

September 2, 2014

The Honorable Renee Ellmers
U.S. House of Representatives
Washington, DC 20515

Dear Representative Ellmers:

Administrator Contreras-Sweet has asked me to respond to your recent letter regarding the U.S. Small Business Administration's (SBA) interim final rule (IFR) that adjusted monetary based size standards for inflation.

In your letter, you requested further information concerning a final rule (77 FR 72691) that SBA issued for North American Industry Classification System (NAICS) Sector 56, Administrative and Support, Waste Management and Remediation Services. With respect to this rule, you asked whether the rate of increase in the size standards for NAIC Subsector 562 waste management service businesses reflected a similar increase in the Gross Domestic Product (GDP) inflation rate and if not, the factors SBA used to justify a larger increase. In addition, you asked whether, if there is a discrepancy between the rate of increase in the size standards and the GDP inflation rate, the amount of the increase comports with SBAs own protocol used in other business increases.

The final rule for NAICS Sector 56, Administrative and Support, Waste Management and Remediation Services, increased several size standards in NAICS Subsector 562, effective January 7, 2012. The rate of increase that SBA applied to adjust the size standards in the NAICS Subsector 562 reflected the same GDP price index rate that the Agency has applied to all monetary based small business size standards. Inflation is based on the GDP price index, which increased 8.73 percent between the first quarter of 2008 to the fourth quarter of 2013. As in the previous inflation adjustments, SBA also used the GDP price index in the latest inflation adjustment, because, as explained in the IFR, it appears to be the most comprehensive measure of movements in the general price level in the economy.

In addition, for the comprehensive size standards review, the Agency examined industry characteristics (average firm size, industry concentration, entry barriers and start-up costs), but did not include adjustment for inflation. The increases in receipts based size standards in Subsector 562 for inflation were in addition to the increases SBA adopted in its December 6, 2012, final rule. For your information, we have enclosed a table showing all receipts based size standards in NAICS Subsector 562 before and after the comprehensive review, as well as after the inflation adjustment.

The December 6, 2012, final rule did not review the 500-employee size standard for Environmental Remediation Services, which is an exception to NAICS 562910, Remediation Services. The SBA is currently reviewing that size standard, together with other employee based size standards. The SBA intends to publish a proposed rule on this soon.

In your letter, you also asked whether there is a large discrepancy in size of businesses in this category or rates of inflation between regions of the country and if so, whether these discrepancies are significant enough to warrant region-specific NAIC size rules.

SBA establishes small business size standards only on a nationwide basis. The Agency believes it would be unmanageable to establish and use size standards if they were established on a regional basis. First, the data SBA uses to review or update size standards are generally limited to the national level. Second, size standards are used to determine eligibility for various Federal programs, including Federal Government contracting, and SBA loan programs. If the size standards were to vary by geographic region, it would be very difficult use them. For example, it would be difficult to determine what size standards to apply when businesses located in one region bid for Federal work to be performed in another region. Similarly, it would be difficult to determine eligibility for a SBA's loan when a firm has operations in more than one region.

We appreciate your support of SBA and the North Carolina small business community. If you and your staff have additional questions, please contact the SBA's Office of Congressional and Legislative Affairs at (202) 205-6700.

Sincerely,

John Shoraka
Associate Administrator
Office of Government Contracting and
and Business Development

Attachment

Receipts Based Size Standards in NAICs Subsector 562 (\$ million)

NAICS code	NAICS U.S. Industry Title	Before comprehensive review	After comprehensive review	After inflation adjustment
562111	Solid Waste Collection	\$12.5	\$35.5	\$38.5
562112	Hazardous Waste Collection	\$12.5	\$35.5	\$38.5
562119	Other Waste Collection	\$12.5	\$35.5	\$38.5
562211	Hazardous Waste Treatment and Disposal	\$12.5	\$35.5	\$38.5
562212	Solid Waste Landfill	\$12.5	\$35.5	\$38.5
562213	Solid Waste Combustors and Incinerators	\$12.5	\$35.5	\$38.5
562219	Other Nonhazardous Waste Treatment and Disposal	\$12.5	\$35.5	\$38.5
562910	Remediation Services	\$14.0	\$19.0	\$20.5
562920	Materials Recovery Facilities	\$12.5	\$19.0	\$20.5
562991	Septic Tank and Related Services	\$7.0	\$7.0	\$7.5
562998	All Other Miscellaneous Waste Management Services	\$7.0	\$7.0	\$7.5