresswoman.

All I can tell you is that now that I know that that is the issue, I will do my best to fix that. I think that language barriers is something that should—I agree, that should not be an issue in 2017, and that has been a failure in our office and I will do my best to rectify that.

Ms. CHU. That is good to hear.

And now I would like to yield to Ms. Velázquez.

Ms. VELÁZQUEZ. Thank you, Ms. Chu.

Mr. Wong, Ms. Murphy asked a question earlier about veterans and I want to follow up. There are many veterans on the island who have and still are fighting American wars. What specific resources are present on the island dedicated to meeting veterans’ needs for contracting, lending, and technical assistance?

Mr. WONG. I will be honest with you; at this point, if you are asking for specific resources, I do not know them, but I can certainly educate myself on them and be prepared next time when you ask that question.

Ms. VELÁZQUEZ. Well, Mr. Wong, it is really disappointing that you come here, and I know you have been in the job for 90 days, but this issue from PROMESA was enacted a year ago. And so you are going to come here and you will not have information to provide to me. You know, this is an issue that is too important for American citizens who live in Puerto Rico. For veterans, who even are willing to make the ultimate sacrifice for this nation, that is an unacceptable answer.

And on the issue that Ms. Chu raised, I do know that GSA has bilingual staff all the time in Puerto Rico. We cannot say the same with SBA, and I want and I beg for the SBA to really address this issue because it is important. You just made a reference about taking a horse to the water and teaching them, but if you teach them in a language where they cannot comprehend, then what good does it do?

I do not want for the people of Puerto Rico, American citizens, to be given preferences. I expect fairness. And when it comes to prime contractors, most of those prime contractors are from the mainland, and then they are going to sub, provide subs to people in Puerto Rico who will perform the jobs. That is not right. When contractors in Puerto Rico come to Ohio and develop public housing for the federal government with federal funding, but they cannot
do the same in Puerto Rico, that does not make sense. So we need to address those issues.

And then we need to have—I would like Mr. Shear, to tell me what nonlegislative fixes can be done that will help the people of Puerto Rico and the small businesses on the island based on your research, based on your communications with GSA, veterans, DOD.

Mr. SHEAR. I think there has to be a lot of focus, first of all, on just the small business community. And, you know, I have had the pleasure over the last month or so of meeting, Robb Wong, and he is showing an interest in looking into the situation, but it is something that I point to. I do not mean this to be marketing a request, but we have not looked at the role of PCRs in a number of years, generally, much less in Puerto Rico. And the question is, what is the involvement of the PCR in trying to improve opportunities?

We are looking at what lessons can be learned about the use of small business set-asides? What can be learned about just generally as far as outreach and working—I know that SBA works with what I call the OSDBUs and DOD’s Office of Small Business Programs, but the question is that the level of commitment, it just is not that clear. So I am glad it is at least on Mr. Wong’s agenda to be looking into this situation.

Ms. VELAZQUEZ. So let me just make it clear for the record. You know, I truly believe that the administrator, Linda McMahon, genuinely cares about what is going on in Puerto Rico, but there is a culture that we need to deal with within the SBA and many other federal agencies. And I can tell you and the people who sit on this committee will tell you that I have raised the same issue, whether it is a Republican or Democratic administration, I went after the administrator that was there for many years, in previous years, whether they were one or the other. We want to make sure that the resources are there to assist the small businesses and that we will do everything within our power to make sure that happens.

But Mr. Shear, in your testimony, you indicated that GAO analyzed data from the Federal Procurement Data System Next Gen. What data is not covered in FPDS that could be valuable to seeing the whole picture?

Mr. SHEAR. It is a really good question and it is a very difficult question. There are certain efforts to try to bring small businesses, reaching out to small businesses generally. Some of them deal with programs that work through subcontracting. Some of them work with mentor-protege programs. I will point to the pilot Mentor-Protege Program that DOD has where we have raised issues as far as the lack of measures of how well those programs are working. But you are asking a very good question where I do not really have a good answer for you, but those are some of the things that come to mind.

Ms. VELAZQUEZ. Do you agree with me that maybe it does not really reflect the real scope of what is going on in Puerto Rico when it comes to federal procurement?

Mr. SHEAR. I think that we were focused on contracting obligations, which I would argue that we were focused on the right thing. It is what revenues are being generated for small businesses in Puerto Rico that can help them succeed and can help facilitate eco-
nomic development. So I think we were focused on the right things, but there are other things that are going on, part of the dynamic that would include subcontracting which we did not look at and some other aspects that I think would be important to look at. And then the more general question as far as how do agencies decide what should be procured for performance in Puerto Rico, and that is something we did not look at.

Ms. VELAZQUEZ. Thank you.

Mr. Wong, going forward, are you planning to make sure that there is going to be all kinds of events that will provide information in terms of federal procurement with the different agencies? What kind of things are you planning to do to make sure that we provide a level playing field for businesses in Puerto Rico to be able to compete and win? Win contracts that are not only subs, but prime contracts?

Mr. WONG. Thank you for——

Ms. VELAZQUEZ. Such as the FBI building that is being built in Puerto Rico and where there were a lot of Puerto Rican contractors that bid as prime contractors, but none of them, even when Ms. Gonzalez explained the case of someone who bid with a lower number, and yet not even that gave him an opportunity?

Mr. WONG. Thank you for the question, Congresswoman.

If I could go back. I apologize for going backwards, but I just want to let you know, my own wife is not a native English speaker so I am very sensitive. When we met, I proposed to her on our first date. We just hit 20 years of marriage, but one of the things that I did was I had to educate myself. I took 8 weeks of a 12-week Japanese course just to be able to ask for her hand in marriage, so I am very sensitive to the needs of people who are not English speakers, and I apologize if my first comment was taken as pejorative. It certainly was not.

As for the veterans, we have one individual in our office who I believe is an American hero. On Memorial Day, he said that he had to say goodbye to 34 of his friends who were killed in action in his unit. I see him every day and I try to get to know my staff very, very well, and that has affected me. So veterans are extremely important to me. I see them.

I like police officers and firefighters. When there is danger, we run away from danger. When they see danger, they run to it. That is a job that I would not ordinarily accept, and I applaud anyone who has done that, and I have deep abiding respect for anyone who has lost their life. So in that regard, you have my sincere commitment to address those problems.

As to your last question, my job is to represent all businesses fairly. By the same token, when Mrs. McMahon has made Puerto Rico a concern and a priority, and I understand the concern raised in your testimony as well, my commitment to you is that I will analyze and I will evaluate, and if there is a need, if we could work together to do this, I believe that we can work together and address your concerns.

Ms. VELAZQUEZ. Thank you. I yield back, Mr. Chairman.

Chairman KNIGHT. Thank you very much.

Well, as this hearing comes to a close, I would first like to thank every Committee member for being here. And I would like to recog-
Chairman BRAT. Thank you, Mr. Chairman. And to our guests today, thank you all for being here.

I am going to yield my time to Ms. González-Colón for closing remarks.

Ms. GONZÁLEZ-COLÓN. Thank you, Chairman Brat, for letting me use your time and your leadership. First, I want to thank again, Chairman Chabot, Ranking Member Velázquez, and Chairmen Brat and Knight, and ranking members for having this hearing that is so important for the Puerto Rican community and businesses on the island.

Second, I think it is most important to acknowledge and recognize that under PROMESA, we are looking forward to have the tools to improve our economy. And those tools are going to be in the private sector. So if we do not have the small business area working in the right direction we will never accomplish that. In that area, the bundling contracting problems are I think one of the main issues. The second one, we do not have a veteran outreach center on the island, and that is one of the provisions that are included in H.R. 2429, and in H.R. 2488, both bills in this Committee.

Second, we need to have a procurement center on the island. I think that will solve a lot of the issues regarding the federal contracting situations that the island is facing, but it has got to be on the island, on site, not on the mainland, because we are facing that kind of problem.

Third, a similar situation that occurs with the SBA is occurring with the General Service Administration. Suppliers, such as HP, will win the contractor bid, a GSA supplier, and then simply subcontract local companies to do the hands-on service. And as a result, Puerto Rican companies will never get a chance to get listed as a contractor. And that is a problem we are having every time.

So I want to thank SBA Administrator Linda McMahon for her commitment and her leadership regarding and facing these issues. We discussed that. We had several roundtables. We even visited the VA Hospital in San Juan where she got the opportunity to see those same problems with veterans telling her directly the problems with the contracting services on the island, and I think the SBA now may face that in a more quickly way.

And a fifth point I may say regarding the General Contracting Office report, that I am leading an effort with the local SBA office for Puerto Rico and the Virgin Islands to improve and to make more seminars, more orientation and education to our businesses and to our people about the services of the SBA locally. And that includes an alliance with not only the universities or the outreach centers, but the 78 municipalities on the island. And we just began that process in July and it is going to be through the next year.

So I want to thank you again. And thanks to the chairman and the Committee for having this hearing. I yield back.

Chairman KNIGHT. Thank you very much.

And I want to thank our witnesses. Thank you, Mr. Wong, for your coming here today and willingness to understand and to work on some of the problems that we see today. And also understand
that we appreciate what Mrs. McMahon is bringing to the table and her enthusiasm and her commitment to small business. And we appreciate everything that you are doing.

Mr. Shear, we appreciate your report, as always, and your candor, in this Committee. It is always fun and interesting to hear your opinion on what is going on in the small business world.

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

Without objection, so ordered.

This hearing is now adjourned.

[Whereupon, at 11:26 a.m., the Subcommittee was adjourned.]
A P P E N D I X

United States Government Accountability Office

Testimony Before the Subcommittee on Contracting and Workforce and Subcommittee on Economic Growth, Tax, and Capital Access, Committee on Small Business, House of Representatives

For Release on Delivery Expected at 10 a.m. ET Thursday, July 13, 2017

PUERTO RICO

Information on Trends and Challenges to Small Business Federal Contracting

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

GAO-17-752T
PUERTO RICO

Information on Trends and Challenges to Small Business Federal Contracting

What GAO Found

From fiscal years 2006 through 2016, a higher percentage of federal contracting obligations was awarded to small businesses within Puerto Rico for contracts performed there compared to the percentage for small businesses nationwide, particularly in the last 4 fiscal years of the period (see fig.). In fiscal year 2016, small businesses in Puerto Rico received about 47 percent of federal contracting obligations to Puerto Rico (about $319 million out of $682 million) compared to 23 percent of federal obligations awarded to small businesses nationwide. Of the four Small Business Administration (SBA) programs that provide contracting preferences based on socioeconomic designations, a higher percentage of obligations was awarded in Puerto Rico through the 8(a) Business Development program compared to the Historically Underutilized Business Zone (HUBZone), Women-Owned Small Business (WOSB), and Service-Disabled Veteran-Owned Small Business (SDVOSB) programs combined.

<p>| Percentage of Small Business Obligations for Puerto Rico and Nationwide, Fiscal Years 2006-2016 |
|--------------------------------------------------|--------------------------------------------------|</p>
<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>15%</td>
</tr>
<tr>
<td>2007</td>
<td>20%</td>
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<td>2008</td>
<td>25%</td>
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<td>55%</td>
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<td>2015</td>
<td>60%</td>
</tr>
<tr>
<td>2016</td>
<td>65%</td>
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</tbody>
</table>

Stakeholders GAO interviewed identified several challenges small businesses in Puerto Rico may face in obtaining federal contracting opportunities. Challenges they identified included a lack of knowledge about the federal contracting process, difficulty meeting procurement requirements, and difficulty accessing bonding, financing, and capital. Many of these challenges are similar to those GAO identified in a September 2012 report (GAO-12-873) that small businesses in general face in seeking federal contracting opportunities. However, stakeholders indicated that some challenges may be exacerbated by Puerto Rico’s geography and economic conditions. Stakeholders did not identify any federal laws that have created unique contracting challenges for small businesses in the region. SBA and the three other federal agencies GAO contacted identified examples of conducting outreach, providing training and seminars, coordinating with local organizations, and other efforts intended to help Puerto Rican small businesses obtain federal contracting opportunities.
Chairmen Knight and Brat, Ranking Members Murphy and Evans, and Members of the Subcommittees:

Thank you for the opportunity to discuss small business contracting in Puerto Rico. The Small Business Administration (SBA) plays an important role in ensuring that small businesses gain access to federal contracting opportunities. It administers several programs in Puerto Rico and nationwide that provide federal contracting preferences to small businesses based on socioeconomic designations. Over 99 percent (about 44,000) of the businesses in Puerto Rico are small, but only a small number of small businesses in Puerto Rico participate in these programs.¹

Puerto Rico currently faces many economic challenges, including a government debt crisis. In June 2016, Congress enacted the Puerto Rico Oversight, Management, and Economic Stability Act to address Puerto Rico’s debt crisis and its fiscal affairs. The act includes a provision that GAO evaluate the application and utilization of SBA programs in Puerto Rico (including contracting activities of HUBZone small business concerns) and identify any provision of federal law that may create an obstacle to efficient implementation of such activities related to these programs. In June 2017, we issued a report on small business contracting opportunities in Puerto Rico.²

My testimony today summarizes the findings from our June 2017 report and addresses (1) trends in small business contracting and the use of SBA programs in Puerto Rico that provide contracting preferences to small businesses and (2) stakeholder views on any challenges that small businesses in Puerto Rico face in obtaining federal contracting opportunities.

¹Data are from U.S. Census Bureau’s County 2014 Business Patterns. This figure counts the number of establishments, which consist of businesses that may have headquarters established elsewhere. The Small Business Administration (SBA) establishes size standards, which are usually number of employees or average annual receipts, to represent the largest size that a business (including its subsidiaries and affiliates) may be to remain classified as a small business for SBA and federal contracting programs. The definition of small business varies to reflect industry differences. SBA considers establishments with fewer than 500 employees to be small for most manufacturing and mining industries and less than $7 million in average annual receipts for most non-manufacturing industries.

For our June 2017 report, we analyzed data from Federal Procurement Data System-Next Generation (FPDS-NG) to identify trends in the use of the SBA’s small business contracting programs in Puerto Rico. We also interviewed stakeholders such as federal agency contracting officials, industry associations, and economic development entities in Puerto Rico about any challenges small businesses in Puerto Rico face in obtaining federal contracts. Additional information on our scope and methodology is available in our report. The work this testimony is based on was performed in accordance with generally accepted government auditing standards.

Background

SBA administers several programs that provide socioeconomic designations to small businesses, including the four programs described below. Small businesses certified with these socioeconomic designations benefit from contracting preferences such as sole source contracts (awards are made without competition) and set-aside contracts (awards are limited to a designated pool of competing firms).

8(a) Business Development (8(a)) Program: The purpose of the 8(a) program is to develop small businesses owned by socially and economically disadvantaged individuals. Initial eligibility requirements include control and ownership of the business by one or more socially and economically disadvantaged individuals of good character and demonstration of potential for success. Upon SBA certification, the business may continue to participate in the program for 5 years if it meets other requirements.

Historically Underutilized Business Zone (HUBZone) Program: Congress created the HUBZone program in 1997 to stimulate economic development in economically distressed communities by designating certain areas, such as qualified census tracts, as HUBZones. To be eligible for SBA certification, a business must have its principal office located in a HUBZone and have at least 35 percent of its employees reside in a HUBZone, among other criteria. SBA updates HUBZone designations based on whether areas meet statutory criteria, such as


2Different rules apply for Indian Tribal governments, Alaska Native Corporations, Community Development Corporations, Native Hawaiian Organizations, and small agricultural cooperatives. See Title 13 of the Code of Federal Regulations, Part 126.
having certain income levels or poverty or unemployment rates. In June 2016, SBA announced that it had revised the definition of qualified census tracts eligible to be designated as HUBZones to provide additional opportunities for small businesses in Puerto Rico and nationwide to participate in the HUBZone program. As a result, nearly all of Puerto Rico now qualifies as a HUBZone (see fig. 1).

Figure 1: Historically Underutilized Business Zone (HUBZone) Areas in Puerto Rico before and after the Small Business Administration (SBA) Changed the Definition for Qualified Census Tracts in June 2016, as of June 2016

Before

![Before HUBZone Eligibility Map]

After

![After HUBZone Eligibility Map]

Source: GAO analysis of data provided by the Small Business Administration; majority concerns.

Note: SBA’s revision in the definition of qualified census tracts eligible to be designated as HUBZones in June 2016 led to an increase in the number of eligible HUBZone census tracts in Puerto Rico.

1 Previously eligible census tracts are those that were eligible prior to the expansion of the HUBZone eligibility criteria and retained eligibility after the SBA revision.

2 In addition to qualified census tracts, HUBZone areas may also be located in certain nonmetropolitan counties.

3 Previously, in addition to poverty rate and income, a statutory population cap limited the number of eligible census tracts. SBA removed the population cap on June 19, 2019. As a result, the number of eligible census tracts in Puerto Rico increased from 260 to 776. On June 33, 2019, Congress enacted the Puerto Rico Oversight, Management, and Economic Stability Act, which, among other things, authorized SBA not to apply the 20 percent cap but only for HUBZone-designations in Puerto Rico and only for a limited time. Pub. L. No. 114-187, § 412, 130 Stat. 549, 556 (2019).
Women-Owned Small Business (WOSB) Program: Congress authorized the WOSB program in order to increase federal contracting opportunities for WOSBs. SBA implemented the program in 2011. Under the program, contracts are reserved for WOSBs in designated industries in which WOSBs and economically disadvantaged WOSBs were historically underrepresented. Among other eligibility requirements, businesses must be at least 51 percent controlled and owned by one or more women and must document that they meet program requirements. Currently, WOSBs can self-certify or be certified by a third party.

Service-Disabled Veteran-Owned Small Business (SDVOSB) Program: The Veterans Benefits Act of 2003 gave federal contracting officers the authority to restrict competition for SDVOSBs and award a sole source or set-aside contract where certain criteria are met. To be eligible, the small business must be majority-owned by one or more service-disabled veterans who manage and control daily business operations. The Veterans Benefits, Health Care, and Information Technology Act of 2006 requires the Department of Veterans Affairs (VA) to set aside contracts for SDVOSBs and other veteran-owned small businesses under certain conditions.

Firms with multiple socioeconomic designations can receive set-aside or sole source contracts under one or more of the four programs. For example, a HUBZone firm that also qualifies as an SDVOSB could receive awards under both programs. As of March 2017, Puerto Rico had 76 8(a) certified businesses, 40 HUBZone certified businesses, 256 WOSBs, and 56 SDVOSBs.

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8The federal government has specified annual prime contracting and subcontracting goals for designated small business categories. These contracting goals are 5 percent for WOSBs and small disadvantaged businesses (including 8(a) businesses) and 3 percent for SDVOSBs and businesses located in HUBZones. A prime contract is awarded directly by a federal procuring agency to the bidder or offeror (prime contractor).
9The WOSB total includes Economically Disadvantaged WOSBs. With the exception of the 8(a) program, all data are obtained from SBA’s Dynamic Small Business Search database. SBA officials stated that for the 8(a) program, the number of participants differs from Dynamic Small Business Search database results.
Among Other Trends, the Percentage of Obligations to Small Businesses in Puerto Rico Was Relatively High, and Use of SBA Programs Varied

| Small Businesses in Puerto Rico Received a Relatively High Percentage of Federal Prime Contracting Obligations |
| From fiscal years 2006 through 2016, a higher percentage of federal contracting obligations was awarded to small businesses within Puerto Rico for contracts performed there compared to the percentage for small businesses nationwide, particularly in the last 4 fiscal years of the period (see fig. 2). Of the total obligations awarded to businesses of all sizes for contracts performed in Puerto Rico, the percentage awarded to small businesses located there ranged from about 24 percent in fiscal year 2006 to about 51 percent in fiscal year 2015. In fiscal year 2016, small businesses in Puerto Rico received about 47 percent of federal prime contracting obligations (about $319 million out of $682 million) for work performed there. In contrast, federal prime contracting obligations awarded to small businesses nationwide were consistently around 20 percent from fiscal years 2006 through 2013 and increased to about 23 percent from fiscal years 2014 through 2016. For Puerto Rico, we analyzed data for prime contracts performed in Puerto Rico by businesses located in Puerto Rico. These figures represent federal prime contracting obligations awarded to small businesses located in Puerto Rico as a portion of the total federal contracting dollar obligations awarded for contracts performed in Puerto Rico. These figures represent federal prime contracting obligations awarded to small businesses nationwide as a portion of total federal contracting dollar obligations nationwide, including U.S. territories. The calculation of this percentage by SBA for its procurement scorecard may differ by excluding certain federal procurements. |

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10For Puerto Rico, we analyzed data for prime contracts performed in Puerto Rico by businesses located in Puerto Rico.
11These figures represent federal prime contracting obligations awarded to small businesses located in Puerto Rico as a portion of the total federal contracting dollar obligations awarded for contracts performed in Puerto Rico.
12These figures represent federal prime contracting obligations awarded to small businesses nationwide as a portion of total federal contracting dollar obligations nationwide, including U.S. territories. The calculation of this percentage by SBA for its procurement scorecard may differ by excluding certain federal procurements.
Figure 2: Percentage of Small Business Obligations for Puerto Rico and Nationwide, Fiscal Years 2006–2016

Note: For Puerto Rico, we calculated the percentage of federal prime contracting obligations awarded to small businesses in Puerto Rico for contracts where the place of performance was in Puerto Rico. This means that prime contract obligations for Puerto Rico may include obligations awarded to businesses that are subsidiaries of companies headquartered outside of Puerto Rico, to the extent that the place of performance is in Puerto Rico. For nationwide, we calculated the percentage of federal prime contracting obligations awarded to small businesses nationwide, including U.S. territories. The calculation of this percentage by the Small Business Administration for its procurement overview may differ by excluding certain federal procurements.

For the contracts performed in Puerto Rico by small businesses, most obligations went to businesses also located in Puerto Rico, although some obligations were awarded to businesses located elsewhere, such as on the U.S. mainland. Specifically, we found that of the obligations awarded to all small businesses for contracts performed in Puerto Rico, over 70 percent went to small businesses located in Puerto Rico for 7 of the 11 fiscal years we reviewed; in fiscal year 2016, this figure was 81 percent. We also found that small businesses in Puerto Rico largely

\[\text{Obligations to small businesses in Puerto Rico for contracts performed there} \quad \text{Obligations to small businesses nationwide}\]

Source: GAO analysis of data from Federal Procurement Data System-Next Generation. (GAO-17-752T)

12These figures represent federal prime contracting obligations awarded to small businesses located in Puerto Rico as a portion of the total federal prime contracting obligations awarded to all small businesses for contracts where the place of performance was Puerto Rico.
performed contracts inside of Puerto Rico rather than outside of Puerto Rico. Specifically, more than 94 percent of the small businesses located in Puerto Rico that received contract awards received them for work performed in Puerto Rico each fiscal year from 2006 through 2016, with the exception of fiscal year 2006.

Full and Open Competition and the 8(a) Program Were the Most Prevalent Bases for Awards, and HUBZone Applications Increased in Puerto Rico after Expansion of Criteria

To illustrate how SBA certifications may have influenced the ability of small businesses in Puerto Rico to obtain prime contracts for work performed in Puerto Rico, we analyzed contract obligations based on whether awards were obtained through the four SBA programs—8(a), HUBZone, WOSB, and SDVOSB—or through other means. We found that for fiscal years 2006 through 2016, the percentage of obligations awarded without the use of the four SBA programs in Puerto Rico ranged from a combined low of 49 percent in 2009 to a combined high of 82 percent in 2013; a substantial percentage of the awards were made based on full and open competition or through other socioeconomic designations. Additionally, we found that a higher percentage of federal prime contracting obligations were awarded through the 8(a) program than through HUBZone, WOSB, or SDVOSB programs combined for contracts awarded to small businesses located in Puerto Rico.

We also found that the number of applications submitted to the HUBZone program in Puerto Rico increased after the expansion in the number of qualified census tracts in June 2016 and some businesses with primary locations in newly eligible qualified census tracts applied to the program. The number of certified HUBZone firms also increased. Specifically, between fiscal years 2015 and 2017, the number of certified HUBZone businesses in Puerto Rico increased from 23 to 25, whereas for the first 6 months of fiscal year 2017, the number of HUBZone businesses increased from 25 to 40. Six of the newly certified HUBZone businesses were located in newly designated qualified census tracts.

Contract awards based on full and open competition consist of awards not identified as being awarded through any socioeconomic program and those specifically labeled as having no set-asides. Other socioeconomic programs include those for veteran, small disadvantaged businesses, and other small businesses. Awards reserved for small businesses (excluding those for 8(a), HUBZone, WOSB, and SDVOSB programs) made up a large portion of these obligations.
Stakeholders Believe That Small Business Challenges in Puerto Rico May Be Exacerbated by Geography and Economic Conditions

Stakeholders we spoke with identified a number of challenges that small businesses in Puerto Rico may face in obtaining federal contracting opportunities. Many of these challenges were similar to those we found in 2012 that small businesses, including minority-owned businesses, face nationwide in seeking federal contract opportunities. Some stakeholders we interviewed indicated that the island geography of Puerto Rico and its economic conditions may complicate or exacerbate some of these challenges compared to small businesses elsewhere. None of the stakeholders we interviewed identified federal laws as having created unique challenges for small businesses in Puerto Rico in obtaining federal contracting. In addition, SBA and other agencies identified examples of efforts undertaken to further assist Puerto Rican small businesses in obtaining federal contracting opportunities, such as holding training events and conferences.

Stakeholders we interviewed identified the following challenges:

- Increased use of contract bundling or consolidation. Increased use of contract bundling or consolidation may have led to a decrease in the number of small businesses competing for federal contracts. SBA officials stated that smaller businesses are less likely to have the capability or experience to compete or qualify for the large scope of work associated with consolidated contracts and noted that for an island like Puerto Rico small businesses are generally smaller. According to SBA, one of the roles that its Procurement Center Representatives play is to work with contracting officers to evaluate whether bundling is the best way to acquire services and supplies.\(^\text{17}\)

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\(^{17}\)"Bundling" denotes consolidating two or more requirements for goods or services previously provided or performed under separate smaller contracts into a solicitation for a single contract that is likely to be unsuitable for award to a small business due to its size or scope. "Consolidation" is similarly defined to mean solicitation to obtain offers for a single contract that satisfies two or more requirements for goods or services valued in excess of \(\$2\) million that have been provided or performed under two or more separate contracts each of which was lower in cost than the contract for which offers are solicited, or to satisfy requirements for construction to be performed at two or more discrete sites. For more information, see GAO, Small Business Contracting: Improved Tracking and Reporting Needed for Consolidated Contracts, GAO-14-36 (Washington, D.C.: Nov. 26, 2013).

\(^{17}\)SBA employs Procurement Center Representatives to assist small businesses in obtaining federal contracts.
• Difficulty meeting procurement requirements. Procurement requirements for federal contracts, such as performance history for construction contracts, may pose challenges for small businesses in Puerto Rico. For example, representatives from one organization we interviewed said that the construction of a cemetery required a business to demonstrate experience in developing several cemeteries in the past 5 years; however, opportunities to construct cemeteries are limited in Puerto Rico and that relevant experience may have been from more than 5 years ago.

• Lack of access to capital and financing. A lack of access to capital and financing may have inhibited construction businesses’ ability to obtain bonding, which is often required for federal construction contracts. Small businesses in Puerto Rico may not be able to meet bonding requirements based on the businesses’ credit or on the financial standards required by the surety companies due to Puerto Rico’s economic downturn. In April 2017, SBA announced that it had approved the first Puerto Rican surety company to participate in its Surety Bond Guarantee Program. Through this program, qualifying surety companies can receive a guarantee of a percentage of the losses incurred on bonds issued to small businesses.

• Lack of knowledge of the federal contracting process. A lack of knowledge of the federal contracting process may also be a challenge for small businesses in Puerto Rico. For example, some small businesses in Puerto Rico may not know how to complete a proposal for federal contracting and may not have the infrastructure in place to prepare contracts accurately. Additionally, some small businesses may be unfamiliar with federal contracting opportunities and where to find them. Officials from SBA’s Puerto Rico District Office said that they hold regular training on contracting programs and how to navigate the contracting process and have offered training on proposal writing.

• Lack of knowledge of federal contracting programs. Small businesses may also lack knowledge of SBA’s federal contracting programs and their benefits. For example, some small businesses may not know how to complete the paperwork to become certified in SBA’s

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18Performance and bid bonds are types of surety bonds consisting of a three-party agreement. A surety bond provides assurance to the project owner that the contractor will perform a contract in accordance with the contract documents. The surety company prequalifies the contractor based on financial strength and construction expertise. Among many requirements, the surety company requires evidence of a bank line of credit to augment working capital and to handle temporary cash flow deficits or financial strains.
programs. Officials in SBA’s Puerto Rico District Office stated that the office has conducted various small business outreach activities in Puerto Rico to promote participation in its small business contracting programs, including between 50 to 60 training classes and seminars focused on the 8(a), HUBZone, WOSB, and SDVOSB programs each year from fiscal years 2014 to 2016.

- Lack of access to agency contracting officials. Some stakeholders cited the lack of access to contracting officials as an issue for small businesses in Puerto Rico. Additionally, geographic barriers may be a challenge for small businesses there because it is difficult for these businesses to market and maintain their relationships with contracting officers, who are generally located at the headquarters level on the mainland. Officials from SBA, Department of Defense, Department of Veterans Affairs, and General Services Administration said they help to connect small businesses to federal contracting officers through conferences and matchmaking events where businesses can meet contracting officers one-on-one.


Chairmen Knight and Brat, Ranking Members Murphy and Evans, and members of the Subcommittees, this completes my prepared statement. I would be pleased to respond to any questions that you may have at this time.

GAO Contact and Staff Acknowledgments:

If you or your staff have any questions about this testimony, please contact William Shear, Director, Financial Markets and Community Investment at (202) 512-8878 or shearw@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this statement. GAO staff who made key contributions to this testimony are Harry Medina (Assistant Director), Weiwei Zheng (Analyst in Charge), Pamela Davidson, Julia Kennon, John McGrail, John Mingus, and Jennifer Schwartz.
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U.S. Small Business Administration

TESTIMONY OF

ROBB WONG
Associate Administrator, Office of Government Contracting & Business Development
U.S. Small Business Administration

House Small Business Committee
Subcommittees on Contracting and Workforce and Economic Growth, Tax, and Capital Areas

Thursday, July 13, 2017
Chairman Brat, Chairman Knight, Ranking Member Evans, Ranking Member Murphy, and other distinguished members of this Committee. Thank you for inviting me here to speak with you today. It is truly an honor to speak before you today and I thank you for this opportunity to discuss the trends and challenges facing small businesses on the island of Puerto Rico. I stand ready to work with you and the committee to improve the future for small businesses.

My name is Robb Wong. I am the Associate Administrator for Government Contracting and Business Development (GCBD) at the U.S. Small Business Administration (SBA). I have been a lifelong entrepreneur and small business advocate. I have had a small business since the age of 11. After my education, I have been blessed to spend a majority of my 30-year career focused on small business federal contracting. I have personally seen SBA programs positively impact small businesses around the country. I started my career at the SBA years ago as an attorney in SBA’s Office of General Counsel; I also spent several years working in both the SBA Houston and Lubbock district offices, and 6 months in GCBD in the early 90s. I left government and spent the past 20 years in several leadership positions within several small businesses that successfully relied on SBA products and programs to enhance their growth. I am a personal testament to the power and importance of the SBA’s effectiveness in helping small business. I am blessed and fortunate to be back at an Agency that I love and to work with our Administrator Linda McMahon who is inspirational leader. I hope to help them to strengthen the SBA both now and for the future to help ALL small businesses.

Administrator McMahon has asked the new leadership at the SBA to make our programs as efficient and effective as possible to empower the further success of small businesses in the US. In that regard—my team’s mission is to assure that small businesses continue to receive their fair share of federal government contracts; to optimize the present-state of the SBA certifications; and advocate on behalf of the small business community. We want businesses to spend less time applying for certification, and more time USING them to grow their businesses. I hope to increase opportunities for small businesses as well as enhance their abilities to grow and compete by (1) reducing or eliminating regulations that are unnecessary and burdensome; (2) improving our processes without sacrificing quality; and (3) becoming more customer-centric. Finally, I will work hard to advocate on their behalf for their inclusion government-wide as often as possible.

I am here today to talk about trends and challenges to Small Business contracting on the island of Puerto Rico. Within the past two weeks, Administrator McMahon visited the island to learn about how the SBA can best assist Puerto Rico in its economic recovery. She spent several days meeting small businesses and talking to local government officials—including Congresswoman González-Colón—to learn about economic conditions and challenges the island is facing.
GAO recently released a report detailing the challenges and trends in government contracting on the island of Puerto Rico. GAO noted that a high percentage of Puerto Rican small businesses use the 8(a), HUBZone, Service Disabled Veteran-Owned, and Women-Owned Small Business programs. However, we know that Puerto Rico faces unique challenges due to its economy and geography. Small businesses confront a number of challenges when they attempt to contract with the Federal Government including lack of knowledge about the federal contracting process; difficulty meeting procurement requirements; and minimal access to bonding, financing and capital. GAO found that small businesses in Puerto Rico feel these challenges more acutely than their counterparts off the island. The SBA appreciates GAO’s work in this area.

While Puerto Rican small businesses are participating in Federal Contracting, more work needs to be done to increase their numbers. According to the Congressional Task Force on Economic Growth in Puerto Rico, Puerto Rico ranks 55th (out of the 50 states, D.C., and 5 major U.S. territories) by total dollar value of federal contracts performed in each jurisdiction per capita at $430.6 million. Further, 53% of federal contracts performed in Puerto Rico were awarded to firms located outside the island. We know that in order for firms on the island to grow and thrive, more federal contracting needs to stay with local firms. Part of that effort will be to educate our Federal buying partners about the capabilities of Puerto Rican firms to do quality work—both on the island and off. We look forward to working with Congress to do that.

Administrator McMahon and I are committed to improving the delivery of our programs. Improving the programs as a whole will specifically benefit small businesses in Puerto Rico.

Businesses have an expectation that obtaining SBA 8(a) or HUBZone certifications will immediately and significantly improve their businesses and allow them to quickly win government contracts. Although we recognize that not all firms’ expectations can be realized, we remain committed to help firms to better understand the procurement process and to utilize our many resource partners to gain needed business development assistance.

SBA provides assistance to firms at all phases of the procurement process. Our District Office in Puerto Rico conducts small business outreach activities throughout the island including training and seminars to promote participation in the SBA’s small business programs. The District Office has developed crucial relationships with local governments, nonprofits, chambers of commerce as well as resource partners with local governments, nonprofits, chambers of commerce as well as resource partners such as SCORE, SBDC and Women Business Centers to provide a referral and training network for SBA programs. We are discussing with the Administrator ways to provide enhanced SBA support to Puerto Rico, such as revised HUBZone rules, suggestions to pending legislation, and enhanced procurement support.

The staff of Office of Government Contracting and Business Development continues to improve the implementation of the SBA’s federal government contracting programs through improved appli-
cation and certifications processes. With the expansion of eligible HUBZone census tracts in Puerto Rico, SBA continues to focus on online accessibility to the HUBZone program through improvement to our HUBZone maps and application process.

The small businesses of Puerto Rico are essential to the economic recovery and future of the island; they are the island’s innovators and job creators. Administrator McMahon and I, along with the SBA staff are committed to help the small businesses of Puerto Rico grow, innovate, and create jobs through the efficient and effective delivery of the SBA’s federal contracting programs. This creates meaningful and sustainable jobs, and promotes economic growth in the community.

I reaffirm my commitment to work together with you and the Committee to improve the future for small businesses.

Thank you for the opportunity to speak with you today. I am happy to take your questions.
June 2017

PUERTO RICO

Information on Trends and Challenges to Small Business Federal Contracting
Information on Trends and Challenges to Small Business Federal Contracting

What GAO Found

From fiscal years 2006 through 2016, a higher percentage of federal contracting obligations was awarded to small businesses within Puerto Rico for contracts performed there compared to the percentage for small businesses nationwide, particularly in the last 4 fiscal years of the period (see fig.). In fiscal year 2016, small businesses in Puerto Rico received about 47 percent of federal contracting obligations to Puerto Rico (about $319 million out of $692 million) compared to 23 percent of federal obligations awarded to small businesses nationwide. Of the four Small Business Administration (SBA) programs that provide contracting preferences based on socioeconomic designations, a higher percentage of obligations was awarded in Puerto Rico through the 8(a) Business Development program compared to the Historically Underutilized Business Zone (HUBZone), Women-Owned Small Business (WOSB), and Service-Disabled Veteran-Owned Small Business (SDVOSB) programs. The use of 8(a) contract awards in Puerto Rico was somewhat higher than nationwide, while the use of the other three SBA programs was roughly comparable.

![Graph showing percentage of small business obligations in Puerto Rico compared to nationwide from fiscal years 2006 to 2016. Graph indicates a higher percentage for Puerto Rico for the last 4 years.]
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Abbreviations

B(e)I Business Development
ACSB American Community Survey
DOD Department of Defense
DSBS Dynamic Small Business Search
FPDS-NG Federal Procurement Data System–Next Generation GSAG General Services Administration HUBZone Historically Underutilized Business Zone MSBA Minority Business Development Agency NAICS North American Industry Classification System PCR Procurement Center Representative SBA Small Business Administration SBTC Small Business and Technology Development Center SDVOB Service-Disabled Veteran-Owned Small Business VA Department of Veterans Affairs WOSB Women-Owned Small Business

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June 29, 2017

The Honorable James E. Risch
Chairman
The Honorable Jeanne Shaheen
Ranking Member
Committee on Small Business and Entrepreneurship
United States Senate

The Honorable Steve Chabot
Chairman
The Honorable Nydia Velázquez
Ranking Member
Committee on Small Business
House of Representatives

Small businesses play an important role in the U.S. and Puerto Rican economies. According to the U.S. Census Bureau, over 99 percent (about 44,000) of the businesses in Puerto Rico are small.¹ Total federal contracting obligations in Puerto Rico have ranged from a low of $404 million to a high of $1 billion during the past 10 fiscal years.² The Small Business Administration (SBA) administers several programs in Puerto Rico and nationwide that provide federal contracting preferences to small businesses, including the 8(a) Business Development (8(a)), Historically Underutilized Business Zone (HUBZone), Women-Owned Small Business (WOSB), and Service-Disabled Veteran-Owned Small Business (SDVOSB) programs. Small businesses certified with these socioeconomic designations benefit from federal contracting preferences,

¹Data are from U.S. Census Bureau’s County 2014 Business Patterns. This figure counts the number of establishments, which consist of businesses that may have headquarters elsewhere. The Small Business Administration (SBA) establishes size standards, which are usually number of employees or average annual receipts, to represent the largest size that a business (including its subsidiaries and affiliates) may be to remain classified as a small business for SBA and federal contracting programs. The definition of small business varies to reflect industry differences. SBA considers establishments with fewer than 500 employees to be small for most manufacturing and mining industries and less than $7 million in average annual receipts for most non-manufacturing industries.

²These figures represent the total amount of federal prime contracting obligations awarded for contracts performed in Puerto Rico. The dollar amounts were adjusted for inflation using fiscal year 2010 dollars.
such as sole source contracts (awards are made without competition) and set-aside contracts (awards are limited to a designated pool of competing firms). The federal government has additionally specified annual prime contracting and subcontracting goals for designated small business categories.

Puerto Rico currently faces many economic challenges. U.S. Census Bureau’s Puerto Rico Community Survey and American Community Survey from 2015 show that about 46 percent of Puerto Rico’s residents live below the federal poverty level, compared to a national average of about 15 percent. Additionally, as of June 2017, Puerto Rico's government faces a debt crisis. In June 2016, Congress enacted the Puerto Rico Oversight, Management, and Economic Stability Act to address the debt crisis and Puerto Rico’s fiscal affairs. The act includes a provision for us to evaluate the application and utilization of SBA programs in Puerto Rico (including contracting activities relating to HUBZone small business concerns) and identify any provision of federal law that may create an obstacle to efficient implementation of such activities related to these programs. This report examines (1) trends in small business contracting and the use of SBA programs that provide federal contracting preferences to small businesses in Puerto Rico from fiscal years 2008 through 2016, and (2) stakeholder views on any challenges small businesses in Puerto Rico face in obtaining federal contracting opportunities, including those posed by federal laws, and steps SBA and other agencies have taken to assist Puerto Rican small businesses in obtaining federal contracting opportunities.

To identify trends in the use of SBA programs that provide federal contracting preferences to small businesses in Puerto Rico from fiscal

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3 In addition to set-asides and sole source contracts, certified HUBZone businesses also can receive a price evaluation preference of 10 percent in full and open competition if the apparent successful offering firm is not a small business. We did not include awards made using price evaluation preference in our analyses.

4 These contracting goals are 5 percent for WOSBs and small disadvantaged businesses (which includes HUBZone businesses) and 3 percent for SDVOSBs and businesses located in HUBZones. A prime contract is awarded directly by a procuring agency to the bidder or offeror (prime contractor).

5 Alarayah Bishaw and Brian Glassman, United States Census Bureau, Poverty: 2014 and 2015, American Community Survey Briefs (September 2016).

6 In this report, we define SBA programs to be programs administered by SBA that provide federal contracting preferences to small businesses.
years 2006 through 2016, we analyzed data on prime contract obligation amounts for Puerto Rico and nationwide from the Federal Procurement Data System—Next Generation (FPDS-NG) for those fiscal years. We also analyzed data from the U.S. Census Bureau’s American Community Survey on HUBZone census tracts. We assessed the reliability of the FPDS-NG and U.S. Census Bureau data by reviewing relevant related documentation and determined that they were sufficiently reliable for analyzing trends and for describing economic conditions in HUBZone areas. To identify stakeholder views on any challenges that small businesses in Puerto Rico face in obtaining federal contracting opportunities, including those posed by federal laws, and steps SBA and other agencies have taken to assist Puerto Rican small businesses in obtaining federal contracting opportunities, we interviewed SBA officials and other stakeholders such as federal agency contracting officials, industry associations, and economic development entities in Puerto Rico. We did not assess the extent to which steps SBA and other agencies have taken address the challenges stakeholders identified. Appendix I provides more detail on our scope and methodology.

We conducted this performance audit from September 2016 to June 2017 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

**Background**

Under the Small Business Act, SBA plays an important role in ensuring that small businesses gain access to federal contracting opportunities. SBA negotiates specific agency-wide goals to help ensure that the federal government collectively meets the 23 percent statutory goal for contract dollars awarded to small businesses. In addition, SBA administers the 8(a), HUBZone, WOSB, and SDVOSB programs that are intended to assist small businesses of various socioeconomic categories. Firms with multiple socioeconomic designations can receive set-asides or sole

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1For Puerto Rico, we obtained data for prime contracts where the place of performance was in Puerto Rico. This means that prime contract obligations for Puerto Rico may include obligations awarded to businesses that are subsidiaries of companies headquartered outside of Puerto Rico, to the extent that the contracts' place of performance was in Puerto Rico.
source contracts under one or more of the four programs. For example, a HUBZone firm that also qualifies as an SDVOSB could receive an award under the SDVOSB program as well as another under the HUBZone program. Each program has different requirements. As of March 2017, Puerto Rico had 78 8(a) certified businesses, 40 HUBZone certified businesses, 286 WOSBs, and 56 SDVOSBs.9

8(a) Program: The purpose of the 8(a) program is to develop small businesses owned by socially and economically disadvantaged individuals. A business must meet several initial eligibility requirements to qualify for the 8(a) program. For example, the firm must be a small business as defined by SBA, it must be owned and controlled by one or more socially and economically disadvantaged individuals who are of good character and U.S. citizens, and it must demonstrate the potential for success. Upon certification by SBA, the business may stay in the program for 9 years if it meets other requirements for continued participation.

HUBZone Program: Congress created the HUBZone program in 1997 to stimulate economic development in economically distressed communities by designating certain areas as HUBZones.8 There are several types of HUBZone areas, including qualified census tracts, which are determined by the area’s poverty rate or household income.10 SBA updates HUBZone designations based on whether areas meet statutory criteria, such as having certain income levels or poverty or unemployment rates. For example, SBA revised the designation of HUBZones based on the release of the 2010 U.S. Census Bureau data in October 2011. For a

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8The WOSB total includes Economically Disadvantaged WOSBs. With the exception of the 8(a) program, all data are obtained from SBA’s Dynamic Small Business Search. SBA officials stated that for the 8(a) program, the number of participants differ from the DSBS database results.


10Other HUBZone areas include qualified nonmetropolitan counties, which are determined by the area’s unemployment rate or median household income, lands within the external boundaries of an Indian reservation, based on the area meeting certain criteria, military bases closed under various base closure acts, counties in difficult development areas outside of the continental United States, and certain disaster areas.
business to be certified by SBA as a HUBZone business, it must meet the following criteria:11

- be small by SBA size standards, 12
- be at least 51 percent owned and controlled by U.S. citizens,
- have its principal office—the location where the greatest number of employees perform their work—located in a HUBZone, 13 and
- have at least 35 percent of its employees reside in a HUBZone. 14

On June 16, 2016, SBA announced that it had revised the definition of qualified census tracts eligible to be designated as HUBZones to provide additional opportunities for small businesses in Puerto Rico and nationwide to participate in the HUBZone program. Previously, in addition to poverty rate and income, a statutory population cap limited the number of eligible census tracts. Under the cap, in metropolitan areas where more than 20 percent of the population qualified, the list of eligible census tracts was ordered from the highest percentage of eligible households to the lowest until the 20 percent limit was exceeded. By lifting the population cap, SBA expanded the number of eligible census tracts in Puerto Rico by 516 (from 260 to 776). As a result, nearly all of Puerto Rico now qualifies as a HUBZone (see fig. 1). 15 In the rest of the United States, the number of eligible census tracts increased by 1,496 (from 15,938 to 17,437). (See app. II for maps of the newly eligible and existing census tracts in the United States, excluding U.S. territories.)

11 Different rules apply for Indian Tribal governments, Alaska Native Corporations, Community Development Corporations, Native Hawaiian Organizations, and small agricultural cooperatives. See Title 13 of the Code of Federal Regulations, Part 128.

12 The firm, with its affiliates, must meet the size standard corresponding to its primary industry classification as defined in 13 CFR Part 121. SBA’s size standards vary by industry.

13 While a certified HUBZone business must have its principal office in a HUBZone area, it can bid on and receive federal contracts for work to be performed anywhere.

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

Figure 1: Historically Underutilized Business Zone (HUBZone) Areas in Puerto Rico before and after the Small Business Administration (SBA) Changed the Definition for Qualified Census Tracts In June 2016, as of June 2016

Before

HUBZone Eligibility
- Eligible census tracts
- Ineligible census tracts
- Eligible nonmetropolitan counties

After

HUBZone Eligibility
- Eligible census tracts
- Ineligible census tracts
- Eligible nonmetropolitan counties

Source: OIG analysis of data provided by the Small Business Administration. (map). / GAO-17-550

Note: SBA’s revision in the definition of qualified census tracts eligible to be designated as HUBZones in June 2016 led to an increase in the number of eligible HUBZone census tracts in Puerto Rico.

*Previously eligible census tracts are those that were eligible prior to the expansion of the HUBZone eligibility criteria and retained eligibility after the SBA revision.
*In addition to qualified census tracts, HUBZone areas may also be located in certain nonmetropolitan counties.

WOSB Program: In 1994, Congress established a goal of not less than 5 percent of the total value of all prime contract and subcontract awards for each fiscal year for WOSBs to increase federal contracting opportunities for WOSBs. In 2000, Congress authorized the WOSB program and SBA issued implementing regulations that became effective in 2011. Under the program, contracts are reserved for WOSBs in designated industries in which WOSBs and economically disadvantaged WOSBs were historically underrepresented. Set-aside and sole source awards can be made to
WOSBs only in those designated industries. Various changes have been made to the WOSB program since it was established, including the removal of limitations on the amount of contract dollars in a set-aside that WOSBs can compete for in 2013 and allowing sole source awards starting in October 2015. Among other eligibility requirements, a business must be at least 51 percent owned and controlled by one or more women; it must be certified as eligible by a third party or be self-certified by the business owner; and the owner must provide documents demonstrating that the business meets program requirements.

SDVOSB Program: The Veterans Entrepreneurship and Small Business Development Act of 1999 established an annual government-wide goal of not less than 3 percent of the total value of all prime contract and subcontract awards for SDVOSBs. In addition, the Veterans Benefits Act of 2003 gave federal contracting officers the authority to restrict competition to SDVOSBs and award a sole source or set-aside contract where certain criteria are met. To be eligible, the business must be majority-owned by one or more service-disabled veterans who manage and control daily business operations, and it must qualify as a small business under the North American Industry Classification System Code industry-size standards. The Veterans Benefits, Health Care, and Information Technology Act of 2006 requires the Department of Veterans Affairs (VA) to set aside contracts for SDVOSBs and other veteran-owned small businesses (unless a sole source contract is used) if the contracting officer expects two or more such firms to submit awards. VA may make sole source awards of up to $5 million, without a determination that only an SDVOSB or a veteran-owned small business is available.

Other categories. Other socioeconomic programs include those for veterans, small disadvantaged businesses, and other small businesses.

To help ensure that small businesses receive a share of federal procurement contract dollars, Congress has set an annual government-
wide goal of awarding not less than 23 percent of prime contract dollars to small businesses. To promote this goal, the Small Business Act permits contracting officers at federal agencies to award contracts to small businesses through set-aside or sole source to 8(a), HUBZone, WOSB, and SDVOSB businesses, under certain requirements. Federal agencies are generally required to set aside contracts with values exceeding $150,000 if the contracting officer expects at least two small businesses to submit bids for the procurement. Under the HUBZone, WOSB, and SDVOSB programs, a contracting officer may award sole source contracts valued up to $4 million if the contracting officer does not have a reasonable expectation that two or more small businesses would submit offers and the award can be made at a fair and reasonable price.

Under the 8(a) program, federal agencies are to make sole source awards for contracts valued up to $4 million. Federal agencies are also required to reserve contracts with values exceeding $3,000 but less than $150,000 for small businesses exclusively if the contracting officer expects at least two small businesses to submit bids.

The Small Business Act also established other programs and resources to assist small businesses nationwide, including with small business contracting activities. Among them, SBA employs Procurement Center Representatives (PCR) to assist small businesses in obtaining federal contracts. Among other activities, PCRs can make recommendations to agency contracting officers that proposed contracts be set aside for eligible small businesses. In addition, the act generally requires federal agencies with procurement authorities to establish an Office of Small and Disadvantaged Business Utilization to oversee the agency’s functions and duties related to the awarding of contracts to small and disadvantaged businesses.

29If the contract involves manufacturing, the contract values can be up to $6.5 million to $7 million, depending on the program.

30Generally, for manufacturing contract requirements that do not exceed $7 million or $4 million for other contract requirements, the award of an 8(a) contract is done on a sole source basis.


Among Other Trends, the Percentage of Obligations to Small Businesses in Puerto Rico Was Relatively High, and Use of SBA Programs Varied

Our analysis of federal prime contracting data identified a number of trends in federal contracting obligations to small businesses in Puerto Rico from fiscal years 2006 through 2016.24 For example, we found that small businesses in Puerto Rico received a relatively high proportion of federal prime contracting obligations for work performed in Puerto Rico compared to small businesses nationwide. Additionally, we found that a greater percentage of obligations was awarded to small businesses in Puerto Rico through full and open competition and the 8(a) program compared to the other three SBA socioeconomic contracting programs. We also found that the number of HUBZone applications has increased since SBA expanded the number of HUBZone-eligible census tracts in June 2016; about half of the applicants were located in newly designated HUBZone-qualified census tracts.

Small Businesses in Puerto Rico Received a Relatively High Percentage of Federal Prime Contracting Obligations

The percentage of federal prime contracting obligations awarded to small businesses within Puerto Rico for contracts performed there was relatively high from fiscal years 2006 through 2016, particularly in the last 4 fiscal years. Of the total obligations awarded to businesses of all sizes for contracts performed in Puerto Rico, the percentage awarded to small businesses located there ranged from about 24 percent in fiscal year 2006 to about 51 percent in fiscal year 2015.25 In fiscal year 2016, small businesses in Puerto Rico received about 47 percent of federal prime contracting obligations (about $315 million out of $682 million) for work performed there. In contrast, federal prime contracting obligations awarded to small businesses nationwide were consistently around 20 percent from fiscal years 2006 through 2013 and increased to about 23 percent from fiscal years 2014 through 2016; in fiscal year 2016, small businesses nationwide received about 23 percent of the federal prime contracting obligations (see fig. 2).26

24For Puerto Rico, we analyzed data for prime contracts performed in Puerto Rico by businesses located in Puerto Rico.
25These figures represent federal prime contracting obligations awarded to small businesses located in Puerto Rico as a portion of the total federal contracting dollar obligations awarded for contracts performed in Puerto Rico.
26These figures represent federal prime contracting obligations awarded to small businesses nationwide as a portion of total prime federal contracting dollar obligations nationwide, including U.S. territories. The calculation of this percentage by SBA for its procurement cosumption may differ by excluding certain federal procurements.
Figure 2: Percentage of Small Business Obligations for Puerto Rico and Nationwide, Fiscal Years 2006–2016

Percentage

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Note: For Puerto Rico, we calculated the percentage of federal prime contracting obligations awarded to small businesses in Puerto Rico for contracts where the place of performance was in Puerto Rico. This means that prime contract obligations for Puerto Rico may include obligations awarded to businesses that are subsidiaries of companies headquartered outside of Puerto Rico, to the extent that the place of performance is in Puerto Rico. For nationwide, we calculated the percentage of federal prime contracting obligations awarded to small businesses nationwide, including U.S. territories.

For the contracts performed in Puerto Rico by small businesses, most obligations went to businesses also located in Puerto Rico, although some obligations were awarded to businesses located elsewhere, such as on the U.S. mainland. Specifically, we found that of the obligations awarded to all small businesses for contracts performed in Puerto Rico, over 70 percent went to small businesses located in Puerto Rico for 7 of the 11 fiscal years we reviewed; in fiscal year 2016, this figure was 61%

See appendix III for information on the award of federal prime contracts and prime contracting obligations in Puerto Rico by business size and location from fiscal years 2006 through 2015 and appendix IV for information on the award of prime contracts by state and territory in fiscal year 2016.
percent. We also found that small businesses in Puerto Rico largely performed contracts inside of Puerto Rico rather than outside of Puerto Rico. Specifically, more than 94 percent of the small businesses located in Puerto Rico that received contract awards received them for work performed in Puerto Rico each fiscal year from 2006 through 2016, with the exception of fiscal year 2006.

Full and Open Competition and the 8(a) Program Were the Most Prevalent Bases for Awards to Small Businesses in Puerto Rico for Work Performed There

As previously discussed, small businesses can receive federal prime contracts based on full and open competition and through set-asides and sole source awards they may qualify for based on their certifications from one or more of the four SBA socioeconomic programs or other socioeconomic designations. To illustrate how SBA certifications may have influenced the ability of small businesses in Puerto Rico to obtain prime contracts for work performed in Puerto Rico, we analyzed contract obligations based on whether awards were obtained through the four SBA programs or through other means. As shown in figure 3, we found that a substantial percentage of contracting obligations for this period were awarded to small businesses in Puerto Rico outside of these four programs, either based on full and open competition or through set-asides or sole source awards based on other socioeconomic designations. For fiscal years 2006 through 2016, the percentage of obligations awarded without the use of the four SBA programs ranged from a combined low of 49 percent in 2009 to a combined high of 82 percent in 2013 for Puerto Rico.

\[\text{23 These figures represent federal prime contracting obligations awarded to small businesses located in Puerto Rico as a portion of the total federal prime contracting obligations awarded to all small businesses for contracts where the place of performance was Puerto Rico.}\]

\[\text{24 Contract awards based on full and open competition consist of awards not identified as being awarded through any socioeconomic program and those specifically labeled as having no set-asides. Other socioeconomic programs include those for veterans, small disadvantaged businesses, and other small businesses.}\]
Figure 3: Small Business Obligations for Puerto Rico-Based Contracts and Businesses by Socioeconomic Programs, Fiscal Years 2006–2016

Note: For Puerto Rico, we analyzed data for federal prime contracting obligations awarded to small businesses in Puerto Rico for contracts performed there. This means that contract obligations for Puerto Rico may include obligations awarded to businesses that are subsidiaries of companies headquartered outside of Puerto Rico, to the extent that the place of performance is in Puerto Rico. The dollar amounts are adjusted for inflation using fiscal year 2016 dollars.

No obligations were awarded through the Women-Owned Small Business (WOSB) program prior to its establishment in fiscal year 2011. WOSB obligations include obligations to economically disadvantaged WOSBs. For Puerto Rico, the percentage ranged from 9 percent to 0.1 percent from fiscal years 2011 through 2015. Nationally, the percentage ranged from 6 percent to 0.4 percent from fiscal years 2011 through 2015.
Consistent with nationwide results, we also found that a higher percentage of federal prime contracting obligations were awarded through the 8(a) program than through HUBZone, WOSB, or SDVOSB programs combined for contracts awarded to small businesses located in Puerto Rico. The percentage of obligations awarded using the 8(a) program was higher in Puerto Rico than nationwide, as shown in figure 3. SBA, Department of Defense (DOD), and General Services Administration (GSA) officials provided a few potential reasons why the 8(a) program may have been used more than HUBZone, WOSB, and SDVOSB programs in Puerto Rico. SBA officials stated that federal agency contracting officers consider the 8(a) program’s certification process to be rigorous and believe in the competence of 8(a) businesses. Under the HUBZone, WOSB, and SDVOSB programs, a contracting officer has the authority to award using sole source only when it has been determined that two or more qualified business are not likely to submit offers; this restriction on the use of sole source contracts does not apply to the 8(a) program. SBA, GSA, and DOD officials all noted this factor as a reason why the 8(a) program is more widely used than others. DOD officials stated that this enables contracting officers to award quickly while GSA officials noted that using 8(a) sole source allows them to target contractors, such as those located in Puerto Rico. DOD officials also cited business development assistance provided by SBA to 8(a) program participants as an advantage.

SBA officials stated that there may be numerous reasons why 8(a) awards may be more attractive to a contracting officer, but analysis of the dollar size, time of award, and program demographics may be necessary to clearly understand the reasons.

Generally, for manufacturing contract requirements that do not exceed $7 million or $4 million for other contract requirements, the award of an 8(a) contract is done on a sole source basis.
We also found instances in which a few relatively large contracts, in addition to variation in the number of contracts awarded, caused substantial variation in the award of obligations using 8(a), HUBZone, WOSB, and SDVOSB programs in Puerto Rico, as seen in figure 3. For example, for the 8(a) program, one contract awarded in fiscal year 2009 made up about 46 percent of the obligations awarded through the program during that year. In fiscal years 2010 and 2011, four large contracts awarded using the HUBZone program substantially increased the amount of obligations awarded through the program during those fiscal years as compared to the other fiscal years. The trends in obligations awarded for these four programs did not appear to be related to any particular regulatory or programmatic changes. See appendix V for information on regulatory or programmatic changes made to these programs.

In addition, we found that small businesses in Puerto Rico that had HUBZone and WOSB designations received a majority of obligations awarded to them without the use of these respective programs. For example, in fiscal year 2015, only 7 percent of the obligations awarded to businesses with HUBZone designations in Puerto Rico were through the HUBZone program; the remainder were awarded to HUBZone businesses using other programs—including the other three SBA programs and other socioeconomic programs—or full and open competition. In comparison, small businesses in Puerto Rico that had SDVOSB and 8(a) designations received a majority of the obligations awarded to them through those respective programs. Agencies can count contracting dollars awarded to small businesses under more than one socioeconomic category. For example, if a business with both HUBZone and SDVOSB designations received a contract through the HUBZone program, the contracting dollars would count towards both of these programs' contracting goals. See appendix VI for more detailed information on the use of socioeconomic programs in obligations awarded.

32See appendix VI.
33See appendix VI.
34See appendix VI.
35For more information, see GAO, Small Business Administration: Additional Actions Are Needed to Certify and Monitor HUBZone Businesses and Assess Program Results, GAO-08-643 (Washington, D.C., June 17, 2008).
Small Business Obligations in Puerto Rico Were Concentrated in Three Economic Sectors, and DOD Awarded the Majority of Obligations

<table>
<thead>
<tr>
<th>Economic sector</th>
<th>Dollars in millions</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>All small businesses</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Manufacturing</td>
<td>215</td>
<td>87</td>
</tr>
<tr>
<td>Construction</td>
<td>69</td>
<td>22</td>
</tr>
<tr>
<td>Professional and Business Services</td>
<td>23</td>
<td>7</td>
</tr>
<tr>
<td>Other economic sectors</td>
<td>12</td>
<td>4</td>
</tr>
<tr>
<td>Total</td>
<td>319</td>
<td>100</td>
</tr>
<tr>
<td>Small Business Development (8(a))</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Manufacturing</td>
<td>52</td>
<td>70</td>
</tr>
<tr>
<td>Construction</td>
<td>13</td>
<td>17</td>
</tr>
<tr>
<td>Professional and Business Services</td>
<td>8</td>
<td>11</td>
</tr>
<tr>
<td>Other economic sectors</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Total</td>
<td>75</td>
<td>100</td>
</tr>
<tr>
<td>Historically Underserved Business Zone (HUBZone)</td>
<td>0.02</td>
<td>100</td>
</tr>
</tbody>
</table>

We found that in fiscal year 2016, federal prime contracting obligations awarded to small businesses in Puerto Rico for contracts performed there were concentrated in the manufacturing sector (about $215 million or 87 percent), the construction sector (about $69 million or 22 percent), and the professional and business services sector (about $23 million or 7 percent). For contracts awarded using 8(a), HUBZone, WOSB, or SDVOSB programs, these three economic sectors were also among those that received the greatest amount of obligations (see table 1).

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Table 1: Top Economic Sectors for Small Business Obligations Awarded for Puerto Rico-Based Businesses and Contracts Using the Small Business Administration’s Socioeconomic Programs, Fiscal Year 2016

1North American Industry Classification System (NAICS) codes range from two to six digits and increase in specificity as the number of digits increases. We grouped the economic sectors using the first two digits of the NAICS code. Examples of manufacturing activities include apparel and petroleum refineries; examples of construction activities include commercial and institutional building construction and construction of water and sewer lines and related structures; examples of professional and business services include janitorial services and security guard services.
<table>
<thead>
<tr>
<th>Economic sector</th>
<th>Dollars in millions</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Women-Owned Small Businesses (WOSB)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Professional and Business Services</td>
<td>0.17</td>
<td>82</td>
</tr>
<tr>
<td>Other economic sectors ¹</td>
<td>0.94</td>
<td>18</td>
</tr>
<tr>
<td>Total</td>
<td>0.21</td>
<td>100</td>
</tr>
<tr>
<td>Service-Disabled Veteran-Owned Small Businesses (SDVOSB)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Construction</td>
<td>20</td>
<td>77</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>5</td>
<td>20</td>
</tr>
<tr>
<td>Other economic sectors ²</td>
<td>1</td>
<td>4</td>
</tr>
<tr>
<td>Total</td>
<td>26</td>
<td>100</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Economic sector</th>
<th>Dollars in millions</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Women-Owned Small Businesses (WOSB)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Professional and Business Services</td>
<td>0.17</td>
<td>82</td>
</tr>
<tr>
<td>Other economic sectors ¹</td>
<td>0.94</td>
<td>18</td>
</tr>
<tr>
<td>Total</td>
<td>0.21</td>
<td>100</td>
</tr>
<tr>
<td>Service-Disabled Veteran-Owned Small Businesses (SDVOSB)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Construction</td>
<td>20</td>
<td>77</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>5</td>
<td>20</td>
</tr>
<tr>
<td>Other economic sectors ²</td>
<td>1</td>
<td>4</td>
</tr>
<tr>
<td>Total</td>
<td>26</td>
<td>100</td>
</tr>
</tbody>
</table>


Note: We analyzed data for federal prime contracting obligations awarded to small businesses in Puerto Rico for contracts performed there using Small Business Innovation Research (SBIR), HubZone, 8(a), and SDVOSB programs. Prime contract obligations for Puerto Rico may include obligations awarded to businesses that are subsidiaries of companies headquartered outside of Puerto Rico, to the extent that the place of performance is in Puerto Rico. The contracts include both supply and service contracts. North American Industry Classification System (NAICS) codes range from two to six digits and increase in specificity of description as the number of digits increases. We grouped the economic sectors using the first two digits of the NAICS codes. Percentages do not always sum to exactly 100 percent due to rounding.

¹Total obligations did not add up to $75 million due to rounding.
²No obligations were awarded in other economic sectors using the HubZone program. The overall amount of obligations awarded using the HubZone program in Puerto Rico had negative amounts of obligations as a result of de-obligations for prior year contracts through contract cancellations or other actions.
³We combined obligations awarded to other economic sectors using the 8(a) program due to the small amounts awarded.
⁴We combined obligations awarded to other economic sectors using the SDVOSB program due to the small amounts awarded.

Among federal agencies, DOD, VA, and GSA awarded the greatest percentages of federal prime contracting obligations to small businesses in Puerto Rico for contracts performed there. Specifically, in fiscal year 2016, DOD awarded about $229 million (72 percent) in obligations to small businesses in Puerto Rico, followed by VA at about $41 million (13 percent), and GSA at about $34 million (11 percent) (see table 2). For awards that used 8(a) and WOSB programs, more than 90 percent of the obligations were awarded by DOD; for awards that used the SDVOSB program, 80 percent were awarded by VA. Additionally, about half of the obligations awarded by VA for fiscal year 2016 went to SDVOSBs. VA has a statutory mandate to prioritize SDVOSBs over other types of businesses.

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Table 2: Top Agencies for Small Business Obligations Awarded for Puerto Rico-Based Businesses and Contracts Using the Small Business Administration’s Socioeconomic Programs, Fiscal Year 2018

<table>
<thead>
<tr>
<th>Agency</th>
<th>Dollars in millions</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>All small businesses</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Department of Defense (DOD)</td>
<td>229</td>
<td>77</td>
</tr>
<tr>
<td>Department of Veterans Affairs (VA)</td>
<td>41</td>
<td>13</td>
</tr>
<tr>
<td>General Services Administration (GSA)</td>
<td>35</td>
<td>11</td>
</tr>
<tr>
<td>Other agencies</td>
<td>14</td>
<td>4</td>
</tr>
<tr>
<td>Total</td>
<td>319</td>
<td>100</td>
</tr>
<tr>
<td>(a) Small Business Development (SBD)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>DOD</td>
<td>61</td>
<td>82</td>
</tr>
<tr>
<td>GSA</td>
<td>5</td>
<td>6</td>
</tr>
<tr>
<td>Department of Homeland Security</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>Other agencies</td>
<td>5</td>
<td>6</td>
</tr>
<tr>
<td>Total</td>
<td>75</td>
<td>100</td>
</tr>
<tr>
<td>Historically Underutilized Business Zone (HUBZone)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>DOD</td>
<td>0.02</td>
<td>100</td>
</tr>
<tr>
<td>Total</td>
<td>0.02</td>
<td>100</td>
</tr>
<tr>
<td>Women-Owned Small Businesses (WOSB)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>DOD</td>
<td>0.16</td>
<td>85</td>
</tr>
<tr>
<td>Other agencies</td>
<td>0.03</td>
<td>15</td>
</tr>
<tr>
<td>Total</td>
<td>0.21</td>
<td>100</td>
</tr>
<tr>
<td>Service-Disabled Veteran-Owned Small Businesses (SDVOSB)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>VA</td>
<td>21</td>
<td>80</td>
</tr>
<tr>
<td>DOD</td>
<td>5</td>
<td>20</td>
</tr>
<tr>
<td>Total</td>
<td>26</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: GAO analysis of Federal Procurement Data System Next Generation (FEDS). Note: We analyzed data for federal prime contracting obligations awarded to small businesses in Puerto Rico for contracts performed there using ITALS, HUBZone, WOSB, and SDVOSB programs. Prime contract obligations to Puerto Rico may include obligations awarded to businesses that are subsidiaries of companies headquartered outside of Puerto Rico, to the extent that the place of performance is in Puerto Rico. Percentages do not always sum to exactly 100 percent due to rounding.

*For fiscal year 2018, no obligations were awarded by other agencies using the HUBZone program.
*The combined obligations awarded using the WOSB program by other agencies due to the small amounts awarded.
*Other agencies obligated around $33,000 (around 0.1 percent) using the SDVOSB program.
HUBZone Applications Increased in Puerto Rico after Expansion of Criteria, and New Census Tracts in Puerto Rico Were Generally More Economically Distressed Than HUBZone Census Tracts Nationwide

We found that the number of applications submitted to the HUBZone program in Puerto Rico increased, and some businesses with primary locations in newly eligible qualified census tracts applied to the program. A total of 30 businesses submitted applications to the HUBZone program between June 2016 and March 2017. Based on our analysis, 16 of the 30 businesses that applied between June 2016 and March 2017 had primary locations in newly designated HUBZone-qualified census tracts. Fourteen of the 30 HUBZone applicants had other SBA program designations—8(a) program (7 applicants), WOSB (6 applicants), and SDVOSB (2 applicants). Of the 14 applicants with other SBA program designations, 7 had primary locations in newly designated census tracts. As previously discussed, after the lifting of the cap in June 2016, most of Puerto Rico had a HUBZone designation (see fig. 1).

The number of certified HUBZone firms also increased. Specifically, from the end of fiscal year 2015 to the end of fiscal year 2016, the number of certified HUBZone businesses in Puerto Rico increased by 2 (from 23 to 25), whereas for the first 6 months of fiscal year 2017 (October 2016 to March 2017), the number of HUBZone businesses increased by 15 (from 25 to 40). Six of the newly certified HUBZone businesses were located in newly designated qualified census tracts.

We found that the economic indicators for Puerto Rico for all census tracts—including previously designated census tracts, newly designated census tracts, and ineligible census tracts—generally showed greater economic distress than the indicators for all census tract categories nationwide, as indicated by American Community Survey estimates covering 2011 to 2015 (see table 3). For example, the average poverty rate in newly designated census tracts in Puerto Rico was about 44 percent, compared to 31 percent in newly designated census tracts nationwide. The economic indicators also suggest that newly eligible tracts are somewhat less economically distressed than previously designated tracts but more distressed than tracts that are still ineligible.

One of the firms had both SDVOSB and 8(a) certifications. We obtained information on the certification of firms from SBA’s Dynamic Small Business Search database.

SBA’s revision to the definition of qualified census tracts eligible to be designated as HUBZones in June 2016 led to an increase in the number of eligible HUBZone census tracts in Puerto Rico and nationwide. Previously designated census tracts refer to census tracts that were designated prior to the expansion of the eligibility criteria and retained eligibility after the SBA change.
Table 3: Comparison of Selected Economic Indicators for Census Tracts (Historically Underserved Business Zone (HUBZone) and Non-HUBZone) in Puerto Rico and Nationwide

<table>
<thead>
<tr>
<th>HUBZone type</th>
<th>Percent in poverty</th>
<th>Unemployment rate (Percent)</th>
<th>Average median household income (Dollars)</th>
<th>Average median housing value (Dollars)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Puerto Rico</td>
<td>Nationwide</td>
<td>Puerto Rico</td>
<td>Nationwide</td>
</tr>
<tr>
<td>Previously designated census tracts</td>
<td>60.7</td>
<td>32.9</td>
<td>25.2</td>
<td>13.1</td>
</tr>
<tr>
<td></td>
<td>12.972</td>
<td>31.370</td>
<td>99,326</td>
<td>147,270</td>
</tr>
<tr>
<td>Newly designated census tracts</td>
<td>44.1</td>
<td>31.3</td>
<td>17.6</td>
<td>12.4</td>
</tr>
<tr>
<td></td>
<td>20.340</td>
<td>33.215</td>
<td>121,788</td>
<td>183,929</td>
</tr>
<tr>
<td>Ineligible census tracts</td>
<td>20.2</td>
<td>11.1</td>
<td>10.3</td>
<td>7.2</td>
</tr>
<tr>
<td></td>
<td>39,805</td>
<td>85,008</td>
<td>167,896</td>
<td>249,196</td>
</tr>
</tbody>
</table>

Note: The Small Business Administration’s (SBA) revision in the definition of qualified census tracts eligible to be designated as HUBZone in June 2016 led to an increase in the number of eligible HUBZone census tracts in Puerto Rico and nationwide. The ACS is an ongoing survey that covers topics such as the social, economic, demographic, and housing characteristics of the U.S. population. The 5-year estimates from ACS represent data collected over a period of time. The primary advantage of using multiphase estimates is the increased statistical reliability of the data for less populated areas and small population subgroups. The most recent 5-year estimate covers 2011–2016.

*Previously designated census tracts are those that were eligible prior to the June 2016 expansion of the HUBZone eligibility definition and retained eligibility after the SBA revision.

Stakeholders Believe That Small Business Challenges in Puerto Rico May Be Exacerbated by Geography and Economic Conditions

Stakeholders we spoke with identified a number of challenges that small businesses in Puerto Rico may face in obtaining federal contracting opportunities. Many of these challenges were similar to those we found in 2012 that small businesses, including minority-owned businesses, face nationwide in seeking federal contract opportunities. These challenges included increased use of contract bundling or consolidation, difficulty in meeting contract procurement requirements, and lack of knowledge about the federal procurement process. In addition, some stakeholders we interviewed indicated that the island geography of Puerto Rico and its economic conditions may complicate or exacerbate some of these challenges compared to small businesses elsewhere. None of the stakeholders we interviewed identified federal laws that have created unique challenges for small businesses in Puerto Rico in obtaining federal contracting. In addition, SBA and other agencies identified examples of efforts undertaken to further assist Puerto Rican small businesses in

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obtaining federal contracting opportunities, such as holding training events and conferences.

Increased Use of Contract Bundling or Consolidation

Representatives from one association and SBA representatives we interviewed identified contract bundling or consolidation as a challenge for small business federal contracting in Puerto Rico. According to SBA officials, a trend in federal contracting toward contract consolidation or bundling has led to a decrease in the number of small businesses competing for federal contracts across the United States. Stakeholders in our 2012 report stated that contract bundling could reduce the number of contracting opportunities for small businesses. In that report, representatives from advocacy groups stated that contract bundling could reduce the number of contracting opportunities available for small and minority-owned businesses. SBA's procurement center representatives (PCR) and officials from SBA’s Puerto Rico District Office both stated that smaller businesses are less likely to have the capability or experience to compete or qualify for the large scope of work associated with consolidated contracts and noted that for an island like Puerto Rico small businesses are generally smaller.

According to SBA, one of the roles that PCRs play is to work with contracting officers to evaluate whether bundling is the best way to acquire services and supplies. Additionally, bundling of acquisitions undergoes several levels of review to ensure that bundling is necessary. Specifically, the Small Business Act requires that procuring activities conduct market research to justify acquisition strategies that could lead to

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67 Bundling, as defined in the Small Business Act, involves consolidating two or more requirements for goods or services previously provided or performed under separate smaller contracts into a solicitation for a single contract that satisfies two or more requirements for goods or services valued in excess of $2 million that have been provided or performed under two or more separate contracts each of which was lower in cost than the contract for which offers are solicited or to satisfy requirements for construction to be performed at two or more discrete sites. For more information, see GAO, Small Business Contracting: Updated Guidance and Reporting Needed for Consolidated Contracts, GAO-14-36 (Washington, D.C., Nov. 26, 2013).

consolidated procurement requirements, (2) provide advance notice of substantial bundled solicitations on a public website, and (3) implement certain procurement strategies when solicitations involve substantial bundling. According to SBA, FPDS-NG and agency data collection sources do not currently contain sufficient information to quantify the extent to which bundling of contract requirements affects the ability of small businesses to compete as prime contractors or to compare the savings realized under an existing bundled contract with the potential savings that may occur if that bundled contract is recompeted in its current configuration.

**Difficulty Meeting Procurement Requirements**

Representatives from four associations and the Federal Contracting Center stated that the procurement requirements for federal contracts, such as performance history for construction contracts, posed challenges for small businesses in Puerto Rico. In our 2012 report, officials from federal agencies and advocacy groups also identified lack of performance history as a challenge for small, minority-owned businesses. In addition, representatives from two associations and the Federal Contracting Center as well as the SBA PCR said that as an island, Puerto Rico faces specific challenges in meeting procurement requirements. For example, representatives from the Federal Contracting Center noted that the construction of a cemetery required a business to demonstrate experience in developing several cemeteries in the past 5 years. These representatives stated that opportunities to construct cemeteries are limited in Puerto Rico and that relevant experience may have been from more than 5 years ago.

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68A “procuring activity” is any component of an executive agency with significant acquisition functions that is designated as such by the head of the agency. 40 C.F.R. §2101.

49See Small Business Administration, Contract Bundling Report to Congress, Fiscal Year 2015 (Washington, D.C., May 6, 2016). Of the 24 executive branch agencies that reported on their contract bundling activity in fiscal year 2015, all but one reported no bundling activity. DOD reported bundling activity consisting of 7 contract awards that totaled approximately $1.3 billion for fiscal year 2015.

50The Federal Contracting Center is part of a nationwide network of Procurement Technical Assistance Centers that help businesses navigate the government procurement process, such as obtaining certifications for SBA’s small business contracting programs and assistance with applying for VA’s verification program for service-disabled veteran-owned small businesses. DOD administers the Procurement Technical Assistance Program, which provides matching funds for these centers through cooperative agreements with state and local governments and nonprofit organizations.
In addition, representatives from four associations and the Federal Contracting Center said that the experience of construction businesses in Puerto Rico does not match the procurement requirements, which are often standardized on mainland building standards and do not consider the unique conditions in Puerto Rico. They said that as a result, agencies’ contracting officers may not consider Puerto Rican businesses’ experience as qualifying. For example, representatives from four associations stated that construction businesses in Puerto Rico demonstrate greater understanding of building requirements in Puerto Rico, such as accounting for tropical climate or the risk of seismic activity, in their construction plans but these factors have not been part of federal procurement requirements.

SBA and GSA officials stated they were aware of the concerns about the procurement requirements from businesses located in Puerto Rico. GSA officials stated they try to strike a balance by not creating prohibitively strict procurement criteria and ensuring that they can identify businesses that are capable of doing the work.

Lack of Access to Bonding, Financing, and Capital for Construction Projects

Federal construction contracts often require bonding. Bonding ensures that businesses have the financial capacity to perform the work and pay for labor and supplies. Representatives from two associations and GSA officials stated that small businesses in Puerto Rico often could not obtain bonding because they lacked access to capital. According to DOD and GSA officials and representatives from two associations and the Federal Contracting Center, small businesses may not be able to meet bonding requirements based on the businesses’ credit or financial standards required by the surety companies due to Puerto Rico’s economic downturn. Representatives from one association stated that a surety company may determine that a business is not competitive for a contract and not provide bonding as a result. Additionally, representatives from two other associations stated that bank failures in Puerto Rico in recent years have affected access to capital and that banks are unwilling to extend credit to small businesses. They said the resulting lack of credit

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69Performance and bid bonds are types of surety bonds consisting of a three-party agreement. A surety bond provides assurance to the project owner that the contractor will perform a contract in accordance with the contract documents. The surety company prequalifies the contractor based on financial strength and construction expertise. Among many requirements, the surety company requires evidence of a bank line of credit to augment working capital and to handle temporary cash flow deficits or financial strains.
may have also decreased businesses' ability to obtain bonding. In our 2012 report, officials from advocacy groups and federal agencies also cited lack of access to capital, financing, and bonding as challenges for minority-owned businesses. On April 24, 2017, SBA announced that it had approved the first Puerto Rican surety company to participate in its Surety Bond Guarantee Program. Through this program, qualifying surety companies can receive a guarantee of a percentage of the losses incurred on bonds issued to small businesses.

**Lack of Knowledge of the Federal Contracting Process**

Representatives from two associations and the Federal Contracting Center, members of an association, and an industry observer stated that a lack of knowledge of the federal contracting process can be a challenge for small businesses in Puerto Rico. In our 2012 report, officials from federal agencies and advocacy groups also identified lack of knowledge about the federal contracting process as a challenge for small, minority-owned businesses. Representatives from one association we interviewed stated that some small businesses in Puerto Rico may not know how to complete a proposal for federal contracting and may not have the infrastructure in place to prepare contracts accurately. Additionally, members from an association stated that small businesses do not have a process in place to meet the proposal guidelines. DOD and GSA officials stated that proposals submitted sometimes are not high quality and need additional assistance. Representatives from one association stated that some small businesses are unfamiliar with federal contracting opportunities and where to find them.

Officials from SBA’s Puerto Rico District Office said that they hold regular training on contracting programs and how to navigate the contracting process. The District Office also holds one-on-one appointments with businesses to help them navigate the federal contracting process and has offered training on proposal writing. For example, the District Office offered a class on cost and price analysis in March 2017. A representative from the Small Business and Technology Development Center (SBTDC) also stated that counselors at SBTDC often help to redo the proposals.\(^{67}\)

\(^{67}\)SBTDC is part of a nationwide network of Small Business Development Centers that provide assistance to small businesses, such as business consulting and training; it receives grants from SBA.
Lack of Knowledge of SBA’s Small Business Contracting Programs

Representatives from two associations we interviewed and the Federal Contracting Center stated that small businesses lack basic information about SBA’s federal contracting programs and their benefits. According to Federal Contracting Center representatives and an industry observer, small businesses may not know where to obtain information about SBA’s programs and how to complete the paperwork to become certified in these programs. One association representative told us that businesses in Puerto Rico needed more training and better education about the programs’ benefits and requirements.

SBA has conducted various small business outreach activities in Puerto Rico, including training and seminars, to promote participation in its small business contracting programs. According to officials in SBA’s Puerto Rico District Office, the office offered 51 training events with 424 attendees in fiscal year 2016; 47 training events with 517 attendees in fiscal year 2015; and 56 training events with 701 attendees in fiscal year 2014. These training events focused on the 8(a), HUBZone, WOSB, and SDVOSB programs. SBA’s Puerto Rico District Office has also coordinated with local governments, nonprofits, chambers of commerce, and other associations in order to provide information to small businesses about the programs. For example, the District Office has a memorandum of understanding with the Puerto Rico Chamber of Commerce for the Chamber to inform its clients and members about SBA’s programs and services and to refer its members to SBA’s resource partners when appropriate; the District Office has 14 such agreements with other organizations as of May 2017. SBA also relies on three resource partners throughout Puerto Rico to promote SBA programs: SBTDC, which has offices in six municipalities; two Women’s Business Centers; and 17 volunteers serving as business counselors through the SCORE (formerly the Service Corps of Retired Executives) program.

49These are not the only training and outreach efforts provided by SBA’s Puerto Rico District Office; the District Office also collaborates with their resource partners to provide other outreach and training.

49SCORE (formerly the Service Corps of Retired Executives) is a nonprofit resource partner of SBA that provides free and confidential small business advice for entrepreneurs and small businesses. SBTDC provides counseling, education, and resources to small and minority-owned businesses. Women’s Business Centers are a nationwide network of nearly 100 educational centers designed to assist women in starting and growing small businesses.
With the expansion of the eligible HUBZone census tracts, SBA officials stated that they have tried to reduce the burden of documentation and approval time to encourage businesses to apply for certification. Additionally, Federal Contracting Center representatives stated that they are working with small businesses to certify them for the HUBZone program. As of March 2017, 40 small businesses in Puerto Rico were HUBZone businesses and 76 were 8(a) businesses, an increase in both categories compared to the prior 2 fiscal years.

Limitations in SBA’s online system used to help small businesses identify whether they are located in a HUBZone area may also pose a challenge to small businesses in Puerto Rico seeking to determine if they may apply to the HUBZone program. To help small business owners determine if their business is located in a HUBZone, and therefore potentially eligible to participate in the program, SBA provides an online locator. Business owners can search the online locator using the business’s geographic coordinates or its address, or they can use a color-coded HUBZone map. Due to the unique formatting of addresses in Puerto Rico, SBA’s system is not able to process certain addresses. SBA officials told us that they are aware that SBA’s online tool is unable to process some addresses in Puerto Rico and have generally advised businesses to search using geographic coordinates. Additionally, SBA officials stated that they are in the process of transitioning to a new mapping system that should provide more accurate information. They estimated that the system will be available in late 2017.

Lack of Access to Agency Contracting Officials

Representatives from one association and the Federal Contracting Center cited the lack of access to contracting officials as an issue for small businesses in Puerto Rico. In our 2012 report, advocacy group officials also cited a lack of access to contracting officials as a significant challenge for small businesses. An official from the Minority Business Development Agency (MBDA) Business Center in Puerto Rico stated that geographic barriers may be a challenge for small businesses there because it is difficult for these businesses to market and maintain their 3Postal addresses in Puerto Rico can be in several formats. One format consists of standard street name and prefixes, numbered street addresses, and Post Office boxes. Other formats may also use specific residential developments like urbanizations, apartment buildings, or condominiums as the main identifier; addresses could also have rural routes or highway contract routes, which are typically different than standard mainland rural routes and highway contract route, as the main identifier.
relationships with contracting officers, who are generally located at the headquarters level on the mainland. Federal Contracting Center representatives stated that for professional services (such as accounting), most of the contracting opportunities are managed by agencies with headquarters in Washington, D.C., and that businesses in Puerto Rico found it difficult to enter the market in Puerto Rico. Additionally, representatives from one association stated that contracting officers from agencies do not have a presence in Puerto Rico and award contracts to businesses that are local to these agencies rather than to businesses in Puerto Rico.

Officials from SBA, DOD, VA, and GSA said they help to connect small businesses to federal contracting officers through conferences and matchmaking events where businesses can meet contracting officers one-on-one.

Communication Barriers

Representatives from one association and the Federal Contracting Center stated that language was an issue facing small businesses in Puerto Rico. In our 2012 report, advocacy group officials cited linguistic and cultural barriers as a challenge for minority-owned small businesses on a limited basis. In addition, the language barrier may hinder the ability of some small businesses to complete the applications to become certified in SBA’s small business contracting programs or access the opportunities for contracts once certified. Federal Contracting Center representatives stated that language may prevent small businesses from developing relationships with the contracting agency or may be a barrier in the proposal development process.

SBA officials stated that they believe that the bigger challenge was that documents need to be translated from Spanish, which can be onerous and costly. They said that some small businesses do not have the resources or the ability to perform these translations. Officials from SBA’s Puerto Rico District Office stated that SBA offices accept documents in Spanish if the office has a Spanish-speaking staff member. However, if no Spanish-speaking staff member is available, documents must be translated into English in order for SBA to review them. GSA officials

51The MBDA Business Center provides assistance to minority-owned businesses on such issues as competing for contracts or securing capital. The MBDA Business Center receives grants from the Department of Commerce's MBDA; the Puerto Rico Products Association operates the Center in Puerto Rico.
stated that its Puerto Rico office has bilingual staff and that they have generally not encountered language barriers with businesses in Puerto Rico.

### Lack of a Procurement Center Representative

Representatives from the Federal Contracting Center and one association identified the lack of an SBA PCR in Puerto Rico as a disadvantage for small businesses seeking federal contracts. SBA PCRs work with federal agencies and small businesses to identify contracting opportunities for small businesses. According to a Federal Contracting Center representative, having a PCR is important because the PCR can advocate for small businesses in various ways. For example, the PCR can work with contracting officers to determine small business set-asides, make adjustments to procurement requirements, and make agency contracting officers more aware of businesses in Puerto Rico. According to one association’s representative, the PCR should assist local businesses and promote businesses located in Puerto Rico to federal agencies.

SBA officials we interviewed stated that SBA has limited resources and cannot justify dedicating a PCR in Puerto Rico based on their analyses. According to SBA officials, SBA has 3,000 federal procurement centers and 57 PCRs. SBA officials stated that Puerto Rico has a low volume of federal contracting activities and a relatively high percentage of prime contracting.

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52A network of PCRs in six SBA area offices is responsible for federal procurement activities nationwide. SBA’s Area 1 office, located in Boston, is responsible for procurement activities taking place in Puerto Rico. SBA officials stated that while the Area 1 office generally interacts with certain agencies in Puerto Rico, including the General Services Administration and the Department of the Army, PCRs in other area offices also interact with agencies with contracting activities in Puerto Rico based on their expertise.


54SBA uses the Buying Opportunity Tool to look at contract obligation data and identify areas or regions that have opportunities for small business growth. SBA has identified 300 procurement centers where the dollar amounts in obligations to small business exhibit the greatest opportunity and identified areas for small business growth. Puerto Rico was not identified as an area for small business growth, given the high percentage of obligations going to small businesses there.
contract obligations awarded to small businesses as compared to the federal government's goal of at least 23 percent.

<table>
<thead>
<tr>
<th>Award of Contracts to Businesses Located Outside of Puerto Rico</th>
</tr>
</thead>
<tbody>
<tr>
<td>Representatives from four associations stated that challenges such as lack of access to contracting officers and difficulty meeting procurement requirements have led to concerns about contracts being awarded to businesses located outside of Puerto Rico for work to be performed in Puerto Rico. In a report prepared by the Congressional Task Force on Economic Growth in Puerto Rico, the Task Force recommended that Congress consider establishing a Puerto Rico small business contracting preference for federal contracts performed in Puerto Rico. SBA and VA officials stated that agencies do not have locational requirements for procurements and all qualifying businesses can compete for contracts located in Puerto Rico.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Agency Comments</th>
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<tbody>
<tr>
<td>We provided a draft of this report for review and comment to SBA, DOD, GSA, and VA. Additionally, we provided relevant sections of the draft report to the agencies, industry associations, and economic development entities in Puerto Rico we interviewed to confirm the accuracy of information they provided. SBA, DOD, and VA provided technical comments, which we have incorporated, as appropriate.</td>
</tr>
</tbody>
</table>

We are sending copies of this report to congressional committees, agencies, and other interested parties. In addition, this report will be available at no charge on our website at http://www.gao.gov.

If you or your staff members have any questions about this report, please contact me at (202) 512-8678 or shearrw@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made key contributions to this report are listed in appendix VII.

William B. Shear
Director, Financial Markets and Community Investment
Appendix I: Objectives, Scope, and Methodology

This report examines (1) trends in small business contracting and the use of Small Business Administration (SBA) programs that provided federal contracting preferences to small businesses in Puerto Rico from fiscal years 2006 through 2016, and (2) stakeholder views on any challenges small businesses in Puerto Rico face in obtaining federal contracting opportunities, including those posed by federal laws, and steps SBA and other agencies have taken to assist Puerto Rican small businesses in obtaining federal contracting opportunities.

To identify trends in the use of SBA programs that provided federal contracting preferences to small businesses in Puerto Rico from fiscal years 2006 through 2016, we obtained data on federal prime contract obligation amounts for Puerto Rico and nationwide from Federal Procurement Data System—Next Generation (FPDS-NG) for those fiscal years. For Puerto Rico, we used data on the obligations awarded to businesses located in Puerto Rico for work performed there. We used the nationwide data as a reference point for our analysis of small business federal contracting trends in Puerto Rico. Using these data, we analyzed the level of federal contracting obligations to small businesses and the use of SBA’s socioeconomic programs to award obligations to businesses located in Puerto Rico and nationwide. Those programs are 8(a) Business Development (8(a)), Historically Underutilized Business Zones (HUBZone), Women Owned Small Business (WOSB), and Service-Disabled Veteran-Owned Small Business (SDVOSB). Additionally, using fiscal year 2016 data from FPDS-NG, we analyzed the industries with the highest amounts of obligations and the agencies that awarded the most obligations. To identify regulatory changes that could have influenced trends in the use of the SBA socioeconomic programs, we reviewed the Federal Register and GAO reports. We determined that the data from FPDS-NG were sufficiently reliable for analyzing trends by reviewing relevant documents related to the data to determine their reliability.

To examine the potential influence of a change SBA made to the HUBZone program in June 2016 that expanded the number of eligible HUBZone areas, we analyzed monthly data provided by SBA on the

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1 Nationwide data include obligations awarded to businesses in Puerto Rico.

2 Prime contract obligations for Puerto Rico may include obligations awarded to businesses that are subsidiaries of companies headquartered outside of Puerto Rico, to the extent that the contracts' place of performance was Puerto Rico. We included awards made using sole source and set-asides for all programs in our analysis. We did not include HUBZone awards made using price evaluation preference.
number of applications to the HUBZone program in Puerto Rico from October 2015 through March 2017. We also obtained information from SBA on the names, addresses, and census tracts of the applicants that applied between June 2016 and March 2017 to determine if the applicants came from newly designated census tracts. Further, we obtained information to determine if the applicants to the HUBZone program had other certifications by downloading data from SBA’s Dynamic Small Business Search (DSBS) database on businesses with certifications in the 8(a), WOSB, and SDVOSB programs. Using DSBS data, we searched for the names of the HUBZone applicants to determine if they had these certifications. Additionally, we obtained economic data from the U.S. Census Bureau’s American Community Survey and compared economic conditions of the HUBZone census tracts that were newly designated and previously existing as well as census tracts ineligible for the program. We determined that the data from the Census Bureau, the DSBS database, and other data provided by SBA were sufficiently reliable for describing economic conditions in HUBZone areas and for describing the status of HUBZone applicants. We made this determination by reviewing relevant documents related to the data to determine their reliability as well as interviewing SBA officials about the data.

To identify stakeholder views on any challenges small businesses in Puerto Rico face in obtaining federal contracting opportunities, including those posed by federal laws, and steps SBA and other agencies have taken to assist Puerto Rican small businesses in obtaining federal contracting opportunities, we interviewed SBA officials and other stakeholders, such as federal agency contracting officials, industry associations, and economic development entities in Puerto Rico. For SBA, we interviewed officials at the headquarters level and in the Puerto Rico District Office, as well as Procurement Center Representatives (PCR) responsible for federal contracting activities in Puerto Rico.

SBA defines eligible census tracts using poverty rate and income. In addition, a population cap previously limited the number of eligible census tracts. Under the cap, in metropolitan areas where more than 20 percent of the population qualified, the list of eligible census tracts was ordered from the highest percentage of eligible households to the lowest until the 20 percent limit was exceeded. SBA lifted the population cap in June 2016.

SBA PCHR.s cover federal government contracting activities occurring in the geographic areas of responsibility in one of six area offices. SBA’s Area 1 office in Boston provides coverage for federal government contracting activities in Puerto Rico.
federal agencies, we interviewed contracting officials at the three
agencies with the largest proportions of small business obligations in
Puerto Rico in fiscal year 2016: the Department of Defense (DOD),
Department of Veteran Affairs (VA), and General Services Administration
(GSA). We also interviewed representatives from the following
organizations located in Puerto Rico: Economic Development Bank for
Puerto Rico, Puerto Rico Trade and Export Company, Federal
Contracting Center, Chamber of Commerce (which included a
representative from the Small Business and Technology Development
Center (SBTDC), Minority Business Development Agency (MBDA)
Business Center, Minority Development Council, Manufacturers
Association, Builders Association, General Contractors Association, and
an industry observer formerly with the Economist Association. 6 Several of
these stakeholders, such as the Federal Contracting Center, MBDA
Business Center, and SBTDC, provide information and assistance for
federal contracting to businesses. We selected these organizations based
on our analysis of relevant stakeholders, including those representing the
largest industries in which obligations were awarded in Puerto Rico in
fiscal year 2016. Additionally, as we conducted interviews, we asked each
interviewee to suggest additional stakeholders we should interview. We
did not assess the extent to which steps SBA and other agencies have
taken address the challenges stakeholders identified. We reviewed data
on outreach events that SBA provided. We determined that the data
provided by SBA were sufficiently reliable for our purpose of describing
outreach SBA conducted in Puerto Rico. We also conducted a literature
review of trade articles, academic articles, testimonies, and GAO and

6 The Economic Development Bank for Puerto Rico is a public corporation of Puerto Rico
that provides loans, loan guarantees, and investments to organizations whose economic
activities may have the effect of substituting imports in Puerto Rico. The Puerto Rico
Trade and Export Company is a public corporation of Puerto Rico that provides
information and consulting services to small and medium-sized companies in order to
promote entrepreneurship. The Federal Contracting Center is part of a nationwide
network of Procurement Technical Assistance Centers that help businesses navigate the
government procurement process, such as obtaining certifications for SBA’s small
business contracting programs and assistance with applying for VA’s verification program
for service-disabled veteran-owned small businesses. DOD administers the Procurement
Technical Assistance Program, which provides matching funds for these centers through
cooperative agreements with state and local governments and nonprofit organizations.
SBTDC is part of a nationwide network of Small Business Development Centers that
provide assistance to small businesses, such as business consulting and training. It
receives some funding from SBA. The MBDA Business Center provides assistance to
minority-owned businesses on such issues as competing for contracts or securing capital.
The MBDA Business Center receives grants from the Department of Commerce’s MBDA;
the Puerto Rico Products Association operates the Center.
SBA reports to identify challenges cited for the 8(a), HUBZone, WOSB, and SDVOSB programs and challenges faced by small businesses in federal contracting in Puerto Rico. In our review, we searched several databases, including ProQuest, Academic OneFile, SSRN, Scopus, National Technical Information Service, PolicyFile, and Lexis Nexis. The keywords used included “SBA,” “Puerto Rico,” and “contracting,” and the names of the four SBA programs we reviewed in this report. We restricted our review to items that were published from 2006 and 2016. Our review did not yield any literature on challenges faced by small businesses in Puerto Rico; additionally, literature on the four SBA programs generally consisted of trade articles and testimonies.

We conducted this performance audit from September 2016 to June 2017 in accordance with generally accepted government auditing standards. These standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.
Appendix II: Eligible Historically Underutilized Business Zone Census Tracts in the United States

On June 16, 2016, the Small Business Administration (SBA) announced that it had revised the definition of qualified census tracts eligible to be designated as Historically Underutilized Business Zones (HUBZone). Previously, in addition to poverty rate and income, a statutory population cap limited the number of eligible census tracts. Under the cap, in metropolitan areas where more than 20 percent of the population qualified, the list of eligible census tracts was ordered from the highest percentage of eligible households to the lowest until the 20 percent limit was exceeded. By lifting the population cap, the number of eligible census tracts increased by 1,499 (from 15,936 to 17,437) in the United States, excluding U.S. territories. Figure 4 shows newly eligible and previously eligible HUBZone census tracts in the United States.1

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1On June 30, 2016, Congress enacted the Puerto Rico Oversight, Management, and Economic Stability Act which, among other things, authorized SBA not to apply the 20 percent cap but only for HUBZone designations in Puerto Rico and only for a limited time.
Figure 4: Eligible Historically Underutilized Business Zone Census Tracts in the United States after June 2015

HUBZone Eligibility

- Newly eligible census tracts
- Previously eligible census tracts

Source: GAO analyses of data provided by the Small Business Administration. [Map Note: GAO-17-592]

Note: The Small Business Administration's (SBA) revision in the definition of qualified census tracts eligible to be designated as HUBZones in June 2015 led to an increase in the number of eligible HUBZone census tracts in the United States. "Previously eligible" census tracts are those that were eligible prior to the expansion of the HUBZone eligibility criteria and retained eligibility after the SBA revision.
Appendix III: Contract Awards and Obligations for Contracts Performed in Puerto Rico by Business Size and Location

From fiscal years 2006 through 2016, for contracts performed in Puerto Rico, more contracts went to small businesses in Puerto Rico than to large businesses in Puerto Rico and both small and large businesses outside of Puerto Rico. Figure 5 shows the award of contracts performed in Puerto Rico by business size and location.

Figure 5: Number of Contracts Performed in Puerto Rico by Business Size and Location, Fiscal Years 2006–2016

Note: We analyzed data for federal prime contracts performed in Puerto Rico. These contracts may include contracts awarded to businesses that are subsidiaries of companies headquartered outside of Puerto Rico, to the extent that the contractor’s place of performance was Puerto Rico. “Small businesses” are procurements for which a contracting officer has determined the awardees are small businesses. “Large businesses” are procurements that are not small businesses. The Small Business Administration (SBA) establishes size standards, which are usually number of employees or average annual receipts, to represent the largest size that a business (including its subsidiaries and affiliates) may be to remain classified as a small business for SBA and federal contracting programs. The definition of small business varies to reflect industry differences.

From fiscal years 2013 through 2016, for contracts performed in Puerto Rico, more obligations were awarded to small businesses in Puerto Rico than to large businesses in Puerto Rico and both small and large businesses outside of Puerto Rico. Figure 6 shows the award of...
Appendix III: Contract Awards and Obligations
for Contracts Performed in Puerto Rico by Business Size and Location

contracting obligations for contracts performed in Puerto Rico by business size and location.

Figure 6: Obligations Awarded for Contracts Performed in Puerto Rico by Business Size and Location, Fiscal Years 2006–2016

Percentage


Fiscal year

Small businesses in Puerto Rico
Small businesses outside of Puerto Rico
Large businesses in Puerto Rico
Large businesses outside of Puerto Rico

Source: GAO analysis of data from the Federal Procurement Data System-Next Generation. (GAO-17-560)

Note: We analyzed federal prime contract obligations data for contracts performed in Puerto Rico. Prime contract obligations for Puerto Rico may include obligations awarded to businesses that are subsidiaries of companies headquartered outside of Puerto Rico to the extent that the contracts place of performance is in Puerto Rico. “Small businesses” are procurements for which a contracting activity determines the contractor(s) to be small businesses. “Large businesses” are defined as procurements that are not small businesses. The Small Business Administration (SBA) establishes size standards, which are generally based on the average size of a business. A business that is not small according to the applicable size standard is considered large. The small business size standard for a particular size category may be greater than that for the size category in which it would fall if it were an independent business for the purpose of determining its size status. It may be the case that a business (including its subsidiaries and affiliates) may be too small to be classified as a small business for SBA and federal contracting programs. The definition of small business varies by industry.
Appendix IV: Contract Obligation Awards for Contracts Performed in a State or Territory by Business Size and Location

Figure 7 provides information on the award of federal prime contracting obligations to businesses by location and size for contracts where the place of performance was in that state or territory in fiscal year 2016.
Figure 7: Obligations Awarded to Businesses for Contracts Performed In a State or Territory by Business Site, Fiscal Year 2018

Notes: Percentages do not always sum to exactly 100 percent due to rounding. "Small businesses" are procurements for which a contracting officer has determined that the awardees are small businesses. "Large businesses" are defined as procurements that are not small businesses. The Small Business

Source: GAO analysis of data from Federal Procurement Data System Next Generation - (GAO-17-695)
Appendix IV: Contract Obligation Awards for Contracts Performed in a State or Territory by Business Size and Location

<table>
<thead>
<tr>
<th>Business Size</th>
<th>Contract Obligations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Small</td>
<td></td>
</tr>
<tr>
<td>Medium</td>
<td></td>
</tr>
<tr>
<td>Large</td>
<td></td>
</tr>
</tbody>
</table>

Administration (SBA) establishes size standards, which are usually number of employees or average annual receipts, to represent the largest size at a business (including its subsidiaries and affiliates) may be to remain classified as a small business for SBA and federal contracting programs. The definition of small business varies to reflect industry differences.

*In the U.S. Minor Outlying Islands, the percentage of obligations awarded to large businesses outside of the territory was negative due to de-allocations for prior-year contracts through contract cancellations or other actions.
Appendix V: Selected Major Regulatory or Programmatic Changes Made to SBA’s Socioeconomic Programs, 2006–2016

The Small Business Administration (SBA) has issued various final rules as well as made certain programmatic changes to the 8(a) Business Development (8(a)), Historically Underutilized Business Zone (HUBZone), Women-Owned Small Business (WOSB), and Service-Disabled Veteran-Owned Small Business (SDVOSB) programs.

<table>
<thead>
<tr>
<th>Program</th>
<th>Year</th>
<th>Programmatic or regulatory change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Historically Underutilized Business Zone (HUBZone)</td>
<td>October 2016</td>
<td>Rule allowed Native Hawaiian Organizations to own HUBZone small business concerns, expanded definition of base closure areas, and allowed inclusion of qualified disaster areas for the HUBZone program.</td>
</tr>
<tr>
<td>All programs</td>
<td>August 2018</td>
<td>Rule established government-wide mentor-protégé program for all small business concerns consistent with SBA’s 8(a) Business Development (8(a)) mentor-protégé program.</td>
</tr>
<tr>
<td>HUBZone</td>
<td>June 2016</td>
<td>SBA removed population cap calculation that was used to determine qualified census tracts and announced designation of an additional 516 census tracts for Puerto Rico.</td>
</tr>
<tr>
<td>All programs</td>
<td>June 2016</td>
<td>Rule created an exclusion from the limitations on subcontracting for “similarly situated entities,” that is, any work done by a similarly situated entity does not constitute “subcontracting” for purposes of determining compliance with the applicable limitation on subcontracting.</td>
</tr>
<tr>
<td>WOSB</td>
<td>October 2015</td>
<td>Rule allowed sole source awards to WOSBs or EDWOSBs.</td>
</tr>
<tr>
<td>All programs</td>
<td>December 2013</td>
<td>Established policies and procedures for setting aside parts of multiple-award contracts for small businesses, reserving one or more awards for small businesses on multiple-award contracts that were established through full and open competition, and setting aside orders for small businesses under multiple award contracts awarded pursuant to full and open competition, prohibited an agency from conducting an acquisition that was a consolidation of contract requirements unless the agency demonstrated that the consolidation benefits substantially exceeded the benefits of separate contracts and identified the negative impacts on small businesses; established rules for bundling, a specific type of consolidation which consolidated two or more previously separate procurement requirements and which was likely unsuitable for award to a small business but might be suitable for award to a Small Business Teaming Arrangement.</td>
</tr>
<tr>
<td>WOSB</td>
<td>May 2013</td>
<td>Rule removed limitation on dollar amount of a contract that WOSB can compete for in a set-aside.</td>
</tr>
<tr>
<td>8(a) and HUBZone</td>
<td>August 2013</td>
<td>Rule clarified when size is determined for the purpose of entry into 8(a) and HUBZone programs.</td>
</tr>
<tr>
<td>All programs</td>
<td>August 2013</td>
<td>Established a presumption of loss to the United States equal to the total amount expended on the contract when a concern willfully sought and received an award by misrepresenting its size or status.</td>
</tr>
</tbody>
</table>
### Programmatic or regulatory change

<table>
<thead>
<tr>
<th>Program</th>
<th>Year</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>All programs</td>
<td>August 2013</td>
<td>Rule required the prime contractor for those contracts for which a small business subcontracting plan was required to notify the agency’s contracting officer in writing if it failed to utilize a small business in preparing and submitting the prime contractor’s bid or proposal, also required the prime contractor to notify the contracting officer in writing whenever a payment to the subcontractor was reduced or 90 days or more past due for goods and services for which the federal agency paid the contractor.</td>
</tr>
<tr>
<td>WOSB</td>
<td>February 2012</td>
<td>Rule amended WOSB’s protest procedures to be consistent with the protest procedures for SBA’s other government contracting programs.</td>
</tr>
<tr>
<td>HUBZone</td>
<td>2011</td>
<td>A large number of HUBZone areas nationwide lost their designation with the release of census data.</td>
</tr>
<tr>
<td>8(a)</td>
<td>March 2011</td>
<td>Overhauled 8(a) program including revisions to regulations covering, among other subjects, economic disadvantage, ownership and control, tribally-owned firms, and excessive withdrawals.</td>
</tr>
<tr>
<td>HUBZone</td>
<td>July 2011</td>
<td>Rule changed HUBZone re-application wait time from 1 year to 90 days.</td>
</tr>
<tr>
<td>HUBZone</td>
<td>May 2010</td>
<td>Rule simplified definition of “employees” to increase employment of HUBZone residents.</td>
</tr>
<tr>
<td>HUBZone</td>
<td>2008</td>
<td>SBA corrected a map error that incorrectly designated 25 metropolitan counties as difficult development areas that do not meet this or other criteria for inclusion as a HUBZone area. Nearly all of these incorrectly designated areas were in Puerto Rico.</td>
</tr>
<tr>
<td>Service-Disabled Veteran-Owned Small Business</td>
<td>July 2007</td>
<td>Rule encouraged the issuance of bonds on behalf of small businesses owned by veterans and service-disabled veterans by guaranteeing 90 percent of bond surety’s loss.</td>
</tr>
<tr>
<td>All programs</td>
<td>June 2007</td>
<td>Rule required, for contracts with durations of more than 5 years (including options), a business concern to reestablish its small business status at the end of the fifth year of the contract and before the exercise of any subsequent option.</td>
</tr>
</tbody>
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Appendix VI: Award of Puerto Rico-Based Contracts to Puerto Rico-Based Businesses with Socioeconomic Program Designations

Agencies can count federal prime contracting dollars awarded to small businesses under more than one socioeconomic category. For example, if a business with both Historically Underutilized Business Zone (HUBZone) and Service-Disabled Veteran-Owned Small Business (SDVSOB) designations received a contract through HUBZone set-aside, the contracting dollars would count towards both of these programs’ contracting goals. For a majority of the fiscal years from 2006 through 2016, businesses with HUBZone and Women-Owned Small Business designations received small percentages of obligations using those respective set-asides as compared to other set-asides or full and open competition; see figures 9 and 10, respectively.¹ In contrast, obligations to businesses with 8(a) Business Development (8(a)) and SDVSOB designations generally received obligations using those respective set-asides, rather than other set-asides or through full and open competition; see figures 8 and 11, respectively. The Department of Veteran Affairs has a statutory mandate to prioritize SDVOSBs over other types of small businesses.

As shown in figure 8, 01 percent to 96 percent of obligations awarded to 8(a) businesses located in Puerto Rico for work performed there were awarded using the 8(a) program from fiscal years 2006 through 2016. Nationwide, the percentage was between 60 percent and 67 percent for all years during the same period.

¹Contract awards based on full and open competition consist of awards not identified as being awarded through any socioeconomic program and those specifically labeled as having no set-asides.
Figure 8: Obligations to Businesses with an 8(a) Business Development Designation by Socioeconomic Programs, Puerto Rico and Nationwide, Fiscal Years 2008–2016

Obligations to 8(a) businesses in Puerto Rico

Obligations to 8(a) businesses nationwide

Fiscal year

% Percentage of obligations awarded by use of socioeconomic program each fiscal year

Source: GAO analysis of data from Federal Procurement Data System-next generation. [GAO-17-185]

Note: For Puerto Rico, we analyzed data for federal prime contracting obligations awarded to small businesses with an 8(a) designation in Puerto Rico for contracts performed there. Prime-contract obligations for Puerto Rico may include obligations awarded to businesses that are subsidiaries of companies headquartered outside of Puerto Rico, to the extent that the contracts’ place of performance was Puerto Rico. The dollar amounts were adjusted for inflation using fiscal year 2016 dollars. Percentages do not always sum to exactly 100 percent due to rounding.

*8(a) business development included an 8(a) set-asides with HUBZone preference, which are awards given to 8(a) businesses that were also a HUBZone business. This code became invalid after October 2006.

**Contract awards based on full and open competition consist of awards not identified as being awarded through any socioeconomic program and those specifically labeled as having no set-asides.

*Other socioeconomic programs include obligations awarded through the HUBZone, Women-Owned Small Business, and Service-Disabled Veteran-Owned small business programs as well as various
other programs, such as those for veterans, small disadvantaged businesses, and other small businesses.

For obligations awarded to HUBZone businesses located in Puerto Rico, around 0 to 7 percent of the obligations were awarded through the HUBZone program with the exception of fiscal years 2010 through 2012, in which it ranged from 34 percent to 69 percent (see fig. 5). Nationwide, obligations to HUBZone businesses through the HUBZone program ranged from around 12 percent to 17 percent from fiscal years 2006 through 2008 and from 23 percent to 29 percent in fiscal years 2010 through 2016.

Figure 5: Obligations Awarded to Businesses with Historically Underutilized Business Zone (HUBZone) Designation by Socioeconomic Programs, Puerto Rico and Nationwide, Fiscal Years 2006–2016

Obligations to HUBZone businesses in Puerto Rico

Obligations to HUBZone businesses nationwide

Fiscal year

- Historically Underutilized Business Zone (HUBZone)
- Other socioeconomic programs (excluding other Small Business Administration programs)
- Other socioeconomic programs excluding HUBZone

Percentage of obligations awarded by use of socioeconomic program each fiscal year

Source: GAO analysis of data from Federal Procurement Data System-Next Generation. | GAO-17-550
| Appendix VI: Award of Puerto Rico-Based Contracts to Puerto Rico-Based Businesses with Socioeconomic Program Designations |

Note: We analyzed data for federal prime contracting obligations awarded to small businesses with a HUBZone designation in Puerto Rico for contracts performed there. We included HUBZone awards made using sole source and set-asides and did not include awards made using price evaluation preference in our analysis. Prime contract obligations for Puerto Rico may include obligations awarded to businesses that are subsidiaries of companies headquartered outside of Puerto Rico, to the extent that the contract’s place of performance was Puerto Rico. The dollar amounts are adjusted for inflation using fiscal year 2016 dollars. Percentages do not always sum to exactly 100 percent due to rounding.

*Negative amounts of obligations for the HUBZone set-asides are a result of de-obligations for prior-year contracts through contract cancellations or other actions.

**Contract awards based on full and open competition consist of awards not identified as being awarded through any socioeconomic program and those specifically labeled as having no set-asides.

In Puerto Rico and nationwide, 2 percent or less of the obligations to WOSBs were WOSB set-asides or sole source awards from fiscal years 2006 through 2016 (see fig. 10).
Appendix VI: Award of Puerto Rico-Based Contracts to Puerto Rico-Based Businesses with Socioeconomic Program Designations

Figure 10: Obligations Awarded to Businesses with Women-Owned Small Business (WOSB) Designation by Use of Socioeconomic Programs, Puerto Rico and Nationwide, Fiscal Years 2006–2016

Obligations to Women-Owned Small Businesses in Puerto Rico

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Obligations to Women-Owned Small Businesses nationwide

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- % Percentage of obligations awarded by use of socioeconomic program each fiscal year
- Source: GAO analysis of data from Federal Business Data.gov
- Note: We analyzed data for federal prime contracting obligations awarded to small businesses with a WOSB designation in Puerto Rico for contracts performed there. Prime contract obligations for Puerto Rico may include obligations awarded to businesses that are subsidiaries of companies headquartered outside of Puerto Rico to the extent that the contracts’ place of performance was Puerto Rico. The dollar amounts are adjusted for inflation using fiscal year 2015 dollars. Percentages do not always sum to exactly 100 percent due to rounding.
- WOSB obligations include obligations to economically disadvantaged WOSBs.
- Other socioeconomic programs include obligations awarded through Export Business Development, Historically Underserved Business Zone, and Service-Disabled Veteran-Owned Small Business programs as well as various other programs, such as those for veterans, small disadvantaged businesses, and other small businesses.

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Appendix VI: Award of Puerto Rico-Based Contracts to Puerto Rico-Based Businesses with Socioeconomic Program Designations

In Puerto Rico, from fiscal years 2010 through 2016, around 70 percent to 90 percent of the obligations to SDVOSBs were SDVOSB set-aside or sole source awards. Nationwide, the percentage of obligations to SDVOSBs using SDVOSB set-asides or sole source awards was around 11 percent and 20 percent for fiscal years 2006 and 2007 but has since ranged from around 30 percent to 40 percent from fiscal years 2008 through 2016 (see fig. 11).

Figure 11: Obligations Awarded to Businesses with Service-Disabled Veteran-Owned Small Business (SDVOSB) Designation by Use of Socioeconomic Programs, Puerto Rico and Nationwide, Fiscal Years 2006–2016

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<th>Obligations to SDVOSBs in Puerto Rico</th>
<th>Obligations to SDVOSBs nationwide</th>
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Fiscal year:
- Service Disabled Veteran-Owned Small Businesses (SDVOSB)
- Full and open competition
- Other socioeconomic programs (including other Small Business Administration programs)

Percentage of obligations awarded by use of socioeconomic program each fiscal year.

Source: GAO analysis of data from Federal Procurement Data System-Next Generation. (GAO-17-1156)

Note: We analyzed data for federal prime contracting obligations awarded to small businesses with an SDVOSB designation in Puerto Rico for contracts performed there. Prime contract obligations for Puerto Rico may include obligations awarded to businesses that are subsidiaries of companies.
Appendix VII: Award of Puerto Rico-Based Contracts to Puerto Rico-Based Businesses with Socioeconomic Program Designations

Headquartered outside of Puerto Rico, to the extent that the contracts’ place of performance was Puerto Rico. The dollar amounts are adjusted for inflation using fiscal year 2016 dollars. Percentages do not always sum to exactly 100 percent due to rounding.

*Contract awards based on full and open competition consist of awards not identified as being awarded through any socioeconomic program and those specifically labeled as having no set-asides.

*Other socioeconomic programs include obligations awarded through eco Business Development, Historically Underutilized Business Zones, and Women-Owned Small Business programs as well as various other programs, such as those for veterans, small disadvantaged businesses, and other small businesses.
Appendix VII: GAO Contact and Staff Acknowledgments

<table>
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<tr>
<th>GAO Contact</th>
<th>William B. Shear, (202) 512-8578 or <a href="mailto:shearw@gao.gov">shearw@gao.gov</a></th>
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<tr>
<td>Staff Acknowledgments</td>
<td>In addition to the contact named above, Harry Medina (Assistant Director), Weiwei Zheng (Analyst in Charge), Abud Amaro Diaz, Pamela Davidson, Julia Kennon, John McGrail, John Mingus, Jennifer Schwartz, and Jana Sinkfield made key contributions to this report.</td>
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Please Print on Recycled Paper.
Honorable Chairmen, Ranking Members and Distinguished Members of the Subcommittees:

The Puerto Rico Equality Forum, since its founding four years ago, identified a federal policy that has been a substantial impediment in the growth of Puerto Rico’s small and medium sized businesses: the U.S. Census Bureau’s requirement that many shipments to and from Puerto Rico be subject to Electronic Export Information (EEI) mandatory reporting.

When Congress approved the Tariff Act of 1930, it mandated that Puerto Rico be included in the “customs territory of the United States” together with the 50 States and the District of Columbia. Goods from the 50 States and D.C. sold in Puerto Rico are not exports, and goods shipped from Puerto Rico to the 50 States and D.C. are not dutiable. The 50 States, D.C., and Puerto Rico are considered a single market.

In 2000, the Department of Commerce, by regulation, determined that Electronic Export Information (EEI) should be collected by Customs and Border Protection (CBP) for goods valued above $2,500 and shipped between the 50 States/D.C. and Puerto Rico, as if Puerto Rico were outside the customs territory of the United States. This regulation runs counter to our Nation’s tariff laws.

The EEI requirement is burdensome to Puerto Rico business interests, and particularly burdensome on small businesses. All privately-shipped goods to and from Puerto Rico must be evaluated, and a determination must be made as to whether the value exceeds the regulatory limit of $2,500. If this limit is hit, the EEI requirement triggers data collection and reports.

The additional responsibility and paperwork imposed by EEI has forced private overnight shippers, such as UPS and FedEx, to pull Puerto Rico-related shipments out of the mainstream and treat them as “international” shipments, instead of what they are, domestic shipments. The additional costs are reflected in higher shipping charges.
EEI compliance increases the cost of goods purchased in Puerto Rico and disadvantages Puerto Rico businesses that sell their products in the States. Some businesses, not wanting to go through the hassle, simply decide not to ship their goods to or from Puerto Rico. Likewise, Puerto Rico based small and medium sized businesses wishing to engage in commerce beyond the islands’ shores incur costs that comparable businesses in a State do not face when trading in other States.

EEI is a barrier to interstate commerce. When one wants to jumpstart the economy, eliminating barriers to commerce is one of the fastest ways to do so.

In 2010, when I served as Puerto Rico’s Secretary of State (and, effectively, lieutenant governor), the Government of Puerto Rico asked the Secretary of Commerce to amend the regulation so that EEI is no longer required for shipments between the Puerto Rico and the rest of the customs territory of the U.S. The Department of Commerce, however, cited a Customs Bureau desire for the information. If they do not need and are not entitled to receive EEI-derived information about the interstate shipment of goods between Alaska and the mainland, or Hawaii and the mainland, they do not need this information about the shipment of goods between Puerto Rico and the 50 States. We are all within the same border wall.

The elimination of the EEI requirement will cut costs at the Census Bureau, reduce the cost of doing business in and with Puerto Rico, minimize the compliance costs and shipping charges that Puerto Rico-based small and medium sized businesses incur and, thus, will create a better business environment.

Over a year ago, Congress took upon itself an enormous responsibility when it enacted PROMESA, implicitly making a PROMISE to help Puerto Rico grow economically. Some progress on government fiscal responsibility has been achieved since then, but little, if anything, has happened on the private sector economic front. The islands of Puerto Rico continue hemorrhaging from the loss of some 64,000 of its young, best and brightest who every year relocate to another jurisdiction of their Nation, be it Florida, Texas, Pennsylvania or one of many other States.

A bipartisan Task Force of Members of both chambers of Congress established by PROMESA recognized the EEI impediment to economic growth in Puerto Rico.

As a means of helping fulfill the PROMISE of PROMESA, we urge your subcommittees to recommend the immediate elimination of the EEI requirement regarding Puerto Rico related shipments as a means of simplifying the operation of small and medium sized businesses in America’s largest territory.
The Puerto Rico Equality Forum is a 501 (c) 4 organization committed to pursuing and educating citizens on policies that will extend greater equality, better quality of life and sustained economic growth to the nearly 3.4 million Americans who still reside in the United States territory of Puerto Rico.