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A REVIEW AND ASSESSMENT OF THE SBA HUBZONE PROGRAM

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HEARING

before the

SUBCOMMITTEE ON CONTRACTING AND INFRASTRUCTURE

OF THE

COMMITTEE ON SMALL BUSINESS
UNITED STATES
HOUSE OF REPRESENTATIVES

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OPENING STATEMENTS

A REVIEW AND ASSESSMENT OF THE SBA HUBZONE PROGRAM

THURSDAY, JULY 14, 2022

House of Representatives,
Committee on Small Business,
Subcommittee on Contracting and Infrastructure,
Washington, DC.

The Subcommittee met, pursuant to call, at 10:02 a.m., in Room 2360, Rayburn House Office Building, Hon. Kweisi Mfume [chairman of the Subcommittee] presiding.

Present: Representatives Mfume, Carter, Andy Kim, Stauber, Meuser, Fitzgerald, and Flood.

Chairman MFUME. Good morning, ladies and gentlemen. I want to call this hearing to order. Without objection, the Chair is authorized to declare a recess at any time.

I would like to begin, if I could, by noting a few important requirements.

Standing House and Committee rules will continue to apply during this hybrid proceeding. All Members are reminded that they are expected to adhere to these rules, including the established rules of decorum.

House regulations require Members to be visible through a video connection if they are joining us electronically on this proceeding. And if that is the case, please be mindful to keep your cameras on.

Also, please remember to remain muted until you are recognized in order to minimize any background noise.

In the event a Member encounters technical issues that prevent them from being recognized for their questioning, I will move then to the next available Member of the same party and I will recognize that Member at the next appropriate time slot, provided they have returned to the proceedings.

In 1997, Congress created the Historically Underutilized Business Zone program, also known as the HUBZone program, as part of the Small Business Reauthorization Act. That program was intended to provide small businesses in economically distressed areas with greater access to federal employment and procurement opportunities. This, undoubtedly, was a worthy goal, but it still remains, unfortunately, a goal.

The U.S. Government is the largest purchaser, as most of you know, of goods and services, and it is vital that underserved small businesses have access to this marketplace. When the small firms can compete for and win federal contracts, they in turn create jobs that support our local economies.

Firms that are certified by the SBA as ``Qualified HUBZone Small Business Concerns'' have access to a range of incentives, including, one, set-asides; two, sole source contracts; three, a 10 percent evaluation preference during full and open competition; and various other incentives.

The Small Business Act also sets a government-wide contracting goal for participation by qualified HUBZone business concerns of not less than 3 percent, both for prime contracts and subcontracts. Unfortunately, this goal has never been met in the 20-plus years of existence.

Let me just deliberately be redundant and repeat that. Unfortunately, this goal has never been met in the program's 20-plus years of existence.

And so if we want to make progress towards achieving the 3 percent milestone, many of us on this Committee believe that it is vital that we understand the factors that are limiting HUBZone's reach.

For example, consolidation is a significant inhibitor to small business utilization in contracting. The small business contracting base, remarkably, has shrunk substantially over the years due to initiatives like Category Management. Category Management in many respects has driven a decline in the number of small businesses serving as federal prime contractors, resulting in fewer, not more, contracting opportunities awarded to HUBZone businesses.

Another vexing issue is the limited number of businesses participating in the program. Despite the considerable number of areas that have HUBZone designation, there were only 4,870 participants in the program as of May this year, and that is down more than 8,500 participants since 2011.

In Maryland's congressional district which I have the pleasure of representing and the honor it is the home of more than 75 HUBZone areas. And there are approximately 288 HUBZone areas in the entire State of Maryland, and yet there are only 355 HUBZone certified firms in that State, which is, on average, less than 2 HUBZone certified firms per HUBZone area.

So today many of us want to hear from our panel about their experience with HUBZone programs like the one that we are talking about--which is, in fact, the only one--and what reforms Congress can, in fact, pursue to increase program utilization. And that is really significant here: What reforms can Congress pursue to increase program utilization?

I mean, it has been 20 years. Do we throw the whole thing out and start over again? Or do we admit that there are some real serious issues that this Committee ought to be looking at to try to find a way to enhance the program and the participation in the program?

I want to examine the efficacy of previous program changes that this Committee and the SBA have instituted. And over the years, it is important to note that this Committee and the SBA have worked to provide stability, certainty, and flexibility when it comes to complying with eligibility requirements.

So as we chart this path forward, it is vital that we examine how these changes are working for program participants. And by improving the HUBZone program to meet its full potential, we believe that we can empower small businesses to support local economies and uplift socially and economically disadvantaged communities.

So, having said all that, I really want to thank today's witnesses for contributing to this hearing. We all look forward to gaining more insight and understanding from your testimonies about how we can make the HUBZone program more effective in meeting its mission.

And now it is my pleasure to yield to the Ranking Member, the distinguished gentleman from Minnesota, Mr. Stauber, for an opening statement.

Mr. STAUBER. Thank you very much, Mr. Chair.

Before I make my opening statement, Mr. Chair, I would like to take a moment to welcome our newest Member of the Committee on Small Business and the Subcommittee on Contracting and Infrastructure, Representative Mike Flood of Nebraska. Representative Flood was sworn in just this Tuesday and is ready to hit the ground running here with us today.

Welcome to the Committee, Mr. Flood, and we look forward to working with you.

Thank you, Mr. Chairman, and thank you for calling today's hearing. I want to thank all of today's witnesses for joining us this morning to discuss the Small Business Administration's Historically Underutilized Business Zones program, or HUBZone program.

The HUBZone program's core mission is to bring economic hope, independence, jobs, and businesses to economically distressed areas marked by high unemployment and poverty. To accomplish this, the program utilizes a valuable government resource, a government contract.

Through the use of federal contracting preferences, the program works to encourage small businesses to locate an economically distressed area and employ people within that area.

These government contracts to HUBZone small businesses can translate into thousands of job opportunities for individuals in these areas who are either unemployed or underemployed.

Since inception over two decades ago, the program has undergone significant changes. In 2017, this Committee held hearings, assessed the program's successes, and advanced bipartisan reforms to ensure continued forward progress.

Following Congress' passage of these legislative reforms, the Small Business Administration published additional regulatory reforms to the program. All of these reforms were intended to reduce the burden on participating small businesses and encourage the participation of even more small businesses.

Just as we work to assess this program, the Government Accountability Office and the SBA Office of Inspector General have also examined the HUBZone program for over two decades now. In each of the reports from these agencies throughout the years, there are several reoccurring themes.

One of these is regarding technological and communication issues within the program, from publicizing accurate HUBZone area data to streamlining the online certification process to effectively communicating with current HUBZone participants. The HUBZone program has consistently struggled in this area.

Another persistent challenge within the program--and, frankly, one that we have seen throughout the SBA's programs recently--is the lack of adequate assessments to measure the program's effectiveness.

While I have no doubt we have success stories from the program with us today, adequate assessment metrics are essential to measuring the overall success of any program and should be especially important for this one.

Finally, there is the issue of potential fraud within the program and the effectiveness of SBA's fraud mitigation tactics. Watchdog reports have found that deficiencies in internal controls have resulted in a lack of reasonable assurances that firms within the program are actually eligible to participate.

If and when fraud does occur, there are also questions as to whether the SBA is adequately utilizing its suspension and debarment powers, its primary tool for deterring fraudulent actors.

From recent legislation and regulatory changes to persistent challenges within the program, I look forward to hearing from our witnesses about their unique experience with this important program. Given the current inflationary pressures impacting small businesses, hearings like these are paramount.

With that, Mr. Chairman, I once again thank you for calling today's hearing, and I yield back.

Chairman MFUME. The gentleman yields back.

And with that, I would like to take a moment to explain how this hearing will proceed today.

Each witness will have 5 minutes to provide a statement, and each Committee Member will have 5 minutes for questions.

Please ensure that your microphone is on when you begin speaking and that you return to mute when you are finished.

And with that, I would like to introduce our witnesses.

Our first witness is Mr. Matthew Schoonover.

And, Mr. Schoonover, I hope I am pronouncing your name correctly. With a name like mine, I take great pains to make sure that I don't mess someone else's name up. So it is Schoonover?

Mr. SCHOONOVER. Schoonover.

Chairman MFUME. Schoonover, okay.

Mr. Schoonover is Managing Member of the law firm of Schoonover & Moriarty in the State of Kansas. Mr. Schoonover counsels clients on how to achieve success in the federal marketplace. His main focus is regulatory compliance issues and eligibility for the SBA's small business contracting programs.

In addition, he represents clients on a wide range of litigation-related matters, such as bid protests, SBA's size and socioeconomic eligibility protests and appeals, and performance disputes within federal agencies.

Mr. Schoonover, we greatly appreciate your expertise and we look forward in just a moment to your testimony.

In fact, why don't I introduce everyone?

Ms. Bailey is with us by way of--hi there, Ms. Bailey.

I am going to introduce everyone, and then we will just simply proceed after that.

So our next witness is Ms. Shirley Bailey, the CEO and Managing Member of Summit Federal Services, LLC, which is a certified HUBZone and women-owned small business located in the State of Maryland.

Summit provides a wide range of services to federal contract clients, including acquisition, administrative, and information technology support services.

Ms. Bailey has more than 30 years of management and leadership experience. She is also the President and Board Chair of the HUBZone Contractors National Council.

Welcome, Ms. Bailey.

Our third witness is Ms. Ines Rivas-Hutchins, the founder and president of Intec Group, LLC, a certified HUBZone, 8(a), and economically disadvantaged women-owned small business located in the State of Kentucky.

The Intec Group specializes in all aspects of general construction and has broad experience with military construction projects. Some of those projects include serving clients like the Department of Army, the Air Force, and the Army Corps of Engineers. Ms. Rivas-Hutchins founded Intec in 2015 and has over 15 years of project management experience.

Welcome, Ms. Rivas-Hutchins.

And now I would like to yield to Mr. Stauber, the Ranking Member, to introduce our final witness.

Mr. STAUBER. Thank you, Mr. Chairman.

Our next witness is Mr. Brent Lillard. Mr. Lillard is the co-founder and chief executive officer of GovSmart. GovSmart is an SBA HUBZone certified small business providing full-scale IT solutions to the federal government and its prime contractors.

The company sells mostly IT-related products, including hardware and software for most major manufacturers. Mr. Lillard and his partner started the company in their kitchen in 2009, and have grown it steadily to over a quarter billion dollars in annual revenue with over 70 employees.

Mr. Lillard, thank you once again for testifying before this Subcommittee and for your participation today.

I would also like to thank all of the witnesses for joining us, and I look forward to today's conversation.

Mr. Chairman, I yield back.

Chairman MFUME. The gentleman yields back.

Before we begin, I want to just simply say welcome to the gentleman from Nebraska, Mr. Flood.

I didn't get to you on the floor yesterday. I tried to. But you have got a great family. It was great seeing them. And it was great being a part of the group, the bipartisan welcome to the United States Congress.

It is a real opportunity, as, of course, you know, to do so many things for so many people who want in so many ways real change. I guess that is why we are all called Representatives, because we are really supposed to represent them. So we congratulate you and we welcome you into this body.

Mr. FLOOD. Thank you, sir.

Chairman MFUME. Okay. Mr. Schoonover, you are now recognized for 5 minutes.

STATEMENTS OF MR. MATTHEW SCHOONOVER, MANAGING MEMBER, SCHOONOVER & MORIARTY LLC, OLATHE, KS; MS. SHIRLEY BAILEY, CHIEF EXECUTIVE OFFICER, SUMMIT FEDERAL SERVICES, LLC, LOCH LYNN HEIGHTS, MD, TESTIFYING ON BEHALF OF THE HUBZONE CONTRACTORS NATIONAL COUNCIL; MS. INES RIVAS-HUTCHINS, FOUNDER AND PRESIDENT, INTEC GROUP, LLC, PADUCAH, KY, TESTIFYING ON BEHALF OF WOMEN CONSTRUCTION OWNERS AND EXECUTIVES (WCOE); AND MR. BRENT LILLARD, CHIEF EXECUTIVE OFFICER AND CO-FOUNDER, GOVSMART, INC., CHARLOTTESVILLE, VA

STATEMENT OF MATTHEW SCHOONOVER

Mr. SCHOONOVER. Thank you, Chairman Mfume, Ranking Member Stauber, and esteemed Members of the Subcommittee. Good morning. And, Mr. Chairman, I certainly hope I pronounced your name correctly as well.

I am honored to join you today to discuss ways to improve the government's efforts to contract with a special group of small businesses: HUBZone companies. But first I would like to tell you a little about me and my role in helping small businesses.

I am the Managing Member of Schoonover & Moriarty, an Olathe, Kansas-based law firm that counsels small business federal contractors. In my practice I work with clients on a broad range of issues, from complying with a myriad of federal laws, regulations, and contractual provisions covering their work with the federal government; to complying with the Small Business Administration's small business and socioeconomic program regulations; and representing them in performance disputes and bid protests.

Through my work with these companies, I see firsthand the benefits that federal contracting dollars provide to small businesses. Perhaps nowhere is this benefit more pronounced, though, than when the federal government contracts with HUBZone companies.

A HUBZone company is a company that is located in a Historically Underutilized Business Development Zone and that employs at least 35 percent of its employees who live in such a zone.

Several different types of tracts qualify as HUBZones, from census-designated areas to base closure areas and disaster areas. The unifying characteristic, though, is that each of these areas is in need of economic development.

By contracting with companies located in and that employ individuals who live in these areas, the HUBZone program seeks to develop whole communities--or, as the adage has it, a rising tide lifts all boats.

It is for this reason that I find the government's continuing failure to meet its HUBZone contracting goals to be particularly offensive. The Small Business Act asks the government to try to award only 3 percent of its prime contract awards to these companies. Historically, however, the government has fallen far short and, in fact, as the Chairman noted, it has never met the 3 percent contracting goal.

In 2020, the latest year for which we have data available, the government awarded only 2.44 percent of its prime contracts to HUBZone businesses. Considering, however, that many of these awards were actually probably double counted among the other socioeconomic programs, the number of true HUBZone contracts is certainly lower.

Had the government met its goal, these areas in dire need of economic development would have received billions of dollars more in investment.

With this background, I am very happy that the Subcommittee is meeting today to discuss ways to improve the HUBZone program. In my written testimony, I provided some ideas to do so, but I wanted to flag a few for you here.

First, just as Congress mandated the Department of Veterans Affairs to prioritize service-disabled veteran-owned small businesses in its contracting efforts, so too should Congress require a different agency to prioritize contracting with HUBZone companies. This agency should be one uniquely focused on providing economic development, perhaps the Department of Commerce or Housing and Urban Development.

Second, work that was awarded to HUBZone companies should remain in the HUBZone program unless SBA specifically authorizes that work to be released for competition outside of the HUBZone program.

Third, the Department of Transportation's Highway Trust Fund should recognize HUBZone set-asides. Currently, it does not, meaning that these companies lose out on potential valuable contracting opportunities.

Thank you for the opportunity to join for this important discussion. I look forward to your questions and to the Committee's efforts to improve contracting with HUBZone businesses. Thank you.

Chairman MFUME. Thank you very much, Mr. Schoonover.

Ms. Bailey, you are recognized for 5 minutes.

STATEMENT OF SHIRLEY BAILEY

Ms. BAILEY. Thank you. And I apologize in advance for my voice. I am still battling COVID.

Chair Mfume, Ranking Member Stauber, and Members of the Subcommittee, thank you for the opportunity to testify today. My name is Shirley Bailey, and I am CEO and Managing Member of Summit Federal Services located in Oakland, Maryland. My company provides business process technical management support services to federal agencies.

We are an SBA certified HUBZone and women-owned small business, and I am also a proud Member of the Women's Procurement Circle.

I am testifying here today on behalf of the HUBZone Contractors National Council, where I serve as the President and Chair of the Board of Directors and have been an active HUBZone certified Member since 2000. The Council is a nonprofit trade association providing information and support for companies and professionals interested in the SBA's HUBZone program.

The Council strives to promote economic development in underutilized rural and urban communities as well as maximize success for companies participating in the HUBZone program.

The HUBZone program is designed to provide economic assistance to underserved areas by awarding federal contracts to small businesses that operate and employ workers in those areas. The underlying principle behind the HUBZone program established 25 years ago remains the same today--to decrease unemployment and revitalize low-income communities by encouraging businesses to locate in these HUBZone areas.

We thank the Committee for its continued commitment to support small businesses doing business with the federal government. It is because of this Committee's strong commitment to improving the HUBZone program that a substantial modernization effort was signed into law in 2018.

Unfortunately, challenges continue to plague certified HUBZone firms. Since the program's inception, the government has never met its goal to obligate 3 percent of eligible prime contract dollars to HUBZone businesses. This represents over 25 years of missed opportunities and unawarded dollars for companies that operate and employ workers in HUBZones.

In the last 2 years, we have seen how crucial it is for government programs to adapt to changing realities, and the HUBZone program should be no exception. The workplace environment has dramatically shifted to embrace telework. While the SBA initially relaxed the eligibility requirement for the principal office during the pandemic, this requirement has been reinstated.

To account for the large percentage of contractor employees teleworking due to the COVID-19, the Council recommends adding flexibility to the principal office requirement and embracing telework.

Navigating business compliance during the pandemic has also been challenging for small businesses. The shift for many to telework brought additional compliance risks for HUBZone companies, especially with the residency and workforce requirements.

A continuing challenge is understanding these requirements, and we urge the SBA to provide clear guidance and reasonable timeframes for companies to adapt to these changes.

The Council also recommends the follow actions, which have been described in our written testimony, to increase awards to HUBZone companies and the communities they serve.

First, apply the HUBZone price evaluation preferences to task orders. A misinterpretation of the FAR has led many HUBZone small businesses to miss out on potential opportunities. The Council thanks this Committee for championing H.R. 5879 to make this change.

Second, expand the sole source contract opportunities for HUBZone companies. As government buying continues to trend towards utilizing large contracting vehicles and away from direct contracts, the ability for small companies to win sole source awards is more important than ever.

Minimizing the impact of Category Management is also key to ensuring maximal participation of HUBZone businesses in the federal market. We also applaud the Committee for your proposed bipartisan amendment to the fiscal year 2023 NDAA to exempt certain contracts from Category Management requirements.

Third, we believe the acquisition workforce needs additional training for small business contracting programs. Changes to the SBA's small business contracting programs has necessitated the need for recurring training on the requirements of the HUBZone program.

Fourth, change reporting requirements to accurately reflect contract set-asides. Agencies should report progress towards small business goals based on how the contract was solicited.

Fifth, revise the definition of ``reside'' and redefine the ``attempt to maintain'' requirement. These changes would make compliance easier for small businesses.

And finally, prioritizing local vendors. As mentioned earlier in my testimony, generating wealth in underserved communities is an important mission of the HUBZone program. We believe the program would be enhanced by an emphasis on using local businesses to perform government contract work in the area of the award.

The HUBZone program is needed now more than ever, as the number of HUBZone locations around the country has roughly doubled since Congress first created the program. The HUBZone contractor community is optimistic that the congressional actions to provide more certainty, flexibility, and fair requirements for the program will help companies across the country meet the program's mission.

Our Member companies and all HUBZone certified firms are ready to compete on federal contracts to bring jobs, innovation, training, and economic empowerment to HUBZones.

Thank you for allowing the Council to testify at this very important hearing, and I look forward to answering your questions.

Chairman MFUME. Thank you very much, Ms. Bailey. We wish you a speedy recovery.

Ms. BAILEY. Thank you.

Chairman MFUME. The Chair recognizes Ms. Rivas-Hutchins for 5 minutes.

STATEMENT OF INES RIVAS-HUTCHINS

Ms. RIVAS-HUTCHINS. Good morning, Chairman Mfume, Ranking Member Stauber, and Members of the Committee. Thank you for the opportunity to testify today.

My name is Ines Rivas-Hutchins, founder and president of Intec Group, LLC. I am pleased today to also be representing WCOE, a national trade association representing the interests of women owners and executives in the construction industry. WCOE focuses on helping women-owned businesses and women executives succeed in the construction industry.

Intec Group is an economically disadvantaged woman-owned small business, SBA 8(a) program participant, and SBA certified HUBZone firm in the State of Kentucky that specializes in all aspects of general construction. Intec Group has a successful history of providing construction services to the federal government, Department of Defense specifically.

I came to the United States from Venezuela 23 years ago with a background in architecture studies, but it was construction management that became my passion. I started Intec Group in 2015, capitalizing on the knowledge I gained and connections I made throughout my career. Intec Group has been an 8(a) program participant for 2 years and a HUBZone certified contractor for 5 years.

Although being a woman-owned small business since the inception, the majority of my work, my federal work, has been throughout the HUBZone program, which has maximized my company's growth.

My HUBZone journey is different than some. I became HUBZone certified because a contract opportunity was set aside as such, which propelled me to getting Intec Group HUBZone certified.

And I think this is important. It shows that more HUBZone set-aside contracts will produce more HUBZone certified businesses and not just the other way around.

To date, Intec has been awarded a total of 225 contracts in the order of $151 million, of which 121 awards were HUBZone set-asides. It is fair to say that the HUBZone certification accounts for over 50 percent of my company's revenue.

The HUBZone program allows us to be positive contributors to our community and to give our workers the opportunity to develop and provide for their families. The HUBZone program allows us to bring those federal dollars back to our community, using local talent.

It is no secret there is a talent shortage in the construction industry, and we need all the people we can get. HUBZone ensures there is an incentive for educated and talented workers to stay in Kentucky. We want them there where they grew up and not having to move to big cities to chase work.

I think the Committee would like to know there are certain changes to the program that have been very beneficial to my firm. For instance, map changes. Recent changes have helped increase predictability, such as increasing to 5 years the HUBZone designation map, allowing firms to be considered a HUBZone throughout the life of a contract.

New long-term investment rules for the main office location help me and many others. I recently made a significant move to establish our Lexington, Kentucky, office to a HUBZone area, and a relocation would be very costly for my firm.

I found the SBA site visitation program a very positive step to reduce fraud. We had a site visit from an SBA district official within our first year of certification. And, in fact, this visit has strengthened my relationship with my SBA business development specialist. Site visits are a good investment to keep a check on companies that might want to game the system, and WCOE would recommend it continue.

My personal experience has been overall very positive, but there are always changes that could help, such as a more vigorous marketing and education campaign aimed at agencies and the contracting officers.

Contracting officers say they are unable to find enough qualified firms to set-aside contracts, but, on the other hand, HUBZone companies within our group, WCOE, have indicated they have a hard time finding HUBZone contracts.

Incentives for agencies to meet goals without consequences for not meeting the goals. There should be at least some incentives for meeting them.

Reform the Procurement Scorecard. WCOE would like changes with more transparency and accuracy for the SBA Procurement Scorecard.

Subcontracting plan compliance. For WCOE companies, subcontracting is sometimes the only way to enter the federal marketplace. It allows construction companies to build a positive past performance record. As with agencies, there is no incentive for meeting or consequences for failure to meet the subcontracting goal.

Thank you again for your focus on the HUBZone program and for all your work supporting small businesses, and I look forward to answering your questions.

Chairman MFUME. Thank you very, very much for your testimony.

I want to recognize the Ranking Member, who will introduce our other panelist.

Mr. STAUBER. Mr. Lillard, you are up for 5 minutes.

STATEMENT OF BRENT LILLARD

Mr. LILLARD. Chairman Mfume, Ranking Member Stauber, and Members of the Committee, thank you for the opportunity to testify before you today. My name is Brent Lillard, and I am the CEO and co-founder of GovSmart, Inc.

We are an SBA HUBZone certified IT solutions provider and value-added reseller to the federal government and its large prime contractors. My partner, Hamza Durrani, and I started the company out of our kitchen in a rented house in the HUBZone of Charlottesville, Virginia, in late 2009.

Today, GovSmart has successfully completed over $1 billion in federal prime contracts and hundreds of millions of dollars in federal subcontracts. We currently have over 70 full-time employees and continue to grow, along with the federal government's HUBZone requirements. We are also Members of GovEvolve, a leading advocacy organization for small and midsize businesses that support government innovation.

I have personally been working in the HUBZone program and each of the other socioeconomic programs since 2004, when I first entered the industry as a federal sales representative. My diverse experience working for and running multiple companies from each socioeconomic category has given me a unique opportunity to observe their strengths and weaknesses firsthand.

I believe the HUBZone program can serve a crucial role in reaching underserved communities like ours. I also believe the program has some endemic challenges that need to be addressed to maximize its reach.

The method envisioned by the program was to certify HUBZone qualified companies that commit to maintaining a workforce comprised of at least 35 percent HUBZone residents, with the hope that those employees would earn enough to throw off the burden of historical poverty and reinvest their wages into their communities.

In my experience, it has been very difficult to maintain the 35 percent HUBZone residency requirement for our employees due, in part, to the social and economic realities faced by HUBZone residents in our city.

Difficulty in hiring HUBZone residents has long been recognized by the HUBZone program, and SBA's new shift towards allowing legacy employees has helped tremendously.

However, in an update to the SBA's Frequently Asked Questions published on June 24, 2021, the SBA included a rather Earth-shattering qualification change: that employees must have established their legacy residence within the HUBZone only after December 29, 2019, the date the rule became final.

Companies relying on pre-2019 legacy HUBZone residence, per the written instructions from official SBA HUBZone attorney advisers, may find themselves outside the requirement through no fault of their own.

These companies, such as mine, must now take drastic and immediate measures to ensure program compliance. We must either terminate good employees no longer living in the HUBZone or quickly hire potentially underqualified employees from it.

The biggest challenge to our category is the overutilization of the other categories due to the lack of parity amongst the programs. HUBZone companies do not have direct award authority in the FAR, and the goal is substantially lower than that of the SDB and woman-owned programs.

GovSmart was also a small disadvantaged business under the SBA's 8(a) Business Development program during our first years before we graduated from the program in 2019. During our years as an 8(a) SDB, we greatly benefited from the program and received many direct awards. We were nevertheless aware that our concurrently held HUBZone status was a distant second in terms of business growth and development.

When we graduated early from the 8(a) program in 2019, we had, fortunately, already transitioned to lean primarily on our HUBZone status with our newly acquired governmentwide acquisition contracts, such as NASA's SEWP V and NIH's CIO-CS. These large multiyear contracts, which were narrowly awarded to GovSmart, enabled us to survive the loss of 8(a) direct awards, at least temporarily.

Our future is uncertain because we struggle to make the case to government agencies for why they should set a given procurement aside for HUBZones. They know, as we do, that the lack of direct award authority means a lack of efficiency. This contributes to the government's continued failure to meet the 3 percent HUBZone goal.

Additionally, the government continually receives an A grade for small business awards while underperforming in

HUBZone awards. This has happened every single year since 2007 and comes from the SBA scorecard analysis algorithm, which allows extra credit to make up for shortfalls in one socioeconomic program by overachieving in other programs that are much easier and faster to use.

GovSmart is a reseller of IT goods and services. With our help, the agencies do not need to directly survey the universe of available solutions to a given tech problem. They can, instead, pose the requirement to us and our competitors and, with our mass knowledge and experience, we can compete to recommend the best possible technology solutions for the lowest price.

The IT FAR industry, unfortunately, does not have an industry code that is descriptive of our industry. Rather, we must classify ourselves under NAICS codes that are not appropriate for our services, creating additional compliance issues and often resulting in a loss of opportunities.

An industry-specific NAICS code would help my firm and all other small federal IT resellers across the country to continue to provide the government with critical technology solutions.

In closing, the HUBZone program is a valuable way to inject federal procurement dollars into underserved communities. However, the program would benefit greatly from the parity recommendations outlined in my testimony.

These changes will help all HUBZone companies to continue benefiting their underserved communities.

Thank you for your time, and I look forward to answering your questions.

Chairman MFUME. Thank you for your testimony.

I want to thank everybody who has been here to provide information and real experience before this Committee.

I think it is clear we all agree that there is a problem here, and how we go about tackling it will be how we are measured as a Congress and as a Committee.

But it is frustrating, to say the least, that for 20 years we have not been able to reach a 3 percent goal. And I agree, there has been a lot of double counting, so maybe we are further underwater than we actually realize.

Mr. Schoonover, can you take a minute to talk about this whole notion of double counting? It was a part of your testimony. I just want to make sure that we explain it here so that people understand that there are perils to that.

Mr. SCHOONOVER. Thank you, Mr. Chairman.

Yes. When the federal government determines the amount of awards that are given to small businesses or any other socioeconomic category, be they the 8(a) program, SDVOSBs, WOSBs, or HUBZones, one of the things that the government can do is, say, for example, an opportunity is set aside for woman-owned small businesses. If that woman-owned small business also happens to be a HUBZone company, then the government can claim credit not only for the WOSB award, but also under the HUBZone category.

So we have a problem where the government is not actually tracking the tools--easily tracking, I should say--the tools that it has available to contract with these businesses, through HUBZone set-asides and directed awards to HUBZone companies.

Beyond that, the goals also capture those awards that were awarded under full and open competition, meaning awards that were unrestricted. Anybody could bid on those. And if a HUBZone company happens to win that contract award, then that would be counted as complying or going towards the government's 3 percent HUBZone goal.

Chairman MFUME. Thank you very much.

One other quick thing, and I want to go to another witness here. In your testimony, you suggested that maybe this body and the Congress ought to look at having a different agency to oversee compliance. Can you take a quick moment? We don't have a lot of time, but I would like to hear your thoughts.

Mr. SCHOONOVER. I am sorry. That may not have been clear. What I was suggesting in my testimony is, much as Congress mandated the VA to prioritize contracting with SDVOSBs, I think it would be beneficial if Congress also mandated a different agency to prioritize contracting with HUBZone companies.

That is, whenever that agency believes there are two or more HUBZone companies that may submit a bid at a fair and reasonable price, that agency would be mandated to award that company--or, excuse me, set that procurement aside for HUBZone companies.

Chairman MFUME. Okay. Thank you.

And, Ms. Bailey, when we look at the lack of impact that we are having in this program and the information that is being collected, do you have some thoughts, as a nonprofit trade association, of what you would like to see in terms of information collected to be able to better measure success or identify failures?

Ms. BAILEY. Yes, yes. Yes, several metrics that we consider to be important would be, of course, the number of HUBZone set-aside contracts solicited in the dollars awarded for each of those, but also to consider that as a percentage of the total HUBZone dollars that are set aside.

Why this is so important for the HUBZone program is because the HUBZone program is the only socioeconomic program that has the attempt to maintain and requires a benefit to be made based on a HUBZone set-aside contract.

Also, the number of contracts and contract dollars being performed in a HUBZone area. If a contract is performed at a contractor site, like Matthew might be considering too, it is considered HUBZone, because chances are it is going to be performed in that HUBZone area.

The number of HUBZone employees employed over year to year, to be able to track that information.

Also, the number of companies that have purchased properties and/or have entered into long-term leases, because that shows a major investment in the HUBZone areas. The SBA has indicated that one of those areas that they incorporated was supporting the long-term investment in communities. So being able to track that information would be critical.

The number of----

Chairman MFUME. Thank you. Thank you, Ms. Bailey. I am sorry. I am going to come back around to you. We don't have a lot of time in this first discussion, but if you would stay with us, have a follow-up.

Mr. Lillard, before we move on, I want to yield to the Ranking Member. I think the legacy program was a great idea also. I was not aware of the effective date and the way it handcuffs individuals like yourself and others. Can you take a quick moment?

Mr. LILLARD. Yes, absolutely. Thank you.

One thing is that originally when they made the rule, it didn't have the rule that said it had to be that particular date. We actually reached out to the SBA ourselves. Our counsel reached out to the SBA, asked specific questions.

And their attorney advisers responded to us and were very, very clear that it did count all of our older HUBZone employees that had moved out of the HUBZone that we had basically helped make successful enough to afford to move out of the HUBZone.

They told us that that was the case. We have it in writing from them. We used that as our information to decide how to grow our company. We hired a bunch more people. Now we have 73, I think, or 74 employees.

And then, actually, while we were preparing the speech for this is when we noticed in the Frequently Asked Questions that they had updated it. And that is not the official procedure that they are supposed to go through, as far as I am aware, to announce changes, to make changes, and to formally legislate them, I guess.

And so we are kind of protesting that right now with the HUBZone. We talked to the director of the HUBZone--or, excuse me, the program manager of the HUBZone program this week and talked to them. They basically told us that they are going to--it is on hold. They are going to wait for the director to get back, because we have a unique circumstance.

Chairman MFUME. Thank you. And we are going to have staff to follow up also with the SBA to get some clarity.

My time is way over, done, and I want to yield to the gentleman from Minnesota, Mr. Stauber.

Mr. STAUBER. Thank you, Mr. Chair.

Mr. Lillard, one of the longstanding issues of this Committee in its examination of the HUBZone program is the inability of the SBA to track program effectiveness.

Has the SBA gathered any data from your company or other HUBZone firms that you know of in order to assess program effectiveness?

Mr. LILLARD. Thank you.

They gather a plethora of information from us every year. It is everything from W-2s for our employees. They definitely thoroughly vet to make sure that we meet the qualifications.

And the online databases, like fpds.gov, have all the information for who receives what contracts. So I would assume they are using that to verify that certain companies are receiving their fair share of the awards. But I have no visibility to the exact specifications that they use.

Mr. STAUBER. Have you given the SBA any suggestions or ideas that they have incorporated into the overall effectiveness of the program?

Mr. LILLARD. Excuse me, would you repeat that question?

Mr. STAUBER. Have you given the SBA any suggestions or ideas that they have incorporated to allow the HUBZones to be even more effective?

Mr. LILLARD. Yes. We are very outspoken throughout all government agencies and especially with the SBA. So we talk to them about all these problems. They have told me that we are one of the most outspoken of the group.

Mr. STAUBER. So is the SBA doing anything to track the program effectiveness that you are aware of?

Mr. LILLARD. I assume they are, but I am not sure. I just know that they have the tools at their disposal to track that, but I am not aware of what their exact metrics are for that.

Mr. STAUBER. And this is for--the next question is going to be for really any witness.

In response to the COVID-19 government lockdowns, the SBA undertook an unprecedented role in assisting American small businesses, a role that seems to have stretched the agency's capacity to the limit at times.

As we look at possible reforms to best position the agency moving forward, have you observed any operational challenges in the HUBZone program's capabilities in light of the pandemic response role the agency assumed?

And this is for anybody.

Mr. Schoonover, you look like you want to answer. Go ahead.

Mr. SCHOONOVER. Well, thank you, Ranking Member Stauber.

I will say in my impression, working on behalf of clients, the SBA has really punched above its weight in responding to COVID-19 and I think in a lot of ways should really be applauded for their efforts to help keep small businesses afloat, quite frankly, during very difficult times.

Certainly that has been a stress on the SBA. I think they are one of the agencies that is overworked and understaffed. And I would imagine that, yes, that has caused some issues with delays in certification for HUBZone certifications, delays in review process, and the like.

Mr. STAUBER. I appreciate you mentioning the SBA that did a great job during COVID. We had our Minneapolis rep that did a tremendous job throughout our entire district. And it wasn't easy, especially trying to get through some of the EIDL loans and stuff like that. They did a wonderful job. So thanks for bringing that to our attention.

Mr. Schoonover, you mentioned in your opening statement, you talked about working with small businesses and the regulations that are put on small businesses.

Last year, in the year 2021, there were over $201 billion of additional regulations placed on small businesses across the United States of America. And these aren't my numbers, these are administration numbers.

When regulations such as the amount that were put on, is that helpful or hurtful to the businesses that you represent, and at times is it a hurdle and maybe some redundancy?

Mr. SCHOONOVER. Yes. I think certainly regulations tend to complicate work with the federal government, but that is not to say that they don't serve a purpose.

I will say that the vast majority of my clients--well, all of my clients--really want to comply with the federal regulations. They want to do a good job on behalf of the government. And they certainly go out of their way to make sure that they are doing that.

Mr. STAUBER. And I would say that the vast majority of small businesses across this great country who we know are economic drivers always attempt to do their best to follow the laws.

But the additional regulations on small business in coming out of COVID I think was stressful enough and we know wasn't necessary, because that is what I am hearing from the small businesses that are in my community. They talk about not only inflation, but they talk about the regulations that have been placed on them over and over again.

And I think it is up to the overall Committee, including the Chairman and I, to work on some of those, reduce the impact, negative impact for the most part, on our small businesses.

Mr. Chair, I am over time. Thank you for your patience.

Chairman MFUME. Thank you very much, Mr. Stauber.

The Chair would like to recognize the gentleman from Louisiana, Mr. Carter, for 5 minutes.

Okay, we will come back to Mr. Carter, who is having a great conversation. So we will come back to Mr. Carter.

Mr. CARTER. I am ready now.

Chairman MFUME. Okay. Go right ahead.

Mr. CARTER. Mr. Chairman, thank you.

Ranking Member, thank you very much.

And thanks to all of our presenters.

I have got a quick question, because one of the concerns that we hear consistently is how do we get more people involved in utilizing the resources of HUBZones and the various opportunities.

So if there are viewers that are looking, what advice would you give a person that is interested in applying for and taking advantage of HUBZones? Any one of you can answer that as a first point.

No advice?

Ms. RIVAS-HUTCHINS. I would like to answer that question.

I believe that the government has a lot of resources for businesses that are interested. Local PTAC offices are really good about helping businesses certify, apply for the certification, the HUBZone certification.

I believe there are several contracts available at HUBZone that once they go through the process and they get certified they are able to apply for.

Thank you.

Mr. CARTER. Ms. Bailey?

Chairman MFUME. Mr. Carter, you still control the time.

Mr. CARTER. Yeah, I was hoping that some of the others might have some other information that they might share to viewers who are interested, your ups, your downs, your experiences. And equally as important is what can we do, as a voting body, to make it better?

Mr. SCHOONOVER. Congressman, if I may, to the last question, I think from my vantage, the number one thing that can be done to make the HUBZone program better is, quite frankly, to award more contracts under it. I tend to think that if those contracts come, you will certainly have more companies that see the value in the HUBZone program and want to participate.

But given the time and expense that it takes to comply and to maintain your certification, unless and until there are more contracts awarded under the program, quite frankly, it can be a tough sell for some businesses.

And so I think the overarching goal of fixing the program, in my opinion, should be to encourage more awards to be made under it.

Mr. CARTER. Mr. Schoonover, why do you think, in your estimation, what has been the issue with awarding contracts? Has it been too cumbersome of a process? Has there not been enough opportunity? Has there been fraud in the system that slowed the process down? Any one of those, all of the above, or maybe I missed them all.

Mr. SCHOONOVER. How much time do we have?

Mr. CARTER. You got about 30 seconds, because I got about a minute 40.

Mr. SCHOONOVER. I think the combination is an ``all of the above'' answer. I don't think that there is one specific reason why the HUBZone program has been underutilized.

I think there is a lack of education and a lack of insight of contracting agencies to actually use the tools that are available.

SBA, to its credit, over the last few years has tried to make the program more accessible, both for certified businesses and for contracting agencies. And, hopefully, those changes will start to bear fruit.

But I tend to think still that the biggest problem with the HUBZone program is that not enough awards are being made under it and that if more awards are made under the program, certainly there will be more HUBZone certified firms. And agencies then I think will be more encouraged to use the program as well.

Mr. CARTER. Do you think it would be helpful if SBA and other experts in the area of HUBZones did more outreach going into the community, as I have suggested to SBA that we do more doing business with the federal government opportunities to make it plain? We should not hide the ball and make it difficult for businesspeople to partake of HUBZone opportunities.

So, Mr. Chairman, I would encourage that SBA engage with us to go through our congressional districts for sure to engage and have more opportunities for outreach.

If you guys were starting, Mr. Schoonover, if you were starting out new and had the opportunity to have a townhall of sorts with Members of SBA to talk about HUBZone, would that have made your entree into the system easier?

Mr. SCHOONOVER. I may not be the most qualified person on the panel to answer this, as I am not a HUBZone company myself, but certainly I don't think it would hurt SBA to have those opportunities.

I would also say that internal government agencies also need to benefit from that education, to understand what the HUBZone program is and the contracting tools that are available under it. I think contracting offices all across the executive really need to be made aware.

Mr. CARTER. My time is expired. I yield back, sir.

Chairman MFUME. Thank you. The gentleman yields back.

The Chair will now recognize the Ranking Member, Mr. Meuser, the gentleman from Pennsylvania.

Mr. MEUSER. Thank you, Chairman Mfume, very much.

Thank you for testifying. I appreciate you being here. It is a very interesting topic, something that I think has very much bipartisan support, which is great, and for all the right reasons.

Many of us have districts, such as I, where we have small cities that need revitalization, and some of that seems to be occurring kind of on a spotty basis. Like where my district is in southeast and central Pennsylvania, it is sort of growing from the suburbs from the southeast and from Allentown.

But I think, like the Chairman and many of us here, I don't want to wait around another 10 years to see some of this progress taking place, because some of these cities have the people, have the resources. And when I say cities, they are more like towns. But they need a catalyst. They need a spark.

And that is where we can come in, and with this type of contracting and HUBZone initiative a real difference can be made. So I am paying a lot of close attention to everything that you have to say.

So, Mr. Schoonover, you gave a couple, you gave three ways that we needed to improve this program. One, you used the word ``compel'' for the government to utilize in order to achieve the 3 percent. That will definitely require more outreach, because we just can't compel if the resources aren't there, if the companies aren't there.

I know in my district I am not so sure those companies are there to actually capture the contracts within or around the HUBZones. They simply don't necessarily exist or they are simply not aware of the HUBZone opportunity.

And we don't necessarily just want a company--well, in some cases we do--moving from one end of a county to the other. Actually, in many ways that provides the advantages that we are looking for to advance these small cities.

But the 35 percent legacy issue seems to be something that we can definitely deal with, and I hope everybody is listening to that, and we can work on that.

And you mentioned this ``always'' clause, I will just call it that right now. And then one of the other witnesses stated how at least for the length of the contract. And I think the SBA or the oversight should be able to at least have some ability to evaluate, to evaluate the eligibility over time, because you do hear some things about fraud in here. And you can see how that could occur, but I am not so sure that that is too big of a problem.

So let me just go to you, Mr. Lillard. Expand for us a little bit more on what you think can be done, A, to preserve, but, B, to improve.

Mr. LILLARD. Sure. I appreciate the question.

I think that parity is the biggest issue. I think that the HUBZone program is overshadowed by the program, the SDB 8(a) program specifically.

That is easiest program for contracting officers to use. They have a huge stack, if you go in their office and meet with them, they have a huge stack of all their requisitions that they have to get out, and it is a real pain for them to get them out in time. And so they are always, in my experience, going to use the easiest, fastest possible way.

8(a) contracts cannot be protested, so you don't have to worry about not only not the competition, but you don't have to worry about people coming in and slowing down the process by saying, okay, you know, it wasn't fair. So that is a huge advantage for them to do that. Also, it has a higher goal.

There are various reasons, but I would say that the number one thing that you could do to improve HUBZone is to basically put it on parity with those other programs. I think that when you have the honey there, the increased incentive, I think that all the ants will come. You will get a lot more HUBZone companies that will pop up if they feel that they are going to be actually utilized.

We have a very, very low margin structure business just to be competitive. And I think the HUBZone industry in general is extremely competitive, and it is going to be very hard to go into the HUBZone and find people that are currently qualified to run a company from scratch to do business specifically with the federal government, as complicated as it is.

Mr. MEUSER. Thanks.

Mr. Schoonover, you brought up how the SBA is understaffed. I agree. And they did a terrific job in Pennsylvania, in my district, during the course of COVID and all the PPP and everything else.

I did want to bring this up. I introduced a bill, Truth in Small Business Contracting Credit Act, which would limit federal agencies to counting contract awards towards one goal, instead of multiple goals, as currently allowed. So I would certainly encourage, Chairman, the Committee to consider that bill.

I would like to forward it to you folks and get your input on it as well to see what you think. And again, I thank you for you testimony.

With that, I yield back, Mr. Chairman.

Chairman MFUME. Gentleman yields back.

Ms. Rivas-Hutchins, I want to go back to you and go back to Ms. Bailey if we are able to have a second round here.

But what I would like to do at the moment is to recognize the gentleman from Wisconsin, Mr. Fitzgerald, for 5 minutes.

Mr. FITZGERALD. Thank you, Mr. Chairman.

I find interesting, I think, listening this morning, kind of to the take on whether or not any of these types of programs that are created, either at the local level, State level, or federal level, have the impact that is oftentimes anticipated, I think.

In Wisconsin, we have Renaissance Zones, which changes the Tax Code and manipulates kind of the Tax Code to allow local investment to happen. A lot of times there is an economic development corporation that is involved maybe at the county level or the municipal level, and then there has been some success.

And then, obviously, the one nationwide is TIF districts or TID districts that offer the same types of changes to the Tax Code for a short--or I should say not short, necessarily, temporary period of time to make sure there is more investment that is made.

I think the frustration I see with kind of the discussion today is that this is--it has been around since 1997. I think it still is viewed as having limited success between 1997 and then 2017, when it was revisited with a bipartisan bill to reform the HUBZones. And since then, you still aren't seeing the impact, I think, that many communities had anticipated.

So in my estimation it has kind of like run its course. And I think that is why in the opening statements and in the opening comments there was a question about whether or not it should even be kept around or should it simply be scraped and start from the ground up and rework this.

I don't have the confidence in the SBA, I think, that certainly some other people may have, whether they are people that are involved kind of in economic development or certainly even Members of Congress that continue to look at the programs and say: What is the measuring stick? When are we actually going to be able to determine whether or not this is being effective?

So, I guess, Mr. Lillard, the question I would have for you is, what do you think the 30,000-foot perspective on this program is or any of these other economic development programs created by the government?

We can almost remove COVID from the discussion, unique thing that hopefully never happens again at the scale that we saw and hadn't anticipated and didn't have to really work in and around it, not having happened for a hundred years.

But I thought the original comments were maybe there is a better way of doing this. And I would just like to hear your thoughts on that.

Mr. LILLARD. I would say the biggest thing is just enforcing what you have already got. From my personal perspective, I know that GovSmart would lose 100 percent of its employees if we lost the HUBZone status. If the HUBZone program went away, there are a lot of disadvantaged employees that we have hired that otherwise will not have very good opportunities in Charlottesville, Virginia, who would be out of a job.

And so I think that it is a very powerful program. I think the biggest challenge is that it is not fully utilized to the extent that it was intended. I think that if it was, there would be a lot more companies that are doing it. I think there would be more profitability involved and therefore it would lead to more opportunity and people opening up companies in the HUBZone.

But I do think these programs are very effective. And we have given back so much to the community, not just in hiring people, but also just reinvesting and donating money specifically in HUBZone areas. And I know a lot of companies that are successful do that. I know that Charlottesville would feel it if GovSmart went away because we do a lot in the community.

So I would say it is not that the HUBZone program doesn't have the potential to work, it is just that the rules aren't set in stone where they have to make it work.

Mr. MEUSER. Do you guys participate in any other economic development programs at the local level?

Mr. LILLARD. We did. We were in the SWaM program for a little while, but we never were able to make that work. We couldn't win contracts with that designation. So we stuck to federal.

Mr. MEUSER. Yeah. I mean, I think there are certainly only a few economic development tools that are available to a municipality, and certainly a TIF district is one of them.

And ultimately a school district may benefit, that after a 12-year run on a TIF district that suddenly the revenue has been created, there has been economic development, and then that money makes its way back into the community. I mean, it is obviously a true and tested model that has worked across this country.

Do you feel that there is support or that there is interaction at the local level with HUBZ and whether or not people are aware of it, other than if we just award more contracts more people are going to show up? That seems like it is counterproductive to me.

Mr. LILLARD. Yeah. I mean, from my perspective, I think just the incentive to win more contracts is what will ultimately bring more people in.

But I would say no on the local level, not at all. There are not enough HUBZone companies at the local level, generally, to have an entire committee or department to have an initiative to go do that. I think it would be too hard to find them.

But I think that from my perspective, when there is more benefit for being a HUBZone company, more companies are going to take what is preestablished, their successful business model, and move it into a HUBZone, or take a business model that they have they want to start from scratch and start it in a HUBZone. I think it is a good program for starting brand new things and bringing it in, rather than finding people that are already successful doing it.

Mr. MEUSER. Well, thanks for being here today.

Mr. LILLARD. Absolutely.

Mr. MEUSER. And yield back, Mr. Chair.

Chairman MFUME. The gentleman yields back.

I just want to announce to our witnesses, we are going to do another round of questions. And thank you again for being here.

Ms. Rivas-Hutchins, I really want to go back and start with you. I was impressed, needless to say, of your own story about how you got started and what you faced over the years.

We keep hearing about the unmet goal, and the real issue, in my opinion at least, is underutilization and enforcement.

In fiscal year 2020, only 1.6 percent of the dollars awarded were awarded to HUBZone firms through subcontracts. And because you are in a unique space in the construction industry, where subcontracting is in fact very common, I would like to get your thoughts since everybody else has had an opportunity to weigh in on this. And I know you are challenged with trying to hold on to talent and workers who are chasing opportunities in other States.

But could you take a minute and give me your thoughts on that as well?

Ms. RIVAS-HUTCHINS. Absolutely. My pleasure.

I believe my experience, construction jobs, are such a team effort. So prime contractors in the industry like to use subcontractors they know and they have worked very well with, which creates a problem for new small HUBZone WCOE--W--woman-owned small business contractors. And when you don't have a penalty for general contractors to meet the subcontracting goals, I think you are exploiting those companies from competition.

So I do believe in the subcontracting world. If we were to have better consequences and incentives to meet subcontracting goals, that will help increase the 1.65 percent of the HUBZone subcontractors for sure.

Chairman MFUME. What is your challenge with keeping workers? I mean, has it gotten better or worse since the pandemic? Are there some lessons there for contractors, subcontractors such as yourself?

Ms. RIVAS-HUTCHINS. Yes, sir. I believe I am very lucky to be in a rural area in Kentucky. We have great talent. I do believe the shortage of talent in the construction industry has to do more with just what we are facing across the nation. A lot of great workers are retiring and not enough to come in and take on the roles of the retiring workforce.

In our location, in western Kentucky and near Fort Campbell, we are very lucky to have good talent. We have a big area that we can draw really good workers from. That is where our main area of work is, in the western Kentucky, Louisville, Kentucky area; Nashville district of the Corps of Engineers as well.

So we do see a problem with shortage of workers, but I don't think it is specific to the HUBZone in my personal experience, because I do have a very vast rural community to reach out for and work.

Chairman MFUME. Thank you very much.

Sir?

Mr. LILLARD. [Inaudible.]

Chairman MFUME. Yeah, I don't have a lot of time, but if you can do it in 30 seconds, that would be great.

Mr. LILLARD. I would say that the difficulty to hire is a real thing. There is a significant lack of skilled labor.

The biggest thing that we have had a problem with is that it is hard to hire people because they lose their government assistance. I have had so many employees that come on board and they find out that they are going to lose their government assistance when they get the job that pays better, they lose their Section 8 housing and all these other things. And they are just like: Sorry, it is not worth it for me to work. And it happens over and over again. So I would definitely consider that as a factor.

Chairman MFUME. Thank you very much.

And, Ms. Bailey, let me come back to you for a second.

In 2017, Congress required the creation of performance metrics for the program. However, the data that continues to be collected by the SBA is very limited. It does not, in my opinion, assess the impact HUBZones are having on their communities.

And so as a nonprofit trade association, is there some information or data that you would like to see collected in an effort to really measure the program better and promote economic growth?

Ms. BAILEY. Yes. One I think is the number of companies that are entering into long-term leases or purchasing buildings and renovating in those areas. I think that that is some critical information we need to start collecting.

The number of HUBZone employees that are being employed. I am starting to lose my voice.

And then also another major thing that we need to be able to quantify is those softer investments, like Mr. Lillard was talking about, is how these companies are giving back--the workforce training programs, the internship programs, the contributions to the local communities, the schools, the hospitals, those types of things that are all part of this HUBZone program.

And what we find through the HUBZone Council is that a lot of our Members in the HUBZone firms are participating very, very highly in their local communities, and that this information becomes very critical for us to be able to identify the real impact that we are seeing in these areas.

Chairman MFUME. Thank you very much.

My time has expired.

The Chair would like to recognize the gentleman from Pennsylvania again, Mr. Meuser.

Mr. MEUSER. Thank you again, Mr. Chairman.

So I would like to just talk about a couple of regular or--or regular--everyday business issues facing small businesses as I assess it and am fully aware from visits within my district and the micro and macro effects on our economy taking place.

So inflation, how detrimental is it to you, particularly since when you are dealing with federal contracts you can't raise your prices? How is that affecting your net income? And in the end, what needs to be remembered, how that actually affects the level of tax revenues received?

So maybe Mr. Lillard can comment on that?

Mr. LILLARD. Sure. I have noticed a huge effect of inflation on the local community. I haven't noticed a big impact on our HUBZone business. The reason is that everyone knows what their general costs are regardless of inflation and then they mark it up as much as they think they can to win the deal. So I think that it is kind of everyone's price goes up at the same time when their costs go up.

So for me, personally, I haven't noticed a big impact. I have noticed a huge impact on the local area. It is certainly affecting the disadvantaged community the most when the cost of groceries goes up and things like that.

Mr. MEUSER. Okay. So that is noticeable. The most disadvantaged are clearly since a dollar extra for a pack of hotdogs or whatever it might be is a percentage of someone's income.

Mr. LILLARD. We are loaning out electric scooters to people in the community, for example, because they can't afford gas. So there are all kinds of things that are going on with that.

Mr. MEUSER. I see.

Mr. Schoonover, you have something to add on that?

Mr. SCHOONOVER. Yes, Congressman.

I would say that it is no secret that inflation is obviously hurting a lot of businesses, particularly small business federal contractors who, in my experience, work under the fixed-price contract scheme. Meaning, the price they bid is the price the government is going to pay, and if that business' costs increase, then, well, it is up to the business to eat those costs. That is their problem, not the government's.

And recently we saw DOD issue a memorandum that essentially instructed its contracting officials in the context of a fixed-price contract not to consider requests for equitable adjustment or contract claims seeking to recover those costs. And I think, though certainly DOD is within its right to do so, I would say that that is probably a very shortsighted and very harmful impact to small business federal contractors.

And I would certainly encourage the government to think about ways to adjust contract prices even under a fixed-price contract if inflation exceeds a certain percentage. Particularly for HUBZone businesses, that is vitally important because obviously, as inflation continues to increase and as those pressures continue to exist, the development for those areas is going to be lower and lower.

So I would encourage Congress to encourage federal agencies to work with particularly small businesses under a fixed-price contract to really deal with those concerns.

Mr. MEUSER. All right. Great.

I also want to go back to this bill that I mentioned, Truth in Small Business Contracting Credit Act, that the double counting puts you at a disadvantage, right? You are in the HUB.

Mr. LILLARD. Absolutely. And we used to be 8(a) certified as well, so we are familiar with how that could benefit a company that has both statuses. It certainly reduces the impact of being a HUBZone when you don't have both. It makes it much harder.

I think you will notice the goal achievement will go down when you stop double counting, but that will mean more opportunities for HUBZones that naturally are winning them because they are HUBZone.

Mr. MEUSER. Right. It is really an unfair score that they are using to support their quotas or whatever it might be.

Mr. Schoonover, comment on that?

Mr. SCHOONOVER. Oh, I completely agree. And I go back to the point of really in order to improve the program, first of all you need the data to show really where that metric is.

And second of all, I think it is an issue with contracting agencies who aren't utilizing the program as much as they should and really aren't seeking out those HUBZone contracting awards.

Mr. MEUSER. Great. Well, I look forward to continuing the conversation with both of you as we are committed to--I certainly am--to improving this situation so it is utilized that much more effectively for cities that really need this level of revitalization.

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

Chairman MFUME. Thank you very much. Gentleman yields back.

I would like to thank the witnesses again for appearing before the Committee, both here and on the screen. Your testimony has really shed some light on what is working and even what is not working within this program and the SBA, and the actions that Congress should, must, and hopefully will take to make this more efficient and effective.

Some Members of this Committee have heard me say before that I sat on this Committee in 1987 when I first got here. Ronald Reagan was in the White House. Gas was $1.60 a gallon. And the issues that we are talking about today were about to be taken care of in the next decade with the creation of this program.

And I leave and go back, come back 24 years later, and it is like deja vu all over again. So it is frustrating to me, particularly, to sit here and to see what is not working and to know, number one, SBA has to do a better job of policing itself. Number two, if we don't enforce existing laws and policies, we will never get anywhere. And number three, we have got to find a way to get more people participating in the program. The underutilization here is just unbelievable.

So hopefully that will take place as a result of this hearing. I look forward to working with my colleagues on both sides of this issue and on both sides of the aisle to advance legislation and to improve enforcement in the HUBZone program until the program's mission is achieved.

So again my thanks to all of you for being with us.

The Committee hearing is now adjourned.

[Whereupon, at 11:20 p.m., the Subcommittee was adjourned.]

[GRAPHIC(S) NOT AVAILABLE IN TIFF FORMAT]