

**TESTIMONY OF  
TODD McCracken  
PRESIDENT  
NATIONAL SMALL BUSINESS ASSOCIATION  
AT A HEARING BEFORE THE  
COMMITTEE ON SMALL BUSINESS  
U.S. HOUSE OF REPRESENTATIVES  
ENTITLED  
“EXPANDING SMALL BUSINESSES’ ACCESS TO FEDERAL CONTRACTS”**

**APRIL 19, 2007**

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Chairwoman Velázquez, Ranking Member Chabot, and members of the committee, my name is Todd McCracken, and I am the president of the National Small Business Association (NSBA), the oldest small-business advocacy organization in the United States. On behalf of NSBA, I would like to thank you for inviting me to testify today about the importance of expanding small businesses’ access to federal contracts. I also would like to commend Congressman Braley, Chairwoman Velázquez, and Ranking Member Chabot for the introduction of *H.R. 1873, the Small Business Fairness in Contracting Act*.

Federal procurement is of singular importance to many small businesses; and small-business participation is crucial to a healthy and competitive federal procurement process. In other words, expanding the access of America’s small businesses to federal contracts is beneficial to all involved. The importance of expanding small-business access to federal contracts is certainly recognized by the membership of NSBA, which identified small-business contracting as one of NSBA’s top-five priority issues during our recent biennial Small Business Congress.

Small businesses provide high-quality goods and services to federal-contracting agencies and infuse the federal procurement system with much-needed competition. In turn, the federal government invests in the most-dynamic and innovative sector of the U.S. economy. America’s small businesses annually have generated 60 to 80 percent of the country’s net new jobs over the last decade. Small businesses also “produce 13 to 14 times more patents per employee than their larger counterparts, and...these patents are more likely to be cited in other patenting applications,” according to a recent SBA Office of Advocacy working paper.

Todd McCracken  
National Small Business Association

This unrivaled success has been achieved with less than adequate governmental support, however. In FY 2006, for instance, small companies received 19 percent of federal contracting dollars, according to data compiled by the respected research firm Eagle Eye Publishers. Even governmental statistics regarding small-business federal contracting, while more optimistic than those independently compiled, are underwhelming considering the huge and integral role small businesses play in the U.S. economy. The federal research and development numbers are even more disheartening. Despite employing more scientists and engineers than large businesses (32 percent vs. 27 percent) and generating five times more patents per research and development dollar than large companies, America's small businesses receive only 4.3 percent of federal research and development funds.

#### *Small Business Contracting Goal*

The *Small Business Reauthorization Act of 1997* established a government-wide goal of 23 percent of prime, federal contracts to be awarded to small firms. While this was a welcome initial step, it is time to enhance it. America's small businesses—which comprise 99.7 percent of all employer firms in the U.S., employ half of all private sector employees, and are responsible for more than 50 percent of the country's private, non-farm gross domestic product—deserve their fair share of federal contracting dollars. NSBA is extremely pleased to see that *H.R. 1873* reflects this recognition and proposes raising the government's small-business procurement goal to 30 percent of all federal contacts. NSBA also welcomes the bill's stipulation that each federal agency will have an annual small-business procurement goal not lower than the government-wide goal.

Furthermore, NSBA is pleased that *H.R. 1873*'s increased small-business contracting goal will be benchmarked in relation to a more accurate and inclusive federal procurement tally that finally will incorporate contracts carried out abroad. The inexplicable exclusion of various kinds of contracts, such as those carried out overseas, has distorted the reality of federal small-business procurement for too long. The continued omission of certain types of contracts from the government's small-business procurement calculations too frequently have resulted in escalating exclusions and creative bookkeeping rather than increased small-business contracting or even accurate data collection.

Todd McCracken  
National Small Business Association

Federal subcontracting is of great import to small businesses as well—despite the absence of a government-wide subcontracting goal. From FY 1985 to FY 2004, small businesses received between 34 and 42 percent of all federal subcontracting, according to a recent working paper produced by the SBA Office of Advocacy. NSBA is grateful that *H.R. 1873* would include the entire contract award when calculating the percentage of small-business subcontracts awarded and not just those dollars that are subcontracted. NSBA also welcomes the subcontracting enforcement mechanism in *H.R. 1873* under which prime contractors would receive bonus credits for their next bids upon achieving their subcontracting goals. NSBA continues to advocate, however, for the codification of payment history in the federal evaluation of all prime federal contractors as well. In fact, almost 70 percent of the respondents to an NSBA procurement survey supported including payment history in the federal evaluation process of all prime contractors, according to preliminary results.

#### *Contract Bundling*

Small-business concerns about contract bundling are not new. Unfortunately, they are persistent—as the love affair between federal procurement agents and bundled contracts continues unabated. This dalliance perseveres despite repeated governmental denunciations of its economic unseemliness. No less than the president himself has called for a reduction in contract bundling, saying "I believe the best way to help our small businesses is not only through small-business loans. . . but to unbundle government contracts so people have a chance to be able to bid and receive a contract to help get their business going." NSBA agrees.

The exceptional growth witnessed in the last fifteen years in the size, breadth of work, and number of work locations of prime contracts has been to the detriment of America's small businesses. According to a report sponsored by the SBA Office of Advocacy, by FY 2001, "an average bundled contract was over three times larger than an average contract and over five times larger than an average unbundled contract."

According to the same report, federal agencies reporting to the U.S. General Services Administration's Federal Procurement Data Center issued a combined 1.24 million prime contracts worth \$1.89 trillion between FY 1992 and FY 2001. The report determined that 8.6 percent of these contracts were bundled

Todd McCracken  
National Small Business Association

and that they accounted for \$840.3 billion, or 44.5 percent, of all reported prime contract dollars during this period. The more frequently contracts are bundled and the larger the average bundled contract becomes, the more small businesses are going to be excluded from competing in the federal procurement system. In fact, over 30 percent of the respondents to an NSBA procurement survey reported first-hand experience of losing out on a federal contract because of contract bundling, according to preliminary results.

The previously referenced bundling statistics are based on a more broad definition of contract bundling than currently used by the federal government, which relies on a limited definition focused exclusively on whether one of the contracts was previously performed by a small business. This overly-narrow definition warps the government's calculations on the prevalence of contract bundling in the federal procurement arena. Having long advocated an expansion of the term to include any instance where two or more individual contracts are combined, NSBA welcomes efforts, such as those included in *H.R. 1873*, to enhance the definition of contract bundling.

#### *Improved Oversight*

In order to break-up bundled contracts and ensure agency compliance with existing contracting rules, NSBA supports increased oversight authority for the Office of Management and Budget. NSBA also supports an increased level of authority for the Office of Small and Disadvantaged Business Utilization or the establishment of a similar small-business-focused contracting office within each agency.

#### *Reliable and Accurate Data*

The previously-alluded-to discrepancies between the small-business contracting statistics compiled by the government and outside experts demonstrate the absence of reliable and accurate small-business federal procurement data. Time and again, it has been demonstrated that a large number of contracts ostensibly awarded to small businesses actually have been awarded to and carried out by large firms. A FY 2005 SBA Office of Advocacy-sponsored study found that 44 of the top 1,000 small business contractors in FY 2002 were not, in fact, small businesses—and the small-business coded contracts they received totaled \$2

Todd McCracken  
National Small Business Association

billion. Over 20 percent of the respondents to an NSBA procurement survey reported losing out on a federal procurement opportunity that instead went to a large firm identified as a small business, according to preliminary results.

The aforementioned exclusion of various kinds of contracts, such as those carried out abroad, also dilutes the accuracy of federal procurement data. NSBA continues to support efforts to improve the accuracy and reliability of federal procurement data, such as the provision in *H.R. 1873* establishing an annual report from the SBA Administrator on the number and dollar value of contracts improperly coded as being awarded to small businesses.

#### *Elimination of Fraud*

Large businesses are far too frequently the real recipients and executioners of federal contracts ostensibly awarded to small businesses. Up to a third of the SBA's list of top 100 small business contractors in 2005 were actually large businesses, according to a report from Eagle Eye Publishers. To combat this fraud, NSBA urges prompt prosecution for companies found to have fraudulently claimed small-business status. Having long supported increased authority for the SBA to disbar large contractors that fraudulently identified themselves as small businesses, NSBA applauds the inclusion of such a provision in *H.R. 1873*.

#### *Conclusion*

As cliché as it is say, small businesses are the backbone of the U.S. economy. America's small businesses comprise 99.7 percent of all employer firms and lead the nation in net new job creation and innovation. Small businesses also can infuse the federal procurement system with much-needed competition—but only if they allowed to compete on an even slightly-level playing field. Achieving such a playing field will benefit both the small-business community and the federal government.