Title: The HUBZone Program Report

Description:

In 1997, Congress passed the Small Business Administration Reauthorization Act (Public Law 105-135), which included provisions designed to promote economic development and employment opportunities in metropolitan or rural areas with low income, high poverty rates, and/or high unemployment rates. Title VI of the Act established the Historically Underutilized Business Zone (HUBZone) program to target federal contracts to small businesses that are located in these areas. In 2004 and 2005, Congress designated two additional classes of HUBZones: Indian lands and military bases closed under the Base Realignment and Closure (BRAC) Act. As a result of these changes there are now five classes of HUBZones:

1. Qualified census tracts (QCTs),
2. Qualified counties,
3. Indian reservations,
4. Difficult development areas (DDAs), and
5. Military bases closed under BRAC.

The HUBZone program has three mechanisms for targeting contracts to HUBZone businesses: setasides, sole source awards and price preferences. In the eight-year period from FY2000 through FY2007, there have been about 21,350 contracts totaling $6.28 billion awarded through the three HUBZone mechanisms.

Purpose/Objective:

Public Law 108-447 directed the Office of Advocacy to conduct a study measuring the effectiveness of the definitions under Section 3(p)(4) of the Small Business Act (15 U.S.C. 632(p)(4) for the purposes of economic impact on small business development and job creation. This section of the law is commonly referred to as the HUBZone program. This study examines the impact of the definitional changes to the HUBZone program. The program is designed for the award of prime contracts and subcontracts, but this report will only address prime contract effects.

OMB Category: Influential

SBA Point of Contact: Dr. Radwan N. Saade (Radwan.Saade@sba.gov)
Program Office: Office of Advocacy

External Reviewer:
Emily Murphy (ewmurphy@gmail.com)
TerreStar Networks, Inc.
12010 Sunset Hills Road, 9th Floor
Reston, VA 20190

Review Year: FY2008

Comments:

==

A few general observations –

- The report assumes that positive growth is the only sign of success, rather than looking as maintenance of contracting with small businesses (in the age of contract bundling) or continued contracting in a BRAC area as indicia of success.

- The report does not address subcontracting with HUBZone small businesses, even through there is a subcontracting element to the program

- The report does not adequately discriminate between businesses that have been eligible for the program since its inception and those that became eligible at later dates, nor does it account for former HZ businesses that lost the status when the area where they were situated lost its status.

- Regardless of the receipt for prime or subcontracts, the report does not indicate if the level of small business creation increased in areas when they were designated HZ.

- Since only the principle office of a HZ must be located in the HZ, no distinction has been made between businesses with multiple locations (Principle location , according to the SBA website, is "the location where the greatest number of employees at any one location actually perform their work, except for construction and service industries, which have exemptions based on their occasional need to assign employees at the contract location. Notice that the principal office definition can mean something very different from a company's headquarters. It could happen that a small business might have a headquarters in a non-HUBZone location and establish a principal office within a HUBZone locality and still qualify legitimately for program participation.").

- Since the employees of a HZ need only reside in a HZ, not necessarily the HZ where the business has its principle location, it is difficult to judge whether the program's success may be greater than indicated since the job creation is not limited to a particular HZ.

- The author makes reference to whether a contractor's revenue exceeds the size standard for a NAICS, without acknowledging that the size standards are based on three year averages of revenues, not one year's worth of contracts.

1. The first page of the report refers to the HUBZone Act rather than the Small Business Reauthorization Act of 1997 (PL 105-135) which created the HUBZone Empowerment Contracting program. It also doesn't take into account the expansions of the program when defining the class of businesses eligible for the program. Since these have changed significantly since the program inception, they must be considered when judging the program's efficacy - some would interpret this as diluting the program, explaining its focus or altering its purpose, but in any case they changed the base and geographic regions eligible for the program's benefits.

2.A.
Given the holes in the applications data, how reliable does the author consider the study?
Need to explain what CCR is/what it includes, and given that I think the contractor is really talking about the dynamic small business search tool in CCR, it should be identified as such. The author should probably also explain the changes from PRO Net to DSBS, and the role that self certification has played in the data base through its evolution.
Similarly, with the section on FPDS, it would be useful to explain what FPDS is intended to provide. While some explanation is given in 2.C, the order makes it confusing. The report states "They do not cover HUBZone businesses as such, but have a socio-economic variable that identifies contractors as HUBZone businesses." I don't really understand what is meant by this statement - I think the author means that you can't search for awards to companies located in HUBZones, even if you can

search by zip+4. This is confusing, since you can search for businesses that the CO has identified as HZ businesses. As for the discrepancies, again it would be useful to explain how certification works (ORCA, section K, etc.) It would also be useful to explain the issues with FPDS and its evolution in the last decade.
For census data, a better definition of census tracts might be useful. Preliminary research states "Census tracts usually have between 2,500 and 8,000 persons and, when first delineated, are designed to be homogeneous with respect to population characteristics, economic status, and living conditions. Census tracts do not cross county boundaries. The spatial size of census tracts varies widely depending on the density of settlement. Census tract boundaries are delineated with the intention of being maintained over a long time so that statistical comparisons can be made from census to census. However, physical changes in street patterns caused by highway construction, new development, etc., may require occasional revisions; census tracts occasionally are split due to large population growth, or combined as a result of substantial population decline."

2.B When is the data from, and is there any way to see how it has trended, especially given the changes to the program? The data on HZ ratios to population also fails to take into account that some states have more HZ (i.e., OK, AK). due to legislative changes

2.C. While is a contract only identified as sharing the same FY? the definition of contract doesn't really seem to accommodate ID/IQ vehicles. Is this because FPDS has a hard time with these too? Also, to only count a contract as a HZ award if there was a setaside discounts those procurements where HZ status may have been a primary evaluation factor (again, likely to be multiple award contracts). While it may not be possible to account for these, they should be acknowledged. It may be interesting to note those awards to HZ firms when no preference is checked. Finally, the author references the SDB preferences, but there is no statutory authority for a combination 8(a)/HZ or SDB/HZ superpreference; the setaside authority for non-8(a) SDBs hasn't been used post Adarand; the PEA lapsed for civilian agencies in 2004/2005, and the Santorum amendment made it moot in Defense agencies prior to that. Contracting officers were given conflicting advice on the HZ/8(a) and HZ/SDB preferences and the order of precedence, and very little training in this area was provided until 04/05, so it may not be a program flaw as much as contracting flaw. Also, footnote 11 references that there are specified limits to the size of HZ sole source, but needs to provide them in order to give context to the portion of the section referencing average contract sizes.

Table 2.f could use a footnote on the well documented problems with miscoding, so that it doesn't seem that this is like somehow specific to the HZ program.

3.
Tables 3.a-3.c Later in the report we learn that "[t]he relationship between QCTs and population is fairly stable across MSA size, with just under 1 QCT per every 2,000 in population (going no lower than 0.75 per 2,000)." This varies from data on the census website that said that the potential population variations in census tracts is 2500-8000 residents. Consequently, the QCTs are smaller than the average CT. Could this account for some of the disparities? Has there been any adjustment for when the QCT or MSA became eligible (those initially eligible under the 97 language could reasonably be expected to have greater concentrations than those qualified only after the 2000 census results, or those that gained eligibility due to later amendments to the authorizing statute).

In areas with multiple QCTs, have there been greater outreach/educational efforts to get businesses certified? Wouldn't one HZ business increase the likelihood of another HZ business? Also, since a third of employees must also live in HZs, wouldn't multiple HZs make it easier to get qualified employees?

3.A.3. – how well represented in federal contracting were small businesses from these areas prior to the creation of the HZ Act/ qualification of the area for HZ status? Does it differ for small and large businesses?

3.B – How was the $50 per capita threshold established for the de minimus exclusion? While this may be entirely appropriate, it needs some explanation, especially in large QCTs/ areas where this could over dilute the effect of the HZ program. Since Section 12 states that "HUBZone revenues per capita decline as population becomes larger" it leaves a question as to whether this is a fair standard.

Fn 62 – this is an erroneous assumption, because to disqualify the firm it would need to have revenues exceeding the size standard when averaged over three years.

9. would a business that was previously HZ certified prior to the BRAC amendment but located in a county that was losing/had lost HZ status be counted?

9.A.3 – is that business a subcontractor?
9.B Is it fair to judge if based on FY 2007 data when the BRAC amendment was from 05, or does it require more time to see if the program will be successful/have an impact? Prior sections suggest that impact takes longer than 2 years, and section 12 states" After an area becomes a HUBZone, it takes a year or two for significant numbers of businesses to become certified, but then the number expands for at least several years"

10. When looking at the size of the HZ businesses, it would be more useful to compare them to the size of an average small business engaging in government contracting in that NAICS rather than to the actual size standard, and to consider that smaller businesses receiving government contracts is itself an indicia of success.

12.A.4. What happens when a vendor graduates from 8(a) status?

The BRAC question needs to be reexamined in light of its late arrival rather than declaring it has no impact.

===