

Size Standards Comprehensive Review

Welcome to SBA's meeting on its new initiative to review size standards. This comprehensive size standards review that I will discuss is one of SBA's top priorities for this year.

Last year, Acting Administrator Carranza and former Administrator Preston asked us to put together a plan to review all size standards. This is something that has not been done since the early 1980s. We were concerned that SBA was overlooking many industries that needed updating, and that we were focusing our resources on too few of areas.

Presentation Topics

I'll begin with remarks about the objectives and structure of the review. Then talk about how SBA reviews and makes a decision on a size standard. I'll conclude with talking about the process for the review.

Objectives of Comprehensive Review

The main objective of the comprehensive size standards review is to conduct a coordinated and organized review of all size standards. This has not occurred since the early to mid-1980s. For the past 25 years, our focus has been addressing specific problems with size standards and making periodic inflation adjustments.

While these ad hoc and inflation adjustments are worthwhile, over time, changes in the economy and small business programs make a broader review necessary to ensure that size standards are at appropriate levels.

For this review, we are focusing on making sure that a size standard meets two conditions:

First, the size standard has a supportable basis given the data on the industry and other relevant information.

Second, that size standards are consistent. That is, if two industries are similar in characteristics, they have similar size standards.

With such an ambitious undertaking, we decided to review and publish proposed rules for groups of industries during a 2-year period rather than publishing one proposed rule for all industries.

Specifically, we'll start the review by evaluating the industries within a selected NAICS sector. A NAICS sector contains a group of industries that are in a related field of activity, such as the construction sector, which includes the industries for electricians, building construction, and highway construction, to name a few. After our analysis, we will publish a proposed rule for those industries where a revised size standard is supportable. Then we will begin the review of another NAICS sector.

This phased approach makes the review much more manageable by allowing us to focus on issues related to a fewer number of industries.

More importantly however, issues that may exist with other industries will not hold up a final decision on other industries. This has been a problem in past reviews when the Agency has tried to make a lot of overall changes. We want to avoid that outcome.

Schedule of Industries

We have prioritized the order of NAICS sectors for the review. We used several criteria to order the NAICS sectors. These are:

Sector in which industries reviewed infrequently in the past 20 to 30 years.
The variation on size standards within NAICS sector
Level of Federal contracting
Data Quality & Availability

Review Schedule by NAICS Sector

Currently, we're completing our analysis of the Retail Trade, Accommodations & Food Services, and Other Services sectors. Some analysis has been done on the Professional, Scientific, and Technical Services sector and Information sector.

Benefits of Comprehensive Review

The benefits of the comprehensive size standard review are obvious.

An overall review and update of size standards. I don't believe we would stir much debate by saying this is long overdue.

It's an opportunity to focus on the special issues pertaining to the industries within NAICS sector.

And, at the end of the process, we'll have a more relevant set of size standards.

Review of Size Standards – Statutory Criteria

Let me now turn to the how SBA reviews and makes a decision on a size standard.

SBA is given broad discretion by the Congress to establish size standards. The Small Business Act defines a small business in general terms.

Section 3(a) of the Small Business Act defines a small business as one that is Independently Owned and Operated, Not Dominant in its Field of Operation, and Meets Detailed Definition Established the SBA Administrator

Definitions Must Vary to Reflect Industry Differences

That Act goes on state that small business must vary to reflect industry differences.

Clearly, the size of a small steel mill would not be that same size as a small dry clearer. They are completely different types of operations with different ways of producing and providing their products and services.

Size Standards Trivia

SBA has established size standards for more than 1,100 industries. Size Standard based on average annual receipts vary from \$750,000 to \$32.5 million, depending on the industry. For size standards based on average number of employees, size standards range between 100 employees to 1,500 employees, depending on the industry.

More Size Standards Trivia

Despite the variation, 70 percent of size standards fall under one of six levels. However, with over 1,100 industries, that leaves over 350 industries with some other size standard level.

Steps in Review of Size Standards

How did SBA develop those different levels. Basically, there are three steps.

1. Evaluate industry data to describe the economic characteristics and structure of the industry.

Industry Characteristics

The most important consideration is an analysis of industry characteristics: average firm size; average asset size (a proxy for startup costs); competition, as measures by the market share of the four largest firms in the industry; and, the distribution of market share by firm size—that is, are firms in the industry generally very small firm, or dominated by very large firms

Other Considerations

2. Assess Program Considerations. Here, we examine the participation of small businesses in Federal contracting and SBA's guaranteed loan program at the current size standard level. Depending on the level of small business participation, additional consideration may be given to the level of current size standard and the analysis of industry factors.
3. Comments from you. As thorough as we try to make our analysis, there may be other factors that we need to consider to develop a credible size standard.

Data Sources

SBA obtains data on industry characteristics and program considerations from a variety of sources. These include

- 2002 Economic Census -- Bureau of the Census
- Risk Management Associates
- Federal Procurement Data System
- SBA Internal Program Databases
- Other Governmental Statistical Databases
- Association & Private Sector Databases
- Special Surveys

Size Standards Analysis

The final point I want to make on size standards is that our analysis has a starting point with two presumed size standards. We assume that \$6.5 million is an appropriate size standard for those industries with receipts size standards and 500 employees for those industries with employee size standards.

As I mentioned at the outset, differences in industries lead to different size standards. Our whole analysis is geared towards assessing if difference are significant or meaningful and therefore support a different size standard from the presumed size standards.

The mechanics of the analysis can be somewhat tedious. I recommend that you read some of our previous proposed rules. They include a general discussion of the size standards methodology and explain the analysis of data leading to a proposed size standard. We've reposted the several proposed rule on "What's New" "Size Standards Web Page.

Rulemaking Process

Where and how are we proceeding with the comprehensive size standards review?

Currently, we are finishing our industry analysis on the first three NAICS sectors scheduled for review.

A draft proposed rule will be reviewed within SBA and by the Office of Management and Budget.

Once these reviews are completed, a proposed rule will be published in the *Federal Register* requesting your comments on a specific set of proposed changes.

Public comments are one of the most valuable aspects of the size standards process. If you have followed size standards over the years, I hope that you do see in fact that we take the comments seriously, and they have resulted in changes to some of our proposed rules.

Publishing a final rule is the last step in the process for changing a size standard. SBA has several options at this stage. We can:

1. adopt the size standard as proposed,
2. adopt a different size standard than proposed within a certain framework,
3. re-propose a different size standard, or
4. retain the current size standard.

Concluding Comments

Let me conclude by saying that I believe this comprehensive size standards review is a long overdue examination of size standards.

It's structure in a way that we can address a range of issues with the current size standards in a manageable way.

I'm pleased that this review has the strong commitment within SBA.