

The HUBZone Program Report

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Purpose

Public Law 108-447 directed the Office of Advocacy to conduct a study measuring the effectiveness of the definitions under Section 3(p)(4) of the Small Business Act (15 U.S.C. 632(p)(4)) for the purposes of economic impact on small business development and job creation. This section of the law is commonly referred to as the HUBZone program. This study examines the impact of the definitional changes to the HUBZone program.

Overview

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

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

The HUBZone program has three mechanisms for targeting contracts to HUBZone businesses: set-

asides, sole source awards and price preferences. In the eight-year period from FY2000 through FY2007, there have been about 21,350 contracts totaling \$6.28 billion awarded through the three HUBZone mechanisms.

Overall Findings

- In general, the program has grown steadily in terms of total contract dollars, from \$44 million in FY 2000 to \$1.76 billion in FY 2007. FY 2004 was the only year in which there was a decline in the total amount awarded to HUBZone businesses. HUBZone contract dollars in FY 2007 were 2.75 times the FY 2003 level. Growth from FY 2006 to FY 2007 was 26 percent.
- The number of HUBZone businesses and HUBZone vendors increases with the population and area of the HUBZone.
- The program has not generated enough HUBZone contract dollars to have an impact on a national scale. When spread over an eight-year period across 2,450 metropolitan areas and counties with qualified census tracts, qualified counties, and Indian reservations, \$6 billion has a limited impact.
- HUBZone set-asides are the most frequently used tool to award HUBZone contracts. HUBZone sole source and price preferences were least often used by contracting officers.

Scope and Methodology

Data for this study were drawn from three databases. Two of these provide information on all HUBZone businesses, namely the database of applications for HUBZone certification and the Central Contractor Registration (CCR) data on small busi-

nesses. The third source, the Federal Procurement Data System (FPDS), provides information on HUBZone businesses that have won HUBZone contracts.

In analyzing HUBZones, it is useful to think of them in relation to counties. From this perspective, there are three general types of HUBZones:

- **Sub-county areas.** These include all qualified census tracts, small Indian reservations, and BRAC bases.
- **Counties.** These include qualified counties, large Indian reservations, and DDAs.
- **Larger areas that are collections of HUBZones.** These include metropolitan areas which have only QCTs, and states that are almost entirely HUBZones (principally DDAs and Oklahoma).

There are fundamental differences in the way indirect impacts on earnings and employment are treated in these different types of HUBZone areas.

The report generally follows this structure.

Chapter 2 provides a general overview of the population of HUBZone businesses and Federal HUBZone procurement. Chapters 3-9 assess the distribution of HUBZone businesses and revenues and the resulting impacts. Each chapter deals with an individual class of HUBZones. Chapters 10 and 11 deal with topics common to all HUBZones: the industry and size distribution of HUBZone businesses, and the timing of certification of new HUBZone businesses. Chapter 12 summarizes conclusions of the study. The report

also contains eight appendixes on data and methodology.

This report was peer-reviewed consistent with Advocacy's data quality guidelines. More information on this process can be obtained by contacting the director of economic research at advocacy@sba.gov or (202) 205-6533.

Ordering Information

The full text of this report and summaries of other studies performed under contract with the U.S. Small Business Administration's Office of Advocacy are available on the Internet at www.sba.gov/advo/research.

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