

## Memorandum

Date: November 8, 2013

From: Veronica Romanov, Healthy Communities and Economic Development Facilitator

To: Northern Transformation/Michigan Works! Promise Zone Team

cc: Thomas O'Brien

Subject: Promise Zone Application Strategy: Implement a Federal Government Contracting Development Program for Small Businesses

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The purpose of this memorandum is to suggest that a Federal Government Contracting Development Program for Small Businesses be included as an element in the Promise Zone application. Included below is background information and reasons as to why this strategy could be the key to securing Promise Zone designation.

### Background and Overview

Spending more than \$500 billion a year to purchase almost every type of commodity and service that exists, the US government is the largest buyer in the world. To assist small business in competing for federal contracts and subcontracts, the federal government has several programs that incorporate mandated contracting goals, preference points on bids, and/or set aside contracts. All federal agencies and large prime contractors are required to participate; tens of billions of dollars are spent each year to purchase goods and services from small businesses participating in the various small business programs. These programs include the following.

- Small Business Program – Whether a business is considered large or small is based on the North American Industry Classification System (NAICS) for size standards. Depending upon the type of business, the small business standard for individual industries is based upon number of employees or average annual revenues.
- Historically Underutilized Business (HUB) Zone Program - HUBZone designations are dependent upon an area's income levels, unemployment rates, Difficult Development Area status (designated by the US Department of Housing and Urban Development), base closure status, and Indian land status.
- Service-Disabled Veteran-Owned Small Business (SDVOSB) Programs.
- Women-Owned Small Business (WOSB) and Economically Disadvantaged Women-Owned Small Business (EDWOSB) Programs.
- 8(a) Business Development Program – 8(a) refers to a Section 8(a) of the Small Business Act which mandates the program for small, economically disadvantaged businesses.

The US Small Business Administration (SBA) is responsible for certifying business as being eligible for the various programs (although for some programs, businesses self certify in their “representations and certifications” included in bids and proposals). SBA also provides a limited amount of technical assistance with the certification processes. All of the agencies and prime contractors are responsible for the maintaining an Office of Small and Disadvantaged Business Utilization and meeting the percentages of contract dollars required for each of the program areas.

Currently, the majority of agencies and prime contractors are falling short of their mandated HUBZone contracting goals. Per a 10/11/2012 article from the Federal News Radio's special report, The Small Business Dilemma, "In fiscal 2011, the federal government awarded 2.35 percent of its contract dollars to HUBZone businesses, amounting to \$9.9 billion. [Yet] only a third of the agencies that receive a grade on the SBA procurement scorecard met their 3 percent HUBZone goal." Also, as a result of the 2010 Census, many former HUBZone areas were re-designated resulting in "more than 30 percent of HUBZone companies certified by the Small Business Administration to do business with agencies in that capacity" no longer being eligible as HUBZone businesses. At the end of the memorandum, I have copied in information at the end regarding the areas in which business will be eligible for Historically Underutilized Business (HUB) Zone certification. Four of the six counties in the Northern Transformation Promise Zone region are areas in which businesses will qualify for HUBZone certification if they meet the following requirements.

1. The firm must be a small business based on the North American Industry Classification System (NAICS) for size standards. (Depending upon the type of business, the small business standard is based upon number of employees or average annual revenues.)
2. The business must be at least 51% owned and controlled by citizens or permanent residents of the United States.
3. The firm's principal office (the location where the greatest number of employees perform their work, excluding contract sites) must be in a HUBZone.
4. The proportion of the firm's total workforce must reside in a HUBZone must be at least 35%.

The businesses in all six of the counties would also qualify for other programs such as the Service-Disabled Veteran-Owned Small Business (SDVOSB) Program and the Women-Owned Small Business (WOSB) and Economically Disadvantaged Women-Owned Small Business (EDWOSB) Programs. Currently there is a great deal of emphasis being placed upon HUBZone contracting because of the large disparity between the contracting goals and what is being achieved. However, many of the federal agencies and prime contractors are falling short of mandated SDVOSB, WOSB, and EDWOSB goals as well. The Northern Transformation Federal Government Contracting Development Program for Small Businesses should include working with businesses who would qualify for each of the various designations.

### **Program Framework**

The Northern Transformation Federal Government Contracting Development Program for Small Businesses could incorporate the following elements.

- Identifying business that would:
  - 1) Be eligible for designation as Small, HUBZone, SDVOSB, WOSB, and/or EDWOSB businesses; and
  - 2) Provide products and/or services which the federal government and/or prime contractors purchase.
- Providing firms with technical assistance in getting certified and liaising with SBA's technical assistance officials.
- Assisting in development of federal prime and subcontract business development plans, including how to identify and qualify opportunities and how to develop successful bids and proposals.

- Identifying the commodity and service areas in which potential new business would have the greatest likelihood of success in terms of federal contracting.

**Advantages of a Strategy of Having a Federal Government Contracting Development Program for Small Businesses**

A Northern Transformation Federal Government Contracting Development Program for Small Businesses would involve enabling business to secure contracts to provide commodities and services to the federal government and prime contractor. This is a “win-win” situation in that it would result in increased business and tax revenues and employment opportunities in the region, and it would help federal agencies and prime contractors in achieving their mandated contracting goals in the various program areas. Such programs also “mesh” extremely well with workforce training and development programs in that they would result in employment opportunities for the individuals coming out of those programs. Finally, it also offers opportunities for the establishment of new businesses.

**Conclusion**

Please feel free to contact me via email to [veronica@romanovgroup.com](mailto:veronica@romanovgroup.com) for additional information. I am willing to work with the team to develop some estimates on the number of businesses in the six counties which would be eligible for the various programs, as well as identifying the types of goods and services in the region are regularly purchased by the federal government and its prime contractors.

Also, please keep in mind my offer to serve to “red team” (provide an independent evaluation/scoring of the application).

Please note that this is not a public document (although it largely contains publically available information. It was prepared for reference and use by the Northern Transformation/Michigan Works! Promise Zone Team in preparing the Promise Zone application.

<b>Status of Ability of Businesses to Qualify for HUBZone Certification</b>		
<b>County</b>	<b>Non-Metropolitan County HUBZone Qualification Status</b>	<b>Basis of Qualification</b>
Arenac	Qualified as a HUBZone by unemployment.	Relative unemployment rate is 148%.
Clare	Qualified as a HUBZone by unemployment	Relative unemployment rate is 143%.
Gladwin	Qualified as a HUBZone by unemployment	Relative unemployment rate is 154%.
Iosco	Not currently HUBZone qualified by either unemployment rate or household incomes. However, Iosco County was previously qualified and will retain HUBZone eligibility as 'Redesignated' until May 2016	
Ogemaw	Not currently HUBZone qualified by either unemployment rate or household incomes. However, Ogemaw County was previously qualified and will retain HUBZone eligibility as 'Redesignated' until October 2014.	

<b>Status of Ability of Businesses to Qualify for HUBZone Certification</b>		
Roscommon	Qualified as a HUBZone by both household income and unemployment.	Relative unemployment rate is 141%. Median household income is 78% of the median statewide non-metropolitan county household income.

Source: <http://map.sba.gov/hubzone/maps/>