

Statement of Congressman Gerald E. Connolly  
Small Business Committee hearing on Mid-Tier Companies  
September 14<sup>th</sup>, 2011

Thank you Chairman Graves, Ranking Member Velázquez, and members of the Committee for the opportunity to testify today. I appreciate your commitment to the viability and growth of small businesses in America. Federal contracting is to my district what auto manufacturing is to Detroit. My constituents own or work for small, medium, and large businesses, primarily contractors supporting every agency of the Federal government. I co-chair the House Smart Contracting Caucus with Congressman Rob Wittman and worked for 20 years in the contracting industry prior to my election to Congress. I strongly support the existing federal small business programs and believe that we should more effectively support those small businesses which grow beyond the SBA's established size standards, sometimes referred to as "mid-tier" or "mid-size" businesses.

During my first term in Congress, a group of minority owners of recently graduated 8(a) companies approached me to discuss mid-tier contracting policy. These are successful small businesses that had grown slightly beyond their small business size threshold in their primary line of business but were still much smaller than the larger federal contractors. These business owners found that, upon their graduation from the small business programs, they were effectively left with no support to transition into the full and open competitive federal market. Forced to compete with the giants in their field, coupled with the federal government's small business contracting programs, these growth-oriented firms found themselves in federal contracting limbo. Since the federal procurement system is binary, firms are either a small business or are "other than small," which means that once a small business exceeds its primary size standard, even if it is only by one dollar, they must compete with the largest, most dominant, firms in their industry. Contracting officers have no mechanism to structure Requests for Proposals in a manner that would allow these mid-tier firms to effectively compete for them. Larger firms now are also competing for those same opportunities to maintain market share and customer support, thus either excluding mid-tier firms from the marketplace or reducing competition.

Without a meaningful business base to pursue, I learned from my constituent companies that most mid-tier companies like them either went out of business or were acquired and consolidated into much larger contractors. While being acquired could be a success story for some of these businesses, their owners tell me frequently that they sold because of a lack of better options, at the ultimate expense of taxpayers. For example, a successful mid-tier company may have two or three medium-sized IT contracts with a federal agency. Since it has relatively few contracts, it focuses closely on them and provides great value to the agency and the taxpayer. In contrast, a very large contractor might compete for these contracts to keep market share relative to their competitors but a \$20 million contract for a firm with billions in federal work may not be as significant and the agency may not receive the customer focus that it would from a mid-tier company.

After studying the policy issues involved and the challenges mid-tier companies face, earlier this year I introduced the Small Business Growth Act, H.R. 1812. My bill creates a pilot program to provide small businesses with a growth path once they exceed the small business size standard for their industry. I drafted this legislation in consultation with small and medium sized businesses from my district, based on the following principles:

1. Expand business opportunities for mid-tier businesses without diverting any contracting opportunities from small businesses or undercutting the current federal small business contracting programs

2. Improve competition for federal contracts in order to provide better products and services to federal agencies and a better value for taxpayers
3. Strengthen and expand the federal contracting industrial base
4. Preserve and create private sector jobs

In May, as part of the House consideration of the fiscal year 2012 National Defense Authorization Act, our colleague, Congressman Mike Rogers, filed an amendment that addressed a similar concern for the plight of the mid-tier firms but his solution was focused exclusively on contracting in the Defense Department; regrettably that amendment was not made in order under the rules for consideration of that bill. While his legislation is structured differently from mine, I believe that they are based on the same objectives, particularly for improving federal contract competition. I appreciate Congressman Rogers' leadership on this important subject and look forward to working with him on it.

I also appreciate this Committee's interest in this important segment of federal contracting and I would appreciate the opportunity to work with you to improve this bill, synthesize it with Mr. Rogers' legislation, or work to draft different mid-tier legislation that are consistent with the four principles above. Your expertise on small business issues will be essential in refining or crafting legislation to meet our shared objective of helping to grow small businesses and preserving the important and appropriate investments our nation is making in small businesses to fulfill the directive of the Small Business Act.

The existing small business set-aside programs represent a balanced program designed to foster the economic opportunities for small business, improve competition for federal agency work and obtain the best value for taxpayers. In crafting the Small Business Growth Act, I was especially careful to preserve all of the existing small business incentives. As written, my bill would only permit mid-tier companies to obtain federal contracts if those contracts would not otherwise be procured through any of the small business set-aside programs; the legislation explicitly prohibits mid-tier companies from competing for protected small business contracts, ensuring that existing small business set asides are preserved. .

In addition, the only mid-tier companies eligible for this program under my bill would be enrollees in at least one of the federal agencies' mentor-protégé programs for contracting; this provision ensures that mid-tier businesses do not act as pass-throughs for larger businesses. As a further limitation on eligibility to ensure that the legislation directly benefits only "mid-tier" firms, my bill caps the size of a mid-tier company at 1,500 employees to ensure that large companies do not take unfair advantage of the program. In summary, this legislation preserves existing small business incentives and then adds a new incentive for growth-oriented small businesses.

In its memorandum for this hearing, your Committee staff identified four issues for consideration in revising or drafting mid-tier legislation: the definition of mid-tier businesses, the basis for contract awards to mid-tier companies, its interaction with other federal procurement programs, and benefits to the government and the taxpayer. With respect to the definition of mid-tier firms, I appreciate the staff's thoughtful suggestion that the size threshold for mid-tier firms be proportional to particular industry size standards. As the committee is aware, there is no existing uniform definition of the term "mid-tier" in federal contracting so I used an employee-based standard taken from an existing SBA size standard that is commonly used in the federal information technology procurement arena. I recognize that some industries are measured in the small business program on their

number of employees while others are based on average annual revenues. I am not wedded to any specific definition as long as it provides broad opportunities for qualified firms in multiple industries to participate in any such program and I look forward to reconciling this staff suggestion with the language in my bill.

With respect to the basis for awarding contracts to mid-tier firms and interaction with other procurement programs, I strongly believe that we must first protect the existing small business preferences and my legislation is intended to do just that. After meeting that standard, the basis for awarding contracts to mid-tier firms should be on improving competition, job preservation and creation, and strengthening the industrial base. Today, there is often limited competition for many contracts among a few very large firms. By creating a meaningful mid-tier program, we can create more private sector jobs while diversifying and strengthening the industrial base. Of course, by allowing mid-tier firms to compete with large firms on a level playing field, we can also improve the competition for federal opportunities and thus improve the value to the taxpayer. In this context, it would be appropriate for any mid-tier program to allow subcontracting, teaming, or joint ventures among multiple mid-tier or small businesses but not with larger companies.

As I noted earlier, prior to my election to Congress I worked in the federal contracting industry. In my experience, as I'm sure many of you are well aware, some of the most innovative ideas come from our small business federal contractors. While it is true that we can improve competition, strengthen the industrial base, and create more jobs through mid-tier federal contracting programs, perhaps the greatest benefit would be the promotion of innovation from which the federal government and taxpayers will benefit. We cannot afford to lose the next great idea because a mid-tier firm was bought up or went out of business. By providing a growth path for these successful small business federal contractors, I am confident that we can deliver best value for the taxpayer while promoting small business growth and competition.

Thank you again for the opportunity to provide this statement. I look forward to any questions you may have about my legislation and to the opportunity to work with this Committee and other members of Congress to further this important objective.