FEDERAL CONTRACT WATCH LIST

How big contracts hurt small businesses: 10 to watch

A report prepared by the

House Small Business Committee Democrats

Nydia M. Velázquez, Ranking Democratic Member

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Introduction

"Government contracting must be more open and more fair to small businesses. But you know as well as I do that there are some large hurdles for small businesses. The main one is that agencies many times only let huge contracts with massive requirements go to the same group of large corporate bidders–the term of art in Washington is called bundling. It effectively excludes small businesses. And we need to do something about it."

– President George W. Bush

On March 19, 2002, President Bush brought national attention to many issues facing entrepreneurs when he unveiled his Small Business Agenda. In his agenda, the President listed "avoiding unnecessary contract bundling" as one of his Administration's top priorities. The Democrats on the House Small Business Committee have been closely monitoring the issue of large or mega contracts and how they rob small businesses each year of several billion dollars in federal contracts.

In fact, over the past four years the number of federal contracts awarded to small businesses has declined by nearly 23 percent, while the dollar value of contracts increased by over $23 billion. The creation of contracts too large for small businesses is a persistent and critical issue. Just last year, the federal government met **none** of its small business goals, resulting in the loss of more than **$9 billion** in contracts for small businesses.

One of the main reasons for the government's failure to meet its small business goals is the creation of mega contracts. These contracts force out qualified small businesses due to contract size and scope. Small businesses lose because they are unable to compete with corporate giants that can handle the unrelated work requirements or diverse geographic areas covered by a large contract.

In an attempt to stop the harmful effects this practice has on small business, Democrats on the House Small Business Committee, through discussions with small business owners and intense oversight of the Small Business Administration's Prime Contracting Assistance Program, have identified 10 contracts that represent a cross-section of the federal procurement arena. Their reach extends beyond state boundaries and industries. These contracts vary in size, dollar value and work requirements. Some have already displaced small businesses, while others are pending and will displace small businesses in the future.

This report's results are indicative of past contracting trends shown by the Small Business Committee Democrats. In last year's *Scorecard* study, which grades federal agencies on their ability to meet their small business goals, one of the worst grades went to the Department of Defense. Receiving a failing grade, the Department of Defense – an agency that accounts for more than 65 percent of total federal purchases – has made contract consolidation commonplace among its procurement practices. This report, with 7 out of the 10 contracts outlined administered by the Department of Defense, accurately reflects this disproportionate percentage of procurement held by the Pentagon as well as the agency's tendency to consolidate contracts.

The report also highlights the main tactics federal agencies use when creating large contracts. Many contracts found in this report combine a wide array of services that, taken individually, could be handled by small business. Some agencies also insist on a "single integrator" for all the contracting functions, which only leaves a large corporation able to do the job.

Federal agencies also use contract type and duration to shut small businesses out. A contract of choice for agencies – the multiple-award contract type – allows agencies to limit competition by sole sourcing or competing individual task orders when awarding several contracts.

Another procurement strategy – the Government-Wide Acquisition Contract, or GWAC – reveals how federal agencies bypass small business when they are able to buy from the contract of another agency. This gives federal procurement officers an incentive to continue using an existing contract instead of issuing a new one that would contain small business requirements. There is no mechanism in place to track the quantity of orders or the dollar values of those items ordered by other federal agencies from a large contract.

Federal agencies also streamline small businesses out of the federal procurement process by spanning a contract over a geographic region too large for any small business. Such a regionalized contract often requires that small businesses establish offices in all states covered by the contract, which they are simply unable to afford.

Among these aspects that exclude small business from a federal contract is the critical issue of capital. Small businesses do not have the capital reserves associated with large corporations. Therefore, when a bundled contract adds a new work dimension that requires an expensive piece of machinery, a small business is unable to obtain the capital to purchase the equipment or cover the costs required by the job.

Such loopholes are typical of what federal agencies do to get around small business goals and requirements. Also, when already-awarded federal contracts worth billions of dollars over several years – or even decades – go to large corporations, small businesses must wait on the sidelines until the contract comes up for renewal or a new one is issued.

The President discussed the necessary action to help small businesses gain access to the federal marketplace – in particular, breaking up large contracts that are awarded to big corporations to give small enterprise a chance. The 10 contracts outlined in this report are just examples that reflect a larger problem. For every one contract listed here, there are many more across the country worth billions but out of reach for small businesses. Through these contracts, the Democrats on the House Small Business Committee give the President, Congressional leaders, small business owners and organizations who support small business a point of departure to limit contract consolidations and make room for America's small companies.

U.S. Army Communications-Electronics Command (CECOM) Rapid Response (R2) - $2.8 billion National

This proposed contract is a multiple award Government-Wide Acquisition Contract (GWAC) that "provides a single integrator [one contractor] for engineering, operation, and support services needed to sustain an existing federal system." The initial GWAC – known as the R2CSR Program – has been in existence since 1998 and has a nationwide scope. Procurement value of this contract is approximately $350 million per year per contractor over a period of 8 years. This translates into a total potential contract value of approximately $2.8 billion per contractor.

The GWAC contract type allows other federal agencies the ability to order from it. For example, the Air Force could order from the Army's contract simply by paying an administrative fee. Instead of creating a new contract, the Air Force would be able to bypass certain small business requirements. Within the federal government, there is no tracking mechanism in place that details the quantity of orders and the dollar values of items ordered by other federal agencies on GWACs.

A wide array of support services, including information technology and engineering, can be performed by small businesses. But when these projects are combined and an agency insists on a "single integrator" to perform all functions, many small businesses that could manage the work with a high degree of success now no longer even qualify due to the size and scope of the contract.

With this GWAC, attempts were made to ensure that small businesses were awarded at least two of the contracts. Attempts were also made to stop the folding of small business work into the contract. The Small Business Administration (SBA) not only requested representation on a review panel to periodically evaluate small business performance on this contract, but also requested that a minimum percentage of prime contract awards on this contract be awarded to small businesses. SBA also requested that CECOM increase its subcontracting goals to maximize small business participation as subcontractors for tasks that could only be performed by large businesses. Unfortunately, all these requests were denied by the Army.

The Army's unwillingness to exercise common sense small business initiatives on this contract led the SBA to exercise its option in accordance with Section 15 of the Small Business Act. The SBA filed an appeal with the Secretary of the Army on March 20, 2002. The appeal has not yet been decided by the Army, but the outlook is bleak, given the past track record of these types of appeals – in only one appeal filed by the SBA did the federal agency in question actually reverse its decision to open up the contract for more small business participation.

The Army's proposed GWAC is a multibillion dollar venture that will favor large business over small and single-source procurement practices over multiple-source procurement and diversity. It has been found when agencies use multiple sources and a diverse mix of companies – both large and small included – the contract produces higher quality goods and services and saves taxpayer dollars.

U.S. Navy
Construction Project, Naval Training Center - $270 million
Great Lakes, Illinois

The Department of the Navy is contracting for the construction of several new barracks at the Naval Training Center at Great Lakes, Illinois. Each barracks construction is estimated at $35 million, for a total value of at least $270 million over the next 5 years.

Instead of awarding the work to construct even one barrack to capable small businesses in the area, the Navy has combined all the barracks construction contracts, forming them into one mega contract. By taking these contracts, which separately could produce high quality for low prices by small businesses, the Navy has grouped these contracts together so that small businesses are no longer able to compete.

Although small companies could construct one barrack if they teamed together, it is highly unlikely they would be able to build all the barracks required by the Navy – based on the sheer scope of the project and the capital reserves necessary to perform such a contract.

Still, the Navy holds fast to the notion that this $270 million contract be awarded to a single contractor. The Navy believes that a single procurement source would make the project more manageable for them. Given the Navy's inability to see how small business can fit into their procurement strategy for this construction project, the only opportunity for smaller firms on this contract would be as subcontractors. But there is still another caveat – the final contract awardee is under no obligation to use small businesses. And given the high dollar value of this contract, the prime contractor will most likely use companies they have worked with in the past, once again denying local small businesses the chance to become subcontractors.

The Small Business Administration (SBA) has requested the Navy break the contract into smaller pieces. The Navy refused. They did finally agree to award the construction of the first two barracks to one contractor, and then award the next four barracks to the same contractor if the contractor's performance is satisfactory.

This is not a viable alternative for small businesses. As a subcontractor, small businesses are less likely to be paid in a reasonable time. They must also rely on the prime contractor to advocate for them in disputes with the agency, as the subcontractor does not have a contractual relationship with the agency. The solution offered by the Navy is really no solution at all.

In addition, contracts in the construction industry are never considered "bundled" under current statute because it is always new work – there is never an incumbent contractor on a construction project. As a result, federal agencies that normally must justify their contract consolidation practices to show cost savings are able to use this loophole to strengthen their procurement strategy for a particular job.

The Department of Defense consistently maintains their contracts are both too large and too complex for small businesses. There are many small businesses which could participate in DOD contracts – they have the diversity and flexibility to provide services that large businesses cannot. But when given the opportunity to structure a contract that would make room for small businesses, the Department of Defense refused.

U.S. Air Force - U.S. Space Command
C4I Support Services
Colorado Springs, Colorado

This multimillion dollar contract involves support services for the Air Force's command, control, communications, computer and intelligence (C4I) systems in Colorado Springs. Services include information technology (IT) and digital switching networks, among others.

Instead of procuring these services locally, which would have increased the chance for small business bidding, the Air Force attempted to get the Corps of Engineers in Omaha, Nebraska, to issue this contract. The Corps of Engineers insisted the contract be divided, with at least 30 percent of the work awarded to small businesses. The Air Force refused and subsequently canceled its request to have the Corps of Engineers issue the contract.

The Air Force has been unwilling to explain the rationale behind requesting that the Corps of Engineers procure the services for them. If the Corps of Engineers did issue the contract, it is unlikely that a small business in Nebraska would have the capacity to perform a contract in Colorado. It is also unlikely that a small business in Colorado will have the necessary relationships with contracting officers in Nebraska to bid on work for this contact. With no prime contractor portion for small businesses in place, the Air Force will soon begin administering the contract.

The move by the Air Force to ask the Corps of Engineers to procure the services on this contract creates yet another obstacle for local small businesses. Logistically, it would be impossible for a small business to do work with the Air Force in Colorado, after routing through the Corps of Engineers in another state – Nebraska. It is clear that the Air Force is intent on cutting out small business prime contractor participation on this contract.

This is not the first case the House Committee on Small Business has seen when a federal contract moves from location to location across the country or when diverse services are combined into one large contract.

Most – if not all – small businesses are unable to track a contract that moves across the country. Small businesses are, in most cases, local establishments that do not have the resources to travel or the floating operations that a large national corporation might have at its disposal. There is no way that a small business can rationally assume the Air Force in Colorado would purchase services with a new contract issued by the Corps of Engineers in Nebraska. Yet, this practice has occurred at Vandenberg Air Force Base in California, and now at the U.S. Space Command in Colorado. The Air Force is clearly against the procurement strategy proposed by the Corps of Engineers, which incorporated a 30 percent small business goal, a reason why it pulled back both its contracts.

By playing this shell game of moving multimillion-dollar federal contracts to locations where another federal agency may agree to their procurement strategy of choice, the Air Force is excluding small businesses from the federal contracting arena. Many small businesses are unaware that this practice even exists.

U.S. Air Force
Base Support Services
National

The Air Force is currently evaluating a policy that would consolidate base support services at Air Force bases throughout the nation into single contracts. Base support contracts include several varied and necessary tasks that contribute to the overall operation of the military base. These tasks include grounds keeping, guard services, trash removal, etc. Other types of base support contracts might cover computer systems, where one contractor provides all of the computer support and maintenance services. These base support contracts are always high in value – into the tens of millions of dollars or more, and often last for a long period of time, usually a decade or more.

Most base support contracts that cover only one base have eliminated small business participation as prime contractors because the work is simply too diverse for any one small business to do. And, although such prime contractors are encouraged to subcontract to small businesses, there is no requirement directing them to do so.

Small businesses have expressed concern to the House Committee on Small Business that if they were previously performing work at a particular base, they are sometimes offered a subcontract, *but only if they decrease their prices*. In effect, this practice provides cost savings to the government on consolidated or bundled contracts by squeezing small business subcontractors that have already been forced out as prime contractors.

The Air Force's proposal would consolidate base support contracts even more by using one contractor to perform work at several bases. This further consolidation where a single contractor covers the work at multiple bases makes even subcontracting opportunities for small businesses difficult to obtain.

Many times in these cases small businesses are required to perform services in multiple states, which is impossible for local small companies. Contracts that cover multiple bases also increase the likelihood that large business prime contractors will bring in their own subcontracting teams and eliminate any small businesses that may have been interested in the work.

There is no requirement in most federal contracts that subcontracts should be awarded to *local* small businesses. And yet, most small businesses in areas of the country where there are military bases opened their doors specifically to serve the needs of the base. Small businesses across the country have served the needs of their local military bases for decades. But now, in the interest of saving money and time, the Air Force will force area small businesses to shut their doors while putting millions into the pockets of large entities that can handle the breadth and scope of a multi-base multi-service bundled contract.

U.S. Marine Corps
Management and Operation of Mess Halls - $400 million
National, Eastern Region & Western Region

Two contracts – an eastern region contract and a western region contract – were awarded in March 2001 for the management and operation of Marine Corps Mess Halls. The eastern region contract included facilities in the Washington, D.C.-area; Camp Lejeune; Cherry Point, North Carolina; and Parris Island and Beaufort, South Carolina. The western region contract included facilities in San Diego; Miramar; Bridgeport; and Camp Pendleton, California; Twentynine Palms, California; and Yuma, Arizona. Both contracts were awarded to Sodexho Management, Inc. of Gaithersburg, Maryland, and each one exceeded $400 million.

First staffed by enlisted personnel, the Marine Corps mess halls were later managed by contractor personnel that were frequently small businesses. These small businesses provided food sanitation specialists, many of whom were dependents of Marines serving at various bases across the nation. Some of these small businesses performed their services at these locations for decades or longer. The meals served by small businesses in the Marine Corps mess halls were at a fair cost and were high quality.

But a new "Cook and Chill" concept has swept small businesses away from their work at the Marine Corps mess halls. The "Cook and Chill" concept that is behind the consolidation of these mess hall management contracts involves preparing and cooking food at a centralized location, freezing it and then re-heating it. Despite claims that this technology will save millions of dollars, there is reasonable concern that the food quality has decreased substantially.

Although there are five Marine Corps regions, they were consolidated into two regions for the purposes of this contract. Yet in a seemingly redundant move, the two regional contracts will be administered by the original five separate Marine Corps regions. By consolidating the five regions into two, the probability that small business would have the ability to win a contract that spans many states or cities is low.

Rather than testing the "Cook and Chill" technology on a pilot basis, the Marine Corps moved ahead quickly and re-vamped its entire mess hall system. The only study that the Marine Corps relied upon to proceed with this contract was done by a large, multinational corporation food service organization. The cost savings study released by the Marine Corps was not independently verified.

Also important to note is that only 10 percent of the Marine Corps mess hall food is estimated to be processed with the "Cook and Chill" technology. The bottom line is this: small businesses were forced out of their role as prime contractors in Marine Corps food service contracts all over the nation in favor of two giant multimillion dollar contracts that are only able to provide 10 percent of the food at a better price (still to be proven) and at a lower quality.

U.S. Postal Service
Office Products - $25 million
National

The U.S. Postal Service has opted for a single source office supplier – the multimillion dollar office products giant Boise Cascade. Now in its third year, this five year, $25 million dollar contract has resulted in the displacement of small businesses throughout the country. Prior to its implementation, the Postal Service purchased many of its office products from local small businesses.

Small businesses already engaged in doing business with the U.S. Postal Service were unaware of this lucrative contract until it had been awarded to Boise. They were not given a chance to compete in an open setting, which might have proved their prices were actually lower than Boise Cascade's and resulted in a different outcome.

The decision to use a single source supplier and streamline out small businesses trickles down to the contracting officer who decides where and when to purchase the products needed by the U.S. Postal Service. One Postal Service's contracting officer referred to small businesses as "irrelevant," which is a practice that, unfortunately, has permeated the federal contracting ranks.

Using the example of rubber bands, the House Committee on Small Business has documented evidence of a price offered to the Postal Service by a small business that costs 49 cents less per pound than Boise Cascade's price for the same product. In addition, the rubber bands purchased by the U.S. Postal Service from Boise Cascade are manufactured overseas. Unlike the contracting officer at the Postal Service, the House Committee on Small Business does not consider the cost savings for a U.S. product manufactured by a small company that employs over 200 Americans "irrelevant."

Now, the Postal Service is attempting to fold more and more individual contracts into Boise Cascade's mega contract. The small business already mentioned currently has a separate contract with the Postal Service, but in the future this work will be combined with the existing Boise Cascade contract.

When this happens, this small business will no longer have its contract with the Postal Service, and the Postal Service will be buying rubber bands manufactured outside of the U.S. at an inflated price.

Unfortunately, the Postal Service does not operate under the same federal regulations governing procurement as other agencies. As such, the Postal Service has procurement "carte blanche" – it is able to purchase what it needs from whatever source. Given the latest move by the U.S. Postal Service to consolidate the purchase of office products into one bundled contract serviced by a large multinational company, the future for small businesses in getting any piece of the U.S. Postal Service office products contract certainly looks bleak.

U.S. Department of Agriculture
Office Products
National

Just as the U.S. Postal Service has chosen to use a large multinational company for its products over local small businesses, the U.S. Department of Agriculture provides a similar case. USDA awarded "multiple-award blanket purchase agreements" to Boise Cascade and other large business office products suppliers.

The fact that USDA awarded this contract as a "blanket purchase agreement," means that each order under the agreement is a separate contract. By awarding the contract using this type of mechanism, USDA avoided having to advertise the bid so that interested parties, including small businesses, would know about the work. USDA was then able to legally "pick and choose" what companies it wanted to do business with.

The USDA made only a single attempt to determine whether small businesses were capable of performing this contract. They called a small business – one that was no longer in business. Other than this, small businesses did not find out about this contract until it had already been awarded.

When asked if the USDA would issue a notification of the bid in the *Commerce Business Daily*, USDA responded that "(n)otification at this point will not be of benefit." It is evident that USDA selected an action and intended to proceed with it, regardless.

USDA informed Congress of its plan to conduct an assessment to determine the impact on small businesses prior to proceeding with the awarding of this contract. The USDA assessment concluded there would be no "overall adverse impact" on small businesses. However, USDA has prohibited the attendance of small business office products providers at one of its upcoming trade shows. This type of action is clearly contradictory to what USDA has advised Congress – that office supplies will continue to be acquired locally from small businesses aside from its contract with Boise Cascade.

Much like the U.S. Postal Service, many of the items provided under the Boise Cascade contract to USDA were previously provided by small businesses, manufacturing products domestically and at a lower cost.

U.S. Navy Supervisor of Shipbuilding (SUPSHIP) Multi-Ship, Multi-Year Phase Maintenance Requirement Portsmouth, Virginia

The Navy has proceeded with a contract for "phase maintenance" in Portsmouth, Virginia, which consolidates ship repair with bilge and tank cleaning, along with other ship maintenance. Because the Portsmouth area is the primary location for maintaining U.S. Atlantic Fleet, many small businesses have existed and prospered there by providing critical ship maintenance services.

Although small businesses have successfully performed bilge and tank cleaning, as well as other services for the Navy's ships, this contract now combines these tasks with ship repairs. The ship repairs require that the repairing company have a dry dock. Purchasing a dry dock can cost a business millions of dollars and the dry dock must be utilized on a continuous basis in order to recoup the costs. Small businesses do not have the resources to purchase a dry dock and are unable to ensure the revenue stream that would make this significant capital expenditure cost-effective for them.

By combining work conducive to small businesses with repair work only affordable by large businesses, the Navy has eliminated small companies from this contract. The Navy's excuse for cutting small business out is that the work can be completed at a cost savings if there is only one contract in place. Currently, there is no requirement for the Navy to maintain data showing this new procurement strategy saves taxpayer dollars.

Small businesses have been competitive in the past on Navy bilge and tank cleaning projects, but they have been effectively eliminated from this contract. Small business set-asides – where small businesses compete only against each other – are prohibited from this type of work by the Competitiveness Demonstration (Comp Demo) Program.

The Comp Demo Program was established by Public Law 100-656. Its purpose is to demonstrate whether small businesses can compete successfully with large businesses, whether small businesses would be negatively impacted by such competition, and whether targeted goals in certain industries can expand opportunities for small businesses. Most federal agencies have met their small business goals in the industry classification covered by this contract, which would prove that small businesses *can* compete against large businesses.

However, because this contract combines tasks previously performed by small business with other tasks that require the up-front capital and equipment of a large business, small firms will no longer be able to keep their portion of the work. Large businesses will now get *all* of the work, even though they might not be able to perform it better, quicker or cheaper than a local small business.

U.S. Department of Veterans Affairs
Elevator Maintenance - $2.3 million
Arkansas, Louisiana, Oklahoma & Mississippi

The Department of Veterans Affairs in Arkansas had an elevator maintenance contract that was handled at the local level and used the services of small business. Five years ago this contract, valued at $2.3 million, was regionalized to cover 8 locations in four states. The contract locations are: North Little Rock/Little Rock, Ark; Fayetteville, Ark.; Oklahoma City, Okla.; New Orleans, La.; Alexandria, La.; Biloxi, Miss.; Jackson, Miss.; and Muskogee, Okla.

While small businesses were previously awarded all individual locations under separate smaller contracts from October 1, 1997 through September 30, 2000, small business subcontractors only received $76,800.19. Then, through this consolidation, eight small business prime contractors were displaced.

Now, the contract will come up for renewal in September 2002. At this time, attempts will be made to break the contract into smaller pieces or find a small business that might have the resources, staff and finances to perform the consolidated contract.

Once again, this type of move by a federal agency – expanding a contract to cover several geographic regions – puts the contract out of reach for many small businesses. Such a regionalized contract often requires that small businesses establish offices in all states covered by the contract. Clearly, with an elevator maintenance contract, a small business would need to localize operations and maintenance services so that they could comply with the terms of the contract and make repairs in a matter of hours.

It is also not feasible – both for financial and logistical reasons – for a small business to open offices in several states for a single contract. Most small businesses are hesitant to add offices unless they have several contracts in these areas to cover the expenses and overhead associated with the opening and operation of several new offices.

Federal agencies increasingly justify contract consolidations through a reduction in administrative costs. However, the regulations are clear that a reduction in administrative costs alone, is not a sufficient reason for bundling contracts and omitting small business from performing work on these contracts.

One critical outcome of the Veterans Affairs' decision to consolidate this contract is the fate of the displaced small businesses. As subcontracting to small businesses only accounted for $76,800.19 from October 1997 through September 2000, it is clear there is minimal, if any, participation by previous small business prime contractors. There is no requirement that agencies track whether small business prime contractors are used as subcontractors once they are displaced.

This contract bundle highlights both the use by agencies of disparate locations to consolidate contracts, and the questions surrounding what happens to displaced small business prime contractors.

U.S. Army Tank-automotive and Armaments Command (TACOM)
Tool Sets - $600 million
National

The U.S. Army's Tank-automotive and Armaments Command, or TACOM, based in Rock Island, Illinois is planning two separate contracts with a national reach. The first contract is for a carpenter's tool kit and the second contract modifies the way in which the Army purchases all of its tool kits.

The carpenter's tool kit is just one of approximately 20 different tool kits used by the Army for a variety of job functions. There are tool kits for mechanics, surveyors, and other Army units. Each kit contains a carrying case and a variety of hand and mechanical tools. Some of the kits are very complex and involve the outfitting of specialized vehicles. Small businesses have provided many of the tool kits to the Army over the years. Currently, the Army is soliciting bids on the carpenter's tool kit. Although each kit is valued at several thousand dollars for a total contract value over six years in the millions, small businesses will be virtually eliminated from competition.

If small businesses were interested in this contract, they were encouraged to attend a one-day "industry conference" in Davenport, Iowa. If small businesses were unable to attend this conference, the Army was likely to conclude that small business had no interest in the contract. Only six small businesses were able to attend the conference.

In order for this bid to be restricted to only small businesses, the Army must determine that at least two small businesses will be eligible to bid. Eligibility to bid on this type of contract, restricted to small businesses, requires that small businesses that do not manufacture the tools or the carrying cases, must provide the products of small businesses manufacturers for more than 50 percent of the items contained in the tool kit.

Although this "non-manufacturer rule" was put in place to ensure that dollars on small business set-asides flow primarily to small enterprise, it works to the disadvantage of small businesses on the Army's carpenter's tool kit contract. The reason is there are no mechanisms in place to assist small businesses in locating small manufacturers. Large businesses are not required to provide the products of small businesses, nor are they provided real incentives to do so. Large businesses are not penalized if they do not meet their subcontracting goals – they must merely show how they made an effort to work with small businesses.

The other Army contract under consideration is the consolidation of the purchase of all Army tool kits, or their "Tool Modernization Program." This contract will be valued at $600 million over 10 years. Prior to this consolidation, tool kits were provided under separate contracts – some of which were awarded by small businesses.

The Army intends to pre-qualify several companies and then compete individual tool kits among them. The program effectively limits the pool of bidders for up to 10 years. In many cases, the Army's tool kit needs could be met by small businesses. However, issues working against small businesses include the "non-manufacturer rule" and the Army's intent on developing a long-term contract for its tool kit needs.

To date, the contracts have not yet been awarded. But as the Army consolidates this contract, many small businesses might be pushed aside as large businesses that can handle the increased demand for tools absorb the prime contractor dollars that once went to small firms.

Conclusion

For the federal procurement system to operate in an equitable and effective manner, it must balance the key components of quality, efficiency and cost within an environment which does not place any one sector of the economy at an unfair disadvantage.

These indicators are not mutually exclusive. A procurement system that relies too heavily on streamlining risks a product that is more costly and of lower quality. If too much emphasis is placed on cost or quality, the end result could be a procurement system that is slow and unresponsive. Clearly, there must be some balance. The measurement of a proper-functioning procurement system is getting the best value for the taxpayer dollar. Through this report, what becomes clear is that the current system is broken and in need of repair. By failing to balance the important components of cost, quality and efficiency, federal agencies have streamlined a critical component of the economy – small business – out of the system.

Small businesses are the engine of the U.S. economy. They account for half of our GDP and create three-quarters of all new jobs. Many times, small businesses are drawn into the federal marketplace to fill a local need. The barriers that have been imposed by the federal government are not due to their failure to provide a quality product in a timely manner or high prices. This report highlights instances when small businesses are able to provide a less expensive, quality product to federal agencies, but were still overlooked. The shift has occurred simply because the federal government has made the choice to pursue procurement strategies that rely on large corporations, contract consolidation, and streamlining. This is contrary to the very economic principles that drive the private sector. The contracts highlighted in this report demonstrate the disconnect that exists in the federal procurement system and should serve as a case study on federal acquisition strategies of contracting practices that exclude small business.

Given the findings of this report, the Democrats on the House Small Business Committee recommend that the President direct these federal agencies to reconfigure the 10 contracts outlined here and create new acquisition strategies that provide for the equitable treatment of small businesses. Fixing these contracts is only a start and should be viewed as a short term solution. What these contracts make clear is that a major restructuring of the federal procurement system is needed.

There are legislative measures that can be taken by Congress to begin to repair this unfair system. Currently, there are two pieces of bipartisan legislation introduced by Democratic members of the House Small Business Committee that would help to close the existing loopholes in the federal procurement system that exclude small businesses.

The Small Business Contract Equity Act of 2001 (H.R. 1324) empowers the Small Business Administration (SBA) to make decisions that protect the interests of small business. This legislation seeks to provide a more equitable system for settling disputed cases involving bundled contracts. It changes the current procedures that favor government contracting bureaucrats over small businesses and their employees. It shifts the decision-making ability from federal agencies to the Small Business Administration. *The Small Business Contract Equity Act* also holds agencies that fail to meet their statutory small business goals accountable by suspending their ability to bundle contracts for **one full fiscal year**. Introduced in 2000, this bill is still awaiting Committee action. It is the recommendation of Committee Democrats that it should be acted upon without further delay.

Recently reported out of the House Small Business Committee but still awaiting action by the full House is the *Small Business Opportunity Enhancement Act of 2001* (H.R. 2867). This legislation will enhance the SBA's ability to dismantle large contracts so that small businesses are better able to participate. It will also increase the time frame from 30 days to 60 days for small businesses to bid on bundled contracts. The current 30-day deadline is too short for small businesses to assemble partners for a competitive bid on large contracts.

Federal agencies, working with the Small Business Administration, the President and Congress must open up the federal contracting arena for small businesses. An equitable federal procurement system can only be attained through the balance of its goals – efficiency, cost and quality. If emphasis is placed on any one of these components over another, small businesses lose and taxpayer dollars are not well-spent. Democrats on the House Small Business Committee want federal agencies to meet their small business goals – even surpass them – as this marketplace grows by billions of dollars every year. Small enterprise has the know-how and the resources to perform some or all of the work on various government contracts – if they would only be given the opportunity to do so. This report is about rethinking procurement strategies that increase small business opportunities. The only way for this to occur is through continued oversight, small business goal commitment, and legislative initiatives to hold agencies accountable for their contracting practices.

As a follow-up to this report, the Democrats on the House Small Business Committee plan to release their annual *Scorecard* study next month on federal contracting and small business.