

I have often been asked by my colleagues to characterize what it is like to start a new federal contract program in today's procurement climate. Well, here is an analogy. It is like ordering lumber, assembling a capable crew, and trying to build a house—in a hurricane. In this case, thankfully, the project proved successful and the HUBZone Empowerment Contracting Program is gaining momentum, in large part because it is built to adapt to this ever-changing procurement environment.

Systematic change is the reality, which is why the HUBZone initiative is being evolved in a way that permits

adjustments, requiring very little lead-time. Today's procurement arena is dotted with new systems and methodologies. GWACS, A-76, schedule purchases, and FAST are all terms that have either been created or gained new prominence in this day-of-procurement reform. The HUBZone program must be flexible to respond to these processes.

Beyond the programmatic structure of any modern day federal contracting program, there needs to be the human element. Program statutes and regulatory language will not accomplish the goal of acceptance and implementation unless people can effect change to unwieldy circumstances. Here again,

easily be incorporated into a daily purchase routine. This was made clear in a recently completed General Accounting Office (GAO) review of the HUBZone program.

The GAO generally agreed with Small Business Administration's (SBA) management of the initiative



The HUBZone Program Propelled by the Winds of Procurement Reform

Launching a new federal small business contract program in the face of a changing procurement landscape can be challenging. But, the SBA's new initiative is gaining prominence and momentum in this day of procurement reform.

BY MICHAEL P. McHALE

About the Author

MICHAEL P. McHALE, CPCM, is the associate administrator for the HUBZone Empowerment Contracting Program at the U.S. Small Business Administration in Washington, D.C. He is a member of the Pentagon Chapter. Send comments on this article to cm@ncmahq.org.

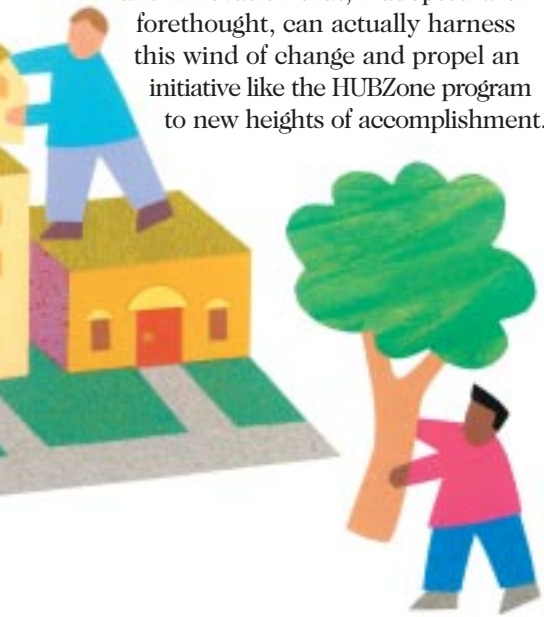
the HUBZone program must be able to respond.

Perhaps more than any other single individual, the federal contracting officer will prove pivotal to the ultimate success of this program. I say this knowing that the ranks of the procurement officer are compressing at an alarming rate and that a substantial portion of my mission is to develop the HUBZone program so it can

but sent a separate powerful message. For the HUBZone program to achieve a full measure of success, processes must be established at every level of government, making the program easy to use by contracting officers—from identification of HUBZone concerns to reporting HUBZone contracts to the federal procurement data system.

Combine the lightning speed for systematic change with the reduction

in contract staffing and it is clear that this is a challenging time to launch a new initiative. But as you will see, the conditions also are ripe for ingenuity and innovation that, if adopted with forethought, can actually harness this wind of change and propel an initiative like the HUBZone program to new heights of accomplishment.



rogram: ocurement Change

My perspective for all this is shaped by more than 25 years experience with small business contracting and my most recent assignment as the U.S. Small Business Administration's associate administrator charged with the responsibility of moving the HUBZone program from statutory concept to full functionality.

The slope that we have to climb to full implementation is reflected in the contracting data detailing the Fiscal Year 2000 HUBZone totals. While the program had a statutory government-wide goal of 1.5 percent based on the total value of prime contracts for FY 2000 (or about \$3 billion), the actual achievement was in the \$500 million to \$600 million range, or about three-

tenths of a percent. Clearly, the most pressing task is to improve contract levels dramatically, even as we acknowledge that most acquisition staff members are only in the early stages of understanding the program.

If there is one message I can send to the contracting community immediately, it is this: The HUBZone program is not complicated. In fact, strenuous efforts have been made to keep this program simple, and those efforts are continuing as we receive input from federal contracting agencies. Essentially, the HUBZone program duplicates the experience you are already familiar with in conventional contracting. The

major difference is that you are working with a limited universe of small businesses that happen to have the HUBZone certification.

For those who find a need for a deeper understanding of the issues raised by this article, the HUBZone Web site at www.sba.gov/hubzone will provide more detail and includes specialized sections dedicated to contracting professionals.

History, Purpose, and Areas Served

The phrase "historically underutilized business," shortened to HUB, first gained widespread acceptance when it surfaced in 1997 as the title of a legislative proposal authored by U.S. Senator Christopher 'Kit' Bond of

Missouri. At the time, he was the Chairman of the Senate Small Business Committee. Today, he serves as the ranking Republican member.

The HUBZone program was enacted formally in the Small Business Reauthorization Act of 1997 in December of that year (Public Law 105-135). At the time, Senator Bond explained that a primary motivation for creating this initiative was to help distressed communities reverse what in many cases appeared to be years of sluggish economic development leading to diminished local job opportunities.

The purpose of the program is to provide federal contract preferences to qualified small businesses located in any of this nation's more than 8,000 HUBZone areas in an effort to increase employment, capital investment, and economic development.

HUBZones are as small as a city block in urban areas and as large as a county in rural communities. They also include all the lands on federally recognized Native American reservations. It should be noted that the reach of the program for the Native American population was expanded through the SBA Reauthorization Act of 2000 (Public Law 106-554) to invoke the broader definitional term of "Indian Country." This same measure was used to clarify the program's intent with regard to firms owned by Alaska Native corporations.

The program provides for set-asides, sole source awards, price evaluation preferences, subcontracting opportunities for HUBZone small businesses, and establishes governmentwide goals for awards to such firms. Given the importance of both the contracting types and the annual goals, we will examine the program's basic operational framework in more detail later in this article.

To fully understand the structure of the program, it is a good idea for contracting officers to draw a distinction between the certification that is offered to small businesses located in HUBZones and the actual place of performance for a requirement. While a small business must have its princi-

pal office, as defined by SBA, in a designated HUBZone and must generally draw a portion of its workforce from these areas, the location of the actual work site can be anywhere. In short, HUBZone contracts are not limited just to HUBZone areas.

To qualify for the program, a company must meet the following criteria:

- It must be a small business by SBA size standards;
- It must be owned and controlled by one or more U.S. citizens, a Community Development corporation or Indian tribe;
- Its principal office (defined as the location where the greatest number of employees work) must be located in a HUBZone, except for tribally-owned concerns; and
- At least 35 percent of its employees must reside in any area designated as a HUBZone. Here again, there is an exception for tribally-owned concerns.

It is important to note that SBA does not determine whether a geographical location qualifies for HUBZone designation. This is actually accomplished using data supplied from three different sources. They are the U.S. Department of Housing and Urban Development (HUD), the Bureau of Labor Statistics, and the Bureau of the Census. SBA's function is to map the data and present it to the public in a useable form, which we do on our Web site. Using our geo-code mapping system to determine if an address qualifies for HUBZone status is extremely fast, usually taking no more than a few seconds.

There are three general HUBZone geographical assignments. The first is the metropolitan or urban designation, which is formally titled a "qualified census tract." HUD employs a provision in the tax code to identify these areas and, once established, they remain fixed until the results of the next ten-year census are collected, analyzed, and made public. The current HUBZone map reflects 1990 data and is expected to be updated

with the 2000 census findings by no later than the fall of 2002.

The next designation is for the non-metropolitan rural sections of the country. Here, the entire non-metropolitan county benefits from the HUB determination; but, it can receive the designation in one of two ways, or a combination of both. Non-metropolitan counties qualify with a median household income of less than 80 percent of the state median household income and/or with an unemployment rate of no less than 140 percent of the statewide average.

Finally, all those lands within the boundaries of federally recognized Native American reservations qualify. Steps are being taken—and it is expected that the process will be completed by this spring—to finish work on new HUBZone regulations that will define properly the previously mentioned expansion to "Indian Country."

Nationally, HUBZones are located in more than 7,000 urban census tracts, in 900 rural counties, and on more than 340 federally recognized Native American reservations.

FASA Sets a Virtual Course

The timing for the evolution of the HUBZone program, coming in the late-1990s, played a considerable role in its development. Recall that only a few years earlier Congress approved the *Federal Acquisition Streamlining Act of 1994*. This expanded the upper threshold for acquisitions reserved for small businesses, while at the same time opened the availability to any vendor purchases below \$2,500, the so-called micro-purchase. But remember that FASA had one added element—to set the federal purchasing system on a course toward electronic commerce. Agencies were offered incentives if they created electronic capabilities leading to e-commerce. The seeds for HUBZone's destiny as a virtual program were sown.

Following the passage of the SBA's 1997 reauthorization, those of us involved with developing the initiative's basic structure had to make an immediate long-term decision. We surveyed

the range of federal certification programs in existence and noted that all were paper-based. To secure the certification, the client would obtain a paper application, fill it out, and sit patiently while the document wended its way through various reviews. This system is quick to set up, but execution and maintenance requires a large staff.

Concurrently, the federal march to an electronic purchasing environment was on. If vendors wanted to be in the federal contracting game, they had to be e-commerce savvy. Since HUBZone at its heart is a contracting program, we felt compelled to structure it as one of the federal system's first all-electronic, virtual programs. What that meant was that, by design, HUBZone resources would largely be dedicated to the development of technological capabilities with a decreased emphasis on sustaining a huge staff. To this day, the HUBZone program office staff has been kept to a minimum level of ten career employees.

The HUBZone program is characterized by its use of the Internet and commitment to a virtual process. Application submission, tracking, and analyst review are now accomplished electronically. This use of technology results in a reduction of red tape and paperwork and less reliance on bureaucratic processes.

The SBA's national HUBZone office makes the final determination on firms seeking HUBZone certification and disqualifies firms that no longer meet program eligibility requirements (FAR 19.1303). The office maintains a national database of eligible HUBZone businesses available online to contracting officers and the general public. The national office also structures marketing and outreach plans for the program.

In addition to administering the program on a daily basis, the office coordinates efforts with other federal agencies and local municipal governments to leverage resources to assist qualified small businesses located in HUBZone areas.

Meeting Governmentwide HUBZone Goals

As of October 1, 2000, all federal-buying agencies must adhere to the HUBZone program requirements. Public Law 105-135 set the annual contracting goals for the program at one percent of the total value of all federal prime contracts in FY 1999 and increased that level annually by .5 percent until the level reaches its maximum of 3 percent in FY 2003. For FY 2002, the goal is 2.5 percent, which equates to about \$5 billion.

So, what is available to help contracting officers meet these goals? There are four types of HUBZone contracts:

- **Competitive** (FAR 19.1305)
Contracts can be set-aside for HUBZone competition when the contracting officer has a reasonable expectation that at least two qualified HUBZone small business concerns (SBCs) will submit offers and that the contract will be awarded at a fair market price.
- **Sole-source** (FAR 19.1306)
Sole-source HUBZone contracts can be awarded if the contracting officer determines that
 - only one qualified HUBZone SBC is responsible to perform the contract;
 - two or more qualified HUBZone SBCs are not likely to submit offers;
 - the requirement is not currently being performed by a non-HUBZone small business concern;
 - the anticipated award price is more than \$100,000; and
 - the anticipated award price of the proposed contract, including options, will not exceed \$5 million for a requirement within the North American Industry Classification System (NAICS) code for manufacturing or \$3 million for a requirement within all other NAICS codes.
- **Full and open** (FAR 19.1307)
Competitive contracts can be awarded with a 10 percent price evaluation preference. This preference is applied only if the low offeror is a

Unraveling the HUBZone Price Evaluation Preference

One portion of the HUBZone Empowerment Contracting program that receives considerable attention during presentations to the contracting community is the application of the HUBZone Price Evaluation Preference. The example that follows is for that circumstance when price is the only consideration, normally when sealed bids are used. The easiest way to approach this process is to consider this a two-step analysis.

There are three parts to the first analysis:

- (1) Determine whether the apparent successful offeror qualifies as a company that is "other than small" (the PEP is not used if the apparent successful offeror is a small business);
- (2) Determine whether any HUBZone certified firms also have responded; and
- (3) Determine the HUB's bid price.

HUBZone Price Evaluation Preference

	Offer
Offeror A (HUB firm)	\$200K
Offeror B (Small business)	\$198K
Offeror C (Other than small firm)	\$193K

There are three parts to the second analysis:

- (1) Drop from consideration any losing bid (in this case the small business);
- (2) Apply a factor of 10 percent to the apparent successful offeror's total; and
- (3) Determine whether the bid of the HUBZone concern is sufficient to displace the bid of the other than small business. If so, the HUBZone firm wins the contract.

	Offer	PEP
Offeror A (HUB firm)	\$200K	\$200K
Offeror C (Other than small firm)	\$193K	\$212.3K

Who is the apparent successful offeror? *Offeror A—The HUBZone firm*

An item to keep in mind throughout this process is that the HUBZone Price Evaluation Preference ONLY can benefit a certified HUBZone small business concern. As a result, the small business that bids a non-competitive price must be dropped from consideration.

Additional guidance for applying the HUBZone Price Evaluation Preference is available through an SBA Policy Notice issued by the SBA Office of Policy, Planning, and Liaison available at the HUBZone Web site.

large business. (See sidebar for reference.)

- **Subcontracting** (FAR 19.704)
All subcontracting plans for large business federal contractors must include a negotiated HUBZone subcontracting goal.

Procurement officials may be surprised to learn they do not have much latitude when the requisite market research yields a finding that two or more HUBZone concerns are qualified to compete for a specific requirement. If this circumstance is met, the requirement must be identified and offered as a HUBZone set-aside, taking precedence over consideration of the small business set-aside.

FAR Part 19.1305 (a) states that “a participating agency contracting officer shall set aside acquisitions exceeding the simplified acquisition threshold (\$100,000) for competition restricted to HUBZone small business concerns” when there is a reasonable expectation that two or more qualified HUBZone small business concerns will compete and the requirement can be obtained at a “fair and reasonable” price.

Contracting officers experiencing difficulty in meeting their goals or in any area of HUBZone contracting should first seek counsel from SBA’s procurement center representative (PCR) assigned to their agency. A list of PCRs is available online at www.sba.gov/gc/contacts.html.

As important as it is to meet the statutory performance requirements, however, these HUBZone goals should be a secondary consideration to those who understand the value this program brings to a locality that is struggling to maintain a stable community and is relying on its small businesses for strength. Contracts and the jobs they create can be the lifeline a neighborhood needs to survive.

The Value of Listening

The HUBZone program needs to respond to the systematic changes that are taking place in the procurement environment, but it also needs to listen

to the concerns of the acquisition staff who work with the program daily.

Throughout FY 2001, the HUBZone office conducted a series of 19-day training sessions for federal procurement staff at locations coast to coast. More than 1,000 contracting officials participated and the two-way communication proved to be invaluable. We provided an education of our program requirements, but along the way these contracting professionals shared their observations and concerns.

For example, it became clear early on that there was widespread confusion with regard to the so-called “order of precedence” as presented in the original HUBZone regulations finalized in 1998 on when to use the HUBZone program versus the SBA’s 8(a) Business Development program.

An SBA Procedural Notice (Control No. 8000-553) issued October 10, 2001, clarified the issue by stating that after a review of the Small Business Act, it was determined the programs had “parity.” The notice also established that a contracting officer should consider the procuring activity’s progress toward meeting its HUBZone and 8(a) goals, as well as other pertinent factors. For example, an agency falling behind in meeting either a statutory HUBZone or agency 8(a) goal can select the appropriate program to meet that goal. The updated HUBZone regulatory package, due for publication this spring, will conform to this position.

Another instance in which the federal contracting community was able to effect change was when concerns were aired over the difficulty in quickly identifying HUBZone SBCs and their capabilities. Up to this point, it was expected that any capability search would be accomplished using SBA’s PRO-Net database, the online listing of more than 210,000 small businesses interested in doing work for the federal government.

To respond to this challenge, we introduced to our Web site last June the *Contracting Officer’s HUBZone Gateway*. Like PRO-Net, the Gateway helps the more than 5,000 small

businesses certified as HUBZone companies market their capabilities to government agencies, but more importantly for this discussion it allows contracting officers to identify capable firms and, in turn, award contracts.

Contracting officers are able to use the Gateway’s search engine to find

- certified HUBZone businesses with specific qualifications,
- certified HUBZone businesses in a specific geographical location, and
- non-manufacturers (retail and resellers) that are available for contracts at or below \$25,000, a special area of consideration for HUBZone companies.

The HUBZone Gateway piggybacks on the earlier introduction in January 2001 of the revamped online HUBZone application. This updated application features a streamlined presentation with pop-up menus directing clients to an online guide for the actual regulations contained in 13 CFR Part 126, the HUBZone section. It is been estimated that an applicant firm can usually complete the entire application in less than two hours.

Another part of the system allows a computer user who has submitted an application to check its status at any time during the review process, a feature that has become a *must* for those firms—and contracting officers working with those firms—anxious to track their progress.

Both the HUBZone Gateway and the revised application are available at www.sba.gov/hubzone.

In yet another example of listening to the federal contracting community, one item of active discussion during the national training series was how procurement officials could be certain that contracts offered to HUBZone firms would be seen and acknowledged. After all, said the participants, the businesses usually have precious few resources and cannot spend hours reviewing the *Commerce Business Daily*, either online or in print.

The solution came last summer through the development of a no-cost,

online tool available on the HUBZone Web site initially designed to automatically search the *CBD-Net*. It identifies and lists for the viewer the procurement opportunities earmarked for the HUBZone Empowerment Contracting Program. The system was developed so it could easily shift its search function to *CBD-Net*'s replacement, *FedBizOpps*.

At the time of its introduction, SBA's then-newly appointed Administrator Hector V. Berreto said,

By providing a direct link from the SBA's Web site to the Commerce Business Daily or FedBizOpps and the HUBZone Gateway, we have provided yet another winning combination for small businesses....We will continue our efforts to streamline the process associated with the federal government's acquisition of goods and services from small businesses.

Other Enhancements

Other improvements to the program are the result of legislation contained in the previously mentioned SBA Reauthorization Act of 2000 and regulatory changes approved early in 2001.

The most far-reaching change in the reauthorization measure introduced a three-year "grandfathering" provision, which permits areas that lose HUBZone designation for any reason to extend area participation for three years after the change in status.

Another provision permits HUBZone certification for small businesses owned in whole or in part by Community Development Corporations—groups often linked to local economic enhancement initiatives.

The regulatory changes appeared in the *Federal Register* in January 2001 and became effective February 20, 2001. The amended regulations:

- Expand the pool of potential participants to more resellers and retail firms;
- Change the definition of "principal office" to accommodate special circumstances facing service and construction firms that assign personnel to on-site locations;

- Remove an overly restrictive provision that limit participation by small businesses with affiliates, that is, other companies with common ownership or management; and
- Clarify the program's impact on federal contracting and potential use by state and local governments.

The HUBZone Future

I recently appeared on a television show, "Opportunity Showcase," produced by the U.S. Air Force Outreach Program Offices and hosted by Outreach Director Colonel Ed Mims. He asked me to use my best crystal ball capacity and look into the HUBZone program's future.

I explained the ongoing need to stay focused and constantly perfect our approach to the HUBZone program implementation and future. The program is an initiative that enjoys broad-based acceptance and support. It is a community-based economic development program targeted to more than 8,000 distressed areas, looking to shore up the small businesses that

serve as the backbone of our national economy. But most importantly, we need to ensure that this program remains true to its mission—to create meaningful, high-quality jobs. Job creation is the cornerstone of community-based economic development.

During the national procurement training series, the HUBZone staff adopted a closing theme. That final slide reads: "The HUBZone Empowerment Contracting Program—Rebuilding America's Communities One Small Business at a Time."

This is our objective, but we cannot do it alone. We need to continue the partnership that was created during this past year with individual federal contracting officers at procurement locations around the country. If we are to rebuild America's communities and help create those meaningful jobs, the HUBZone program needs access to contracts, and that can only happen with the assistance of the entire federal contracting community. **CM**

FCE: Your Fringe Compliance Experts



Providing benefits that are good for your employees as well as your bottom line while under government contract can be a complex challenge. Our mission at FCE is to support your contract business goals by designing and administering employee fringe benefits that meet, but do not exceed your fringe obligation. FCE solutions allow you to support your employees and stay focused on a successful future.

FCE fringe benefit plans provide:

- Cost Management
- Flexibility
- Complete compliance with the SCA or DBA "equivalent benefit" requirement
- Web-Site Access to benefit plan information
- Smooth and efficient plan implementation backed by FCE's 12 years of experience.

Visit our web site at www.fcebenefit.com. You or your insurance representative may also contact Steve Porter at FCE at 800.899.0306 or by email at porter@fcebenefit.com.

