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PROCUREMENT PRACTICES OF NEW MEXICO DEPARTMENT OF ENERGY FACILITIES

FIELD HEARING

BEFORE THE

COMMITTEE ON SMALL BUSINESS HOUSE OF REPRESENTATIVES

ONE HUNDRED SEVENTH CONGRESS

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PROCUREMENT PRACTICES OF NEW MEXICO DEPARTMENT OF ENERGY FACILITIES

MONDAY, AUGUST 27, 2001

HOUSE OF REPRESENTATIVES,
COMMITTEE ON SMALL BUSINESS,
Washington, DC.

The Committee met, pursuant to call, at 9:00 a.m., in room 311, New Mexico State Capitol, Santa Fe, New Mexico, Hon. Donald A. Manzullo [chair of the Committee] presiding.

Chairman MANZULLO. Okay. Well, we're going to call this field hearing of the United States House of Representatives Small Business Committee to order, and I want to tell you it is so great to be in a town that knows the true meaning of a billion dollars here and there.

Tom, I understand you're going to introduce a resolution that's going to move the federal capital from Washington to Santa Fe, but I don't think that you would want all that busyness coming here and disturbing this tremendous little city. What a joy it is.

We flew in last night and looked around, and, you know, no giant freeways, people legally driving at 75 miles an hour. It's just a real joy to be here. It's a double joy—actually, it's a triple joy, not only a personal one, but to come out on behalf of my good friend and colleague, Tom Udall.

I know, so often, you take a hometown boy for granted. Tom has done just a tremendous job in Congress. You don't see his name flashed all over the place. You don't see mine, you don't even see Congressman Bartlett's. We're the workhorses of Congress, and we go there, we get our job done, and we come back every weekend, or every other weekend, in order to meet with the people that sent us to Washington.

Tom is one of the people that shows up very frequently on the Small Business Committee, and when I decided to do a field hearing in New Mexico, I said, "Golly, let's do one for Tom Udall." This afternoon, we are going to meet with Congresswoman Heather Wilson, just south of us. So I said, "Tom, whatever you want to have a hearing on, it's totally up to you. This is your area, these are your people," and he decided to do it on government procurement.

So I've got an opening statement. I'm going to take a minute to read it, then I'll yield to you, Tom.

The small business should be considered big business. The small business people are the very core of our economy. It's been established, by statistical facts concerning the nation's small business community, that 99.7 percent of all employers in the US are small

businesses. More than 50 percent of the private gross domestic product is attributable to small businesses.

Your area here is particularly small business. I think the only large business you have would be the labs. The area that I represent, the northern—16th District of Illinois, which is right across the top of the state, has a lot of agriculture, a tremendous amount of industry, Chrysler plant, Motorola facility, and et cetera, so it has a lot more of a mixture of business sizes. Here in Tom's district, you're really dependent upon the small businesses in order to create the core of the community. I presume that's one of the reasons, Tom, that you're devoted to spending a lot of time working on the Small Business Committee.

A recent bill sponsored by Congressman Udall, which is the Native American Small Business Development Act, HR 2538, is designed to assist Native Americans who are starting or expanding small businesses on tribal lands. It's Tom's bill. It was unanimously approved by the committee. That means that Republicans and Democrats agreed on it. Not much occurs in Washington that's unanimous. Tom's bill obviously has so much merit, the members have said this is a good bill. I anticipate the bill will be passed by the full House of Representatives the first or second week that we are back in session in September.

Before I yield to Tom, I'll just give you the ground rules for testifying. We try to limit it to a five-minute presentation. I'm not going to throw a chair at you if you go over five minutes, but we want to be able to let you give your testimony. It's just an informal atmosphere. Nobody is under oath. If you make a mistake, you don't have to worry about saying, "Gee, it should have been this figure, as opposed to that figure" here.

You've all provided written testimony, but it's not necessary to stick to it. Speak from your heart. Tell us what's in your heart, the things that—you know the reason that we're here.

And so if I do like this (demonstrating), that means that the five-minute mark is approaching soon, and if you could just wind up within a minute or so after that.

Okay, Mr. Udall.

Mr. UDALL. Great. Thank you very much, Chairman Manzullo. It's a real pleasure to have you out here and to have the Small Business Committee out in the Third Congressional District. I should just tell all of you that we introduced Chairman Manzullo, my wife and I did, last night, to green and red chili, let him sample a little of both, and he was very interested in all of the local food, and we had a good evening on Santa Fe, and on the town, last night.

You should also know that as the chairman of the Small Business Committee, he has been a real champion in Washington of small business enterprises, of seeing that when we make governmental decisions, we do everything we can to make sure that small businesses are included. And as he noted earlier in my—earlier in his statement, my district is really one of small businesses, and we generate our job growth out of the small business community. So that's very, very important for us.

Here, we're today talking about the positive impact of the Department of Energy and the management and operations contrac-

tors and the impact that has had on New Mexico. Combined, these are the largest employers in the state. Los Alamos National Laboratory is in my district, and it is the largest creator of jobs.

Well, we're here today because DOE and its M&Os have made strides in helping small businesses; there's no doubt about that, but we believe there's more room for improvement and more to be done to assist enterprises here in New Mexico.

During World War II, the Manhattan Project was one part of the huge industrial effort that depended on a broad and diverse small business sector with the flexibility and innovation needed for war time production.

For example, small businesses designed the town at Oak Ridge and the first casings for the Fat Man bomb. Similarly, during the cold war, our military and industry integrated many small firms to provide the adaptability needed for technological innovation and better production. American entrepreneurs and small business firms account for 40 percent of all federal tax revenue, 47 percent of retail sales, 51 percent of our gross domestic product, and 58 percent of all private employment.

Small businesses provide the flexibility and innovation sold by them to support vibrant communities and strong families. DOE institutions and the labs have been an economic anchor in our communities for over 50 years. Still, even with this longevity, pockets of poverty remain which have not benefited from the availability of jobs and business opportunities. Given that nearly 97 percent of all enterprise in New Mexico is small business, the opportunity for the federal government to find small business contractors is there.

We are here today to look for ways to tap this potential for economic growth. One of the most troubling trends is the drain of federal contracts out of New Mexico. Many federal agencies are taking work projects that were once done by local small business and combining them into contracts so large that our small businesses can no longer compete for them. These contracts are then given to corporations outside New Mexico.

Contracting officers inside the beltway call this streamlining, but the result here in New Mexico is that these practices are streamlining small businesses right out of business. This is simply unacceptable.

Although the Department of Energy is the government's second largest buyer of goods and services, to be very frank, the agency's commitment to small, minority and women-owned businesses has been suspect.

Last year, in the first ever comprehensive review of government contracting, released by myself and the Democratic members of the Small Business Committee, DOE was the only agency to receive an F for contracting equity. While I'm sure that the grade is not representative of local DOE offices or the labs, it clearly demonstrates that, within the department, a cultural problem exists in terms of willingness to provide opportunities for small businesses.

The way to turn this around is by all of us working together to make sure the opportunities exist for all our commerce.

And with that, Mr. Chairman, I want to also get quickly to the witnesses, so we'll look forward to hear their testimony; and once

again, thank you for coming out and for bringing the Small Business Committee to Santa Fe, New Mexico.

Chairman MANZULLO. Thank you. Let me introduce some other people. Nelson Crowther, to my right, is an attorney. He's—on the Small Business Committee, works on procurement issues. Michael Day is the staff director for the minority side of the Small Business Committee, and Tony Martinez is also with Mr. Udall's staff.

I would like to just take a second to—Roscoe, would you introduce yourself; give a little bit of your background, because it's really important with regard to this hearing, besides being vice-chairman of the Small Business Committee.

Mr. BARTLETT. Thank you very much. I'm very pleased to be here in Tom Udall's district. He and I share some of what we think are very important issues relative to energy and energy future in our country, and I'm very pleased to work with him in the Congress.

I'm one of maybe 35 people in the Congress who came from the small business world. I was a member of NFIB, and among other things in my background, I have a PhD in science, I worked 18 years for the military, I taught for 24 years, but I was also a small business person for a number of years and belonged to NFIB. There are probably about 35 of us who came from a small business background to the Congress, so I was very pleased when I had an opportunity, nearly eight years ago now, to join the Small Business Committee.

I've been very much concerned about recent procurement trends in the government, for very valid reasons. Many of our government agencies are now moving to streamlining, as Tom mentioned, or bundling is another way of expressing these new moves.

One of the first examples of this was the Marine Corps and the Navy who decided that they were no longer going to purchase equipment for handling data and moving it. Because the procurement cycle in government is so long, by the time you procure this high tech equipment, it's already obsolete. So all the equipment that you can procure is obsolete if you were going through the government procurement cycle.

So they decided to buy function and performance rather than equipment, and let the contractor who can buy the equipment overnight—where it takes us forever to buy it in the government—to let them buy the equipment. But in letting that single contract, we were very much concerned—the Small Business Committee was very much concerned that the small business was going to be pushed out, so we met—and Nelson worked with me on that—we met with the Navy and the Marine Corps and they withdrew their RFP and issued another one, guaranteeing 35 percent—that's a big percent of the money—35 percent of all the money would go to small business and 10 percent of that would be direct pay to small business.

The next opportunity we had to work with the government was when NSA, National Security Agency, it was going to do the same thing for the same very valid reasons. They could no longer have the latest equipment, because it took them so long to buy it; by the time they bought it, it was already obsolete. So they were going to buy performance rather than buying the equipment, so we met with them and they changed their procurement practice, also, to

assure 35 percent would go to small business and 10 percent of the money would be direct pay to small business, so they wouldn't have to wait that long for payment.

I'd just like to mention a very significant thing in small business, I think most people don't know, and that is the most rapidly increasing part of the small business community is women-owned small businesses. They are growing at twice the rate of male-owned small businesses. They are better employers. That doesn't surprise me. Men and women are different. Our military is having some trouble figuring that out, but they are different. Women are more empathetic, more compassionate. It doesn't surprise me, at all, that they are better employers. By the way, their companies are also better corporate citizens, and I think, for exactly the same reasons. They are more concerned about their community and their involvement than the average male-owned small business.

So I'm really pleased to be here today to hear the testimony of these witnesses. We want to make sure that small business has every opportunity to participate, for a very selfish reason, by the way. Most of the innovations out there are not in big business. Not everything that's big is valuable, which is one of reasons that you should be thankful you don't get all the government you pay for. I don't know if you've thought about that. But the bigger an organization gets, the less effective it becomes. And it's stifling for creativity, and most real entrepreneurs—most creativity is in small business. And so we are going to get a better return for our dollars spent in small business, in general. Now, some things, big business has to do it, but by and large, we are going to get a better return for our dollar when it goes to small business than when it goes to big business.

So I'm very pleased to be here and look forward to your presentations.

Chairman MANZULLO. Thank you very much, Roscoe. Let's lead off with Michelle Morales, CJ Enterprises, Incorporated, in Los Alamos.

Michelle.

STATEMENT OF MICHELLE MORALES-GURULE

Ms. MORALES-GURULE. My name is Michelle Morales-Gurule and I am the CEO/owner of CJ Enterprises. I would like to take this moment to thank you, Mr. Chairman, Congressman Udall, and the members of the committee for allowing me, a small, woman-owned business, the opportunity to testify based on our experience and position with Los Alamos National Laboratory, a division of the Department of Energy.

CJE was founded——

Chairman MANZULLO. Michelle, excuse me a second. Did you provide copies of your testimony to us?

Ms. MORALES-GURULE. Yes.

Chairman MANZULLO. Do you want to get those for us?

Okay, go ahead.

Ms. MORALES-GURULE. CJE was founded in April of 1986 with the sole purpose of providing computer software, peripherals and services to Los Alamos National Laboratory. During our 15-year partnership with LANL, CJE has been awarded over $135 million

in computer-related contracts. CJE was the last vendor to receive the award for Vendor of the Year and Customer Service Vendor of the Year presented by the LANL Business Operation Division at the just-in-time procurement ceremony. These awards were especially special to CJE, since they were voted on by the LANL end-users based on their experiences with each JIT vendor. CJE currently administers four computer-related just-in-time contracts, which were awarded between the years of 1992 and 1998. In 1998, CJE was granted a blanket order agreement for computer systems repair and services utilized by LANL end-users.

Our success, we feel, is CJE continually strives to make each procurement most advantageous for LANL. This is done by aggressively keeping in contact with our manufacturers, while informing LANL of any changes in the technology industry which might affect their direction, adjusting with the current changes in the technology industry, a thorough comprehension of LANL procurement processes as a whole, being innovative within the scope of our just-in-time contracts, being involved on a day-to-day basis with LANL end-users and procurement personnel, developing a small business relationship within the Los Alamos community, being consistently accessible to our customers, and knowing that CJE has options available to us through the LANL small business office.

The positives that we've experienced is the LANL business operations personnel are extremely accessible and cooperative. The LANL small business office was responsible for enabling CJE to become board members of the Northern New Mexico Procurement Advisory Board and the Northern New Mexico Supplier Alliance Board.

LANL seems to be very open to new ideas, and they do share new opportunities with us when they arrive; and if we're ever in a difficult position, LANL has always provided assistance towards CJ on that.

Our biggest concern with the procurement of Los Alamos is the government purchase cards. JIT competition is typically with Fortune 1,000 companies. Lack of LANL property labeling on merchandise could make products unaccountable, unlike that of the JIT policies and procedures; lack of accountability for purchased products, such as leather goods. Some of the purchase cards have home delivery shipments. CJE feels that there's a shortage of LANL personnel to oversee the purchase card procurements by end-users.

Lack of scrutiny of companies providing products, unlike that of the JIT procedures, and add-on costs, such as shipping and handling, are paid for by LANL, unlike that of the JIT, with the exception of overnight freight, and also some rebates are not taken advantage of by LANL.

So overall, on the purchase cards, what we've experienced is, as a JIT vendor, we have certain requirements that we must fulfill. If a product comes in and it's a certain dollar amount, we have to warranty tag those; therefore, if the product—once it goes up to LANL, it's traced, it has a serial number.

When it's purchased out of state, which most of our experience with the procurement cards are mail order, this procedure is not done. Therefore, if you take a Palm Pilot, the hand-held devices, we

would have to warranty tag it; it's traceable, it's accountable. If it comes in through a mail order catalog, there's no traceability at this point, and it could very easily get lost.

There are certain rules for a JIT vendor, unlike that, again, of mail order. Because leather goods are not supposed to be purchased on the JIT, because it's considered a luxury item, we can't offer those to our end-users; however, they can purchase those products on their government purchase cards.

As a JIT vendor, and I think with most small businesses, as you mentioned earlier, we take a lot of pride, we take a lot of concern over what we do, and I think we have to go through a lot of scrutiny, as a vendor, a JIT vendor, for the laboratory, and I just feel that these mail order companies don't have to go through that same scrutiny that we have to go through.

My biggest competitors are companies like PC Warehouse, Max Warehouse, even Office Max. I saw a statistic last year that there was $35 million in purchase card procurements for Los Alamos National Laboratory. I have four just-in-time contracts. I did $8 million. So as a small business, I'm losing a lot of that business to out-of-state, back east mail order companies.

The only other thing I'm concerned with is the performance ratings are not always in the control of the vendors, such as myself, such as back-ordered or discontinued items. I don't feel a vendor should be penalized under these circumstances.

Also—this is just in general—I'd like to see the difference between a small business and a small business. There is a difference in resources and accessibility for a small business with less than 50 people and that of a small business with 150 people. And I think, in northern New Mexico, based on my experience, that you're going to see a lot more small companies with less than 25 people, versus companies with 150 people.

So in closing, the experience that CJE has gained from the federal government procurement has, overall, been positive and has allowed CJE growth within our corporation. CJE always looks forward to the challenges set forth due to the changes in technology and federal government industries. CJE looks forward to maintaining exceptional customer service, while continuing our long-term partnership with the federal government customers.

[Ms. Morales-Gurule's statement may be found in appendix.]

Chairman MANZULLO. Thank you very much, Michelle.

David Cordova is with the Eight Northern Indian Pueblos Council, Incorporated.

Good morning, David, welcome here.

Mr. CORDOVA. Thank you.

Chairman MANZULLO. The tap of the pencil means the five minutes is about up, and you're to sort of wrap up within a minute after that.

We look forward to your testimony.

Mr. CORDOVA. Okay.

STATEMENT OF DAVID CORDOVA

Mr. CORDOVA. My name is David Cordova, and I'm the director of planning and economic development for the Eight Northern Indian Pueblos Council, Incorporated. We are a noncorporate consor-

tium of the eight northern pueblos of New Mexico. The consortium was established in 1967. The board of directors for the ENIPC, which it's known as, is the current governors of the Eight Northern Indian Pueblos Council, Eight Northern Pueblos.

The pueblos have formed the consortium in order to deal with common issues that affect all the eight northern pueblos. Our organization is unique in that we are the only Native American community reuse organization in the United States.

ENIPC was designated a community reuse organization on April 2000 by the US Department of Energy Community Transition Office. Our mission as a CRO is to develop strategies and goals that will increase economic development to the eight northern pueblos. We intend to continue to provide community-based services in the areas for which ENIPC has been chartered: Economic development, community services, social services, employment and training, and to assist tribal members to implement and manage their programs.

Regretfully, the relationship between the eight northern pueblos and the federal government, in regards to procurement, has been minimal or almost nonexistent. Our most recent research shows that less than $5,000 in procurements from tribal businesses of the eight northern pueblos have happened in the past year.

LANL has not worked directly with any pueblo government on any initiative, to date, in 2001. The laboratory employment of Native Americans is, as well, marginal, totaling only 139 people, or 1.8 percent of the 7,626 full-time positions reported by the laboratory in 2001. The northern pueblos accounted for only 59 of the 139 total positions held by Native Americans in 2001. Of this figure, only one tribal member of the northern pueblos held a supervisory position, and none held managerial positions.

The employment and procurement figures show that there is a huge disparity between the federal government procurements to the eight northern pueblos. Improvements need to be made, and a well-orchestrated effort needs to be put in place that will allow the eight northern pueblos to successfully bid for opportunities with the federal government.

This year, though, the small business office of the Los Alamos National Laboratory is attempting to improve the eight northern pueblos' small business presence at the labs. Several of the representatives of the small business office have assisted the ENIPC in learning how get our businesses certified, 8(a) certified, et cetera.

Most recently, ENIPC was asked by the small business office to name a representative to the Procurement Advisory Panel, of which I was named as the eight northern pueblos' representative. A few procurement opportunities have been presented to the pueblos. Currently, one of our tribally-owned businesses, TSAY Corporation, has been working with the small business office to secure a contract for the decommissioning of buildings. This is a step in the right direction, and TSAY is excited about the opportunity.

Our perception of the small business office is that they are finally stepping in the right direction, but there are several issues to work on, such as, one, securing more contracts for the Eight Northern Pueblos businesses; two, teach and advise the pueblos on how to access the opportunities that are available to them; three,

opportunities need to be presented with adequate time, and in writing, as to allow the pueblos time to respond; four, if government contracts are awarded to more qualified businesses, then direct that business to employ Native Americans from the eight northern pueblos so they can learn the tools of the trade and bring it back to the pueblos; five, procurement red tape does not allow the small disadvantaged businesses of the pueblos to successfully compete for contracts.

Changes need to be made that will allow the pueblos to successfully bid on government contracts. Modification of requirements may be needed to assist tribal businesses in procurement opportunities. Perhaps a probationary period, with less stringent requirements may be needed to allow the tribal businesses to fulfill the government requirements to secure a procurement contract. These federal regulations have—these federal regulations that are in place have created companies as monopolies that are already established and exclude competition from any newly-forming companies.

As of date, our research shows that there have been no loan programs administered by the SBA to any northern tribe, tribal business, or entity. Many of the local federal SBA offices have not made an effort to assist the pueblos or introduce us to what assistance they have to offer. The Espanola SBA office, for example, has not contacted my department to offer any of its services. Many tribal businesses and small business owners do not have access to capital, and this hinders their economic development and growth.

More needs to be done to secure procurement opportunities for the eight northern pueblos and tribally-owned businesses. It needs to be done immediately. Perhaps the possibility of creating a tribal small business office that would assist not only the eight northern pueblos, but also all the New Mexico tribes needs to be created. This will effectively deal with the lack of tribal procurement opportunities.

Thank you very much.

[Mr. Cordova's statement may be found in appendix.]

Chairman MANZULLO. David, I really appreciate your testimony. You know, you never realize how big our nation is until you look at the backgrounds. Roscoe is from Maryland, I'm from northern Illinois, and here we are in New Mexico. Each area of this country has the most incredible opportunities, and I really appreciate your testimony.

The next witness is Marlo Martinez. Marlo is with the New Mexico Office Products Company. Is that your company, Marlo?

Mr. MARTINEZ. Yes, sir.

Chairman MANZULLO. We look forward to your testimony.

Mr. MARTINEZ. Good morning to you.

Chairman MANZULLO. Notice that there's Martinez, Morales, Cordova, Montoya, and you're probably wondering what this name is. Okay, I'll just let you keep on guessing, but my family does have an Italian restaurant. That could be it. Sometimes they put a tilde over the "N," you know.

Marlo, please.

STATEMENT OF MARLO MARTINEZ

Mr. MARTINEZ. Mr. Chairman, Honorable Congressman Udall, members of the committee, thank you for the opportunity for being here; it is an honor, and I'm here, and I'll read off of my script, and I have my other copies here—pass those along, please.

Because many small minority businesses are short on resources, are undercapitalized and face cultural biases, one has to be very organized, proficient, work hard, have self-discipline, perseverance in all aspects of business. We have to control costs to such an extent that while offering a competitive, but a fair price, a reasonable profit is constantly attained.

New Mexico Office Products has been in business for over 40 years. My father started this business in 1959, I assumed control in 79, and I've been in business for 25 years. In 1985, our company was selected as Minority Subcontractor of the Year for Los Alamos National Laboratory, and subsequently, in 1986, Small Business of the Year for Los Alamos National Laboratory, and then, in 87, we received an award from—the SBA Administrator's Award of Excellence.

Those were good years for myself as a young businessman, but in the ensuing years after that, LANL changed their system to JIT, which is just-in-time contracting. This basically is when competitive bidding stopped in exchange more for the principle of awarding all of the contracts to a handful of vendors, usually those in Albuquerque with a large market area. This change in policy has really hurt all of the micro businesses of rural New Mexico for the last decade-and-a-half, and doing business with Sandia National Laboratory is virtually nonexistent in northern New Mexico.

If DOE would continue to prioritize funding to companies such as SLS, Strategic Learning Services, or others, to serve as a conduit or clearinghouse to the small business community, like they had done before—I think it worked really well, because you had an outside source really channeling information and opportunities to small businesses and really serving as an outreach program, which I don't believe is as strong as it was then. So I would say to maybe take some of that funding that they have and prioritize it, I think that disadvantaged businesses would have better access to bids and the specific needs of the government, at least those niches within the government that we fail to get.

I think the time has come to reevaluate the process used by DOE and the national laboratories by which they buy their goods and services. I believe that breaking up the JIT contracts would surely spread the wealth. As it is now, most of those people continue to get those same orders over and over and year after year. I think it's only fair that everybody gets a piece of the action. This would mean an extra effort on behalf of LANL and Sandia National Laboratory for the sake of really truly supporting many of the small businesses, especially those in rural America.

I believe that the procurement buyers and managers at LANL have good intentions, and I personally know these folks that run these programs at LANL, but maybe the problem isn't at that level; I think it's probably higher up. And as I mentioned here in my report, that people such as the technical people would prefer, as Mrs. Morales alluded to, to go directly to these larger firms, with the be-

lief that these national companies will give them a better deal or whatever—however they think. These are technical people that make these requests that actually get this merchandise elsewhere, which these buyers, I don't know if they have that much control over that, but higher-ups probably would, I think.

I think we have to break this barrier, and I think the time is now, and for too long the small business has paid its dues. And what I mean by that is, you know, we pay our taxes, we hire the people. Back in the 80s, I had twice as many employees. I don't have that many employees anymore, because when the JITs did occur, I had to find other sources of revenue and expand my business in other ways to offset the losses at Los Alamos. In those years, we were doing about 250,000. To me, it's not a lot of money, but it was manageable, and at least it was something—better than nothing that we were getting after all those years.

We do have one contract now, which is a paper contract, which is really good, and it's real helpful, and that's nice.

And also, I say that our fathers and our mothers, brothers and sisters in northern New Mexico have gotten sick and died building infrastructure at Los Alamos and Sandia, and have had to endure hazardous working environment, chemicals that were being dumped at the time, where we have DOE facilities at nine sites throughout the nation, compensating people that have gotten sick over having worked at these sites that were not protected back 30, 40, 50 years ago.

And I think with that, I don't know that we're deserving, especially, to get special treatment or anything, all I do know is that in my testimony today, here, the micro businesses constitute most of New Mexico businesses, and I think right now the way it's gauged is 500 employees and under, or for instance, a construction company would be $15 million and under, to be considered a small business. Well, if we paid more attention to helping these businesses that are 20 employees and under, or ten employees and under, I think, as far as set-asides or having particular goals and fulfilling those goals, would be appropriate.

And again, I would just emphasize that we're at the mercy of these laboratories, and I would place some of the blame probably on ourselves. We have to have strong, persistent presence in those locations, as well; but even at that, we need a better clearinghouse to find out the advantages of what is available to us.

[Mr. Martinez's statement may be found in appendix.]

Chairman MANZULLO. Marlo, thank you for your testimony. I appreciate it very much.

The next witness is Antonio Montoya. Antonio is chairman and CEO of L&M Technologies. We look forward to your testimony, Antonio.

STATEMENT OF ANTONIO R. MONTOYA

Mr. MONTOYA. Thank you, Chairman Manzullo, Congressman Udall, and members of the Small Business Committee.

Indeed, I consider myself fortunate to be able to express some of my thoughts, and I'll attempt to read part of it and just verbally summarize some of the rest of it. So if it appears like maybe I'm a little bit unorganized, I might be.

L&M is a company that's been around since 1972, giving us about 28 years of doing business with the laboratories, including Los Alamos and Sandia, since 1972. However, the work with Los Alamos has come to the point where there is none. However, I've worked on, and sat on committees with Los Alamos procurement, the Northern New Mexico Los Alamos Procurement Committee, and those actions are efforts to improve small business, particularly in the northern part of New Mexico. There were a lot of good efforts.

However, I think it was the lack of those action items to have taken place, and therefore, having a successful effort from that committee.

Also, I've sat on committees with Sandia National Laboratories, and—almost exactly the same type of committees, to include the task force that Sandia had to bring in folks from the community to testify. The difference there, I believe, is just the fact that there was follow-through with the actions stated, the actions desired; and so I think, therefore, causing them, Sandia, to be a little more successful in those efforts in improving small business.

I think also the fact that legislation probably is one of the biggest things that can change those things that can help small business, the agencies' policies and procedures, particularly with DOE, and the Small Business Administration, also.

You know, when an agency can't take credit for small minority businesses or business that the prime contractors have given and allowed them to compete for, and they've received, when the agency can't get credit for that, then I think that's defeating the overall purpose of promoting small business.

Also, the legislation of such bills as providing exclusive and overriding advantages to the Alaskan Native tribal contracting organizations, such as the Alaskan Native Tribal Company that makes over a billion dollars a year and yet can compete and take over 8(a) and small business contracts, particularly the one they just picked up at Kirtland, and I'm sure the Congressmen——

Chairman MANZULLO. Excuse me. An Alaskan Native American tribe just picked up a contract here in New Mexico?

Mr. MONTOYA. At Kirtland, yes.

Chairman MANZULLO. Are there any members of the Alaskan Native American tribe here, that are residents in this state?

Mr. MONTOYA. No, there are no Native American tribes in New Mexico that have that advantage over the Alaskan Native American tribe. They buy up small and minority 8(a), American Native-owned companies, therefore they retain the advantages and benefits of those organizations.

Not only do they have the economic force and just ready cash force to keep their advantages going, that's the legislation that I think needs to be changed.

Mr. SILVA. Let me clarify that for you, please.

I'm Orlando Silva with the SBA——

Chairman MANZULLO. All right. Just a second. Let me take the testimony of the people here——

Mr. SILVA. Sure.

Chairman MANZULLO [continuing]. And then we can go outside the group here, once that's done. All right?

Were you done with your testimony, Antonio?

Mr. MONTOYA. No, sir.

Chairman MANZULLO. You've got a couple of minutes there, and I know I interrupted you.

Mr. MONTOYA. That's quite all right.

I think, probably, one of the largest things that can contribute to what I believe are honest attempts and desires of not only the Small Business Committee, but large companies—because I've seen them doing it commercially, also—and that's attitudes. That's the attitude of the folks that not only are with the prime contractors or the government agencies or the Small Business Committee, but the attitudes that go all the way down, and when you have outreach programs, that's great, but it doesn't do a damn bit of good unless you have in-reach programs where you talk to your users within the laboratory or any of the government agencies.

I'm reaching the end of my five minutes, but I think that probably one of the good examples one can relate to is—particularly, in the recent three or four years—are the efforts of Sandia National Laboratories. NASA has good policies. Often, though, some of their areas, such as NASA headquarters, they have attitudes and go along with their users that just do not contribute to their ultimate desires, helping small business.

[Mr. Montoya's statement may be found in appendix.]

Chairman MANZULLO. Antonio, thank you for your testimony.

Let's go, then, to the folks at the lab. Oh, I'm sorry, Abe. Good morning. I didn't see you come in over there.

Mr. SALAZAR. I apologize. It's the first day of school over here in the valley, so I had to come in with my son. I had to meet that commitment today, so that's a priority for me right now.

Chairman MANZULLO. Well, you've got your priorities set straight.

Abe, you're the owner of Computer Assets, Incorporated. We look forward to your testimony. If I go like this, that means your five minutes are coming to an end.

STATEMENT OF ABE SALAZAR

Mr. SALAZAR. Okay. I will try to summarize this as best I can, but I want to give you some historical information about this area, and I'm going to read this portion from my testimony.

First of all, Computer Assets is located in the beautiful Espanola Valley. The Espanola Valley is where the first European capital was established in what is now the continental United States, and as a result, it was a trade center for a very, very long time. This has been somewhat changed in the last hundred years. In fact, development of industry in this valley has basically stagnated, in some form, in the last hundred years. There hasn't been a lot of development or growth for the area.

The lab was established more than 60 years ago, and not one, not one entity has developed, businesswise, in the valley, and that's amazing to me. They spend billions and billions of dollars, and you see one large corporation set forth in 15 miles away from that—from the organization. That's actually shocking.

So what I want to cover today is really three points. First of all, I'll give you some background about my company. Secondly, I want

to talk a little bit about the federal programs' contributions to our company, and the third piece is the procurement program and the policies that the DOE facilities have in relation to our area.

Now, I cannot speak about other areas. I can only speak about this northern section, that is what I know, and as a result, I will try to clarify some key points.

First of all, Computer Assets was established in 1993. It was based on a $600 loan from my father, believe it or not, and I established the company and went forward and established slowly, over local and state contracts.

At one point, I decided to go ahead and change that and develop an actual real company and we started looking at procurement opportunities with other organizations.

As of today, the company has revenues of over $10 million. Of the $10 million, less than 5 percent is related to any type of federal programs. We are primarily focused on state and local business opportunities.

The federal programs and the contributions that are there, there's a couple of organizations that we utilize as our federal base. Of course, the SBA is one of those. They have both lending opportunities in terms of SBA-type loans, and of course, they have some opportunities, in terms of procurement.

Does anybody know that, if you're a small business and you need to do business with some type of either federal agency, you have to have some type of contract vehicle, and the contract vehicles that have been set forth have been the 8(a) certified and HUB zone certifications.

Our company currently has met those two criteria. We're both 8(a) and HUB zone certified. And briefly, HUB zone certification is, basically, if you live or if your company is based in an area that has very low types of business opportunities, and a high percentage of unemployment, that area may classify as a HUB zone, where in Espanola Valley we do classify that as a HUB zone, and we did file for that, with the help of the SBA, and we did get certification on that.

What that basically does for us, it gives you also the opportunity to go out there and contract with the federal agencies directly. But unfortunately, there's been some hesitation in having the local federal agencies contract with our company.

In the lab's sense, there was—about three, four years ago, there was a large RIF that happened at LANL. I don't know if anybody remembers that or not, but it was written up in all the papers. Well, if you look at the percentages of those RIFs, a high percentage of those RIFs landed up impacting the valley in some form. They had—the highest percentage of those people RIFed were from the valley. As a result, LANL took an aggressive move to somewhat put some programs in place to help initiate some type of economic development. And so what they had is, they had two programs that were initiated.

First of all, they had something called the Northern New Mexico Procurement Initiative. That particular initiative was targeted for the northern New Mexico region, and what the mechanism basically allowed them to do was to go out there and procure either services or equipment from northern New Mexico vendors.

Originally, the scope landed up only being certain counties, while in the second phase of that scope, it changed. They started adding additional counties, which actually went all the way down to Rio Rancho, which was a real surprise, and basically what that allowed the lab to do was to do business as usual. They could still meet the procurement obligations that they had under the program, but they didn't necessarily have to procure items or services from those northern regions, by adding of the additional counties. That was definitely a weakness in their strategy, and the logic behind that, I do not know, but it was definitely a weakness in terms of procuring the proper services and equipment from the north.

The second one, which is not really directly related to my business, but is something that we have a deep interest in is something called the Los Alamos National Labs Foundation, which is basically an organization there set up to help fund educational institutions, primarily high schools, elementary, junior highs, with technology plants.

Essentially, for the last—I don't even know how long it's been going on, but it's been going on for a long time—the Los Alamos School District has been getting federal funds directly into the school, itself, for technology. This was going on for a whole number of years. So someone asked the question, a few years back, "Why are the other schools, locally, not getting that same type of funding?" So the foundation was created, and the mechanism for the funding in that particular organization is based on how many kids' parents are working at the laboratory.

So, for an example, if we have 40 percent of the kids' parents land up being—having their kids go to the Espanola School District, well, they get essentially 40 percent of those funds. Well, unfortunately, there are strings attached to all this.

The schools are required to issue a proposal for that funding, and there's always some type of strings attached. And in my written statement here, there's an example, here, of one of the issues that the Espanola schools were facing, and one of those issues was the fact that they had a certain program in place to establish technology.

Well, as you know, with any school district, there's a lot of turnover. Well, when you have turnover, progress of certain programs is either stalemated or they stop going at an efficient rate—I'm sorry, sir.

Chairman MANZULLO. That's okay.

Mr. SALAZAR. So to summarize, the foundation has put some corrals over the school districts and required them to do business and, therefore, not normally in the school district form.

Thank you.

Chairman MANZULLO. Thank you. We appreciate it.

Mr. SALAZAR. Sure.

[Mr. Salazar's statement may be found in appendix.]

Chairman MANZULLO. The next witness is Joseph Salgado, who is the principal deputy lab director at Los Alamos.

STATEMENT OF JOSEPH SALGADO

Mr. SALGADO. Thank you, Mr. Chairman and members. On behalf of John Browne, we welcome the opportunity to be here and

appreciate you taking your time and effort to come here to northern New Mexico.

I want to just briefly outline some of the testimony that has been submitted to the committee. Essentially, I would like to say what we've submitted, Mr. Chairman, is a strategy as to how to enhance our small business activities in northern New Mexico.

I think it's important to understand that Los Alamos is unique in the DOE complex. We're in rural northern New Mexico, rural America. We have over 43 square miles that constitute the laboratory, we have over 2,000 buildings, and we have over 100 miles of road, and it's important to understand that geographical configuration and physical configuration to understand the strategies that Dr. Browne has put into motion.

We have two prongs to address in northern New Mexico, both in economic development and small business activity, which are important to Director Browne. Our strategy consists both to educate and assist small business in the process and technical skills to meet laboratory needs and requirements; to form an alliance with small business development organizations; to target historically underserved areas of the supplier community; to establish internal laboratory awareness of the importance of increasing small business participation in northern New Mexico; and to educate and assist small business firms in thinking and competing globally. The importance there is not to totally rely on the laboratory, but also to enhance their capability to compete internationally and nationally and globally.

Our goal this year is to place 35 percent of our base procurement budget with small businesses, which is approximately a billion dollars, so that equates to $335 million, and we hope to attain that goal.

The issue that has been addressed here and discussed briefly is northern New Mexico, and there is a regional procurement effort that we have put into place, Director Browne has put into place, to try to enhance the economic development in northern New Mexico, both through economic development in our contracting and procurement, but also in the major subcontracts that we let at the laboratory, and make those parts of the contract.

Northern New Mexico consists of a seven-county region in northern New Mexico. Appendix J of the contract with DOE chartered a concerted effort for economic development, particularly in our large subcontracting activities. This sometimes runs contrary to small business activities we are also engaged in.

This year, we anticipate that we will have $110 million with 454 firms in northern New Mexico. Ironically, if you look back over a period of years from 1996 to this year, in 1996, we spent approximately $64 million in northern New Mexico. This year it will be $110 million. The discrepancy that we do note at the laboratory, and the deficiency we have to address, is that in 1996, there were 449 firms we dealt with for that amount of money. In the year 2001, there were 454 firms, which means that the supplier base in New Mexico is probably not increasing at the rate that we would anticipate.

There is a northern New Mexico preference program in existence. We're making every attempt to try to put preferences in northern

New Mexico. This year, one of the companies we have, Abba Technologies, was awarded a five-year, $4 million contract under this special effort.

We've heard some of the concerns of the Native Americans. Dr. Browne initiated, through Benny Gonzales, who heads our small business operation, the Pueblo 2002 Program. Hopefully, by October 1st, we'll put four contracts in place with four pueblos, under the Cerro Grande fire restoration program; a $1 million contract for each pueblo, helping us address the Cerro Grande damages that were impacted in northern New Mexico.

You've heard a reference to the HUB, historically underutilized business, HUB zone program. Currently, I believe that we have approximately 50 firms that have been certified with the Small Business Administration in the seven-county area, and we're looking to increase that.

We have just recently let a contract for $1.6 million to the first firm, Anvil Welding Company, in Espanola Valley, a $1.6 million contract pursuant to that HUB zone certification program.

One of the issues that has been addressed, and rightly addressed, is the issue of not only the external component, but the internal component. Given the geographic configuration of 200 buildings, one of the major efforts that we have undertaken is to internally have a series of workshops and understanding for our buyers, both our technical and our procurement buyers, to understand the opportunities availed them in northern New Mexico and in small businesses throughout the entire state of activity.

In the last year, year-and-a-half, we have had two major conferences with suppliers, both in the Espanola Valley area, and we have had two technical presentations by which the suppliers come to the laboratory and meet with our buyers and our technical staff so our technical staff can understand the opportunities that they have to purchase in the northern New Mexico area.

We have utilized the Northern New Mexico Supplier Alliance in helping to try to coordinate and develop those type of activities.

We do understand that communication is one of the key components for basically not only success of small businesses, but our internal ability. We launched a web site that makes available all the current information that we have for small business in northern New Mexico, and throughout the entire world, for that matter. We have had 7,500 hits on that web site, which brings particularly small businesses up to speed on what areas of opportunity there are within the laboratory.

During that course of time, Mr. Chairman, we also found out that there were many small businesses that do not have computer capability, particularly in northern New Mexico. One of the areas that Representative Udall and we have discussed is the lack of high speed fiberoptics in northern New Mexico for interconnecting. We also put out a newsletter, monthly, so we can bring our small businesses up to speed and communicate with them as effectively as we can.

One of the things that we learned in our conversations and the conferences we had is that many small businesses have concerns, some of these concerns you've heard here today. We have established in our ombuds office a special desk for special programs so

that the small businesses have the ability to communicate with the laboratory, address their concerns, with a sense of confidentiality, so we too can address the concerns internally within the laboratory.

The two areas that do concern me, Mr. Chairman, is essentially the Price Anderson Act that is taking place, both in the budgetary and regulatory areas of DOE, and how that will impact the laboratory particularly, and our small business suppliers. That act basically will create an additional burden on our small business activity because of the quality assurance review dealing with our nuclear facility. That is an area, the full impact of which we don't fully understand at this time. Benny Gonzales is attempting to move forward aggressively to see what we can do to help facilitate the quality assurances necessary to meet the Price Anderson Act that is within regulation form within DOE now that may become applicable in a regulatory component if the legislation passes this year. We, as a nonprofit organization, had not been subject to that for a period of time.

We also are moving forward with our 8(a). For the first time ever, we have created an 8(a) service set-aside in our construction activity. We have two contracts that will be let within the next 60 days, for approximately a total of $2½ million.

We understand, and Director Browne understands, that we need an aggressive program to move forward. The difficulties that we deal with, we need to create an economic base in the northern New Mexico area, living in rural America, and Dr. Browne is committed to a very proactive and aggressive approach to help ensure that success.

[Mr. Salgado's statement may be found in appendix.]

Chairman MANZULLO. Thank you very much. I appreciate it.

I would like to go to Patty Wagner. Patty is the assistant manager, Office of Management and Administration.

Patty, when I examined your testimony, I took a look at the budget here for the lab, $4.9 billion, and I know this was not a completed function, either, but—in fact, I discussed it on the airplane with Michael Day, on the way here, and it seems $114 million is a pretty small amount of money, of the total amount, that's going towards procurement.

Ms. WAGNER. That's just for the Department of Energy. If you look at the $3,676 in there, that goes to the M&Os, and that's where their small business opportunities come from. So you would have to get from them how much of their money goes to small businesses, so——

Chairman MANZULLO. This is the Department of Energy, Los Alamos budget.

Ms. WAGNER. Okay, let me try to explain it. This is—the Albuquerque operations office has all of the money that's appropriated, authorized by Congress come to its office. It then sends it to its five M&O contractors, management and operating contractors, which includes Los Alamos National Lab, Sandia National Labs, and so forth. So the $3.6 million that you see there goes to the M&O contractors, and from there, they could respond to you as to how much of the money that comes to them is then infused into small businesses.

So, for example, I believe that it's 1.3 or 1.2 for Los Alamos, and similar for Sandia, of that 3.6. So the 114 represents only what is actual Department of Energy, as an entity, as opposed to its contractors.

Does that help you?

Chairman MANZULLO. I think so.

Why don't you go ahead with your testimony. You understand this a lot better than we do. That's why we're having a hearing.

STATEMENT OF PATTY WAGNER

Ms. WAGNER. All right. And that is in my written testimony, by the way, so I won't really be talking about it orally, but I'd be happy to address it.

First of all, good morning. We're delighted for you to have this in New Mexico and, especially, myself being from Santa Fe, in my hometown. So I hope you're enjoying the city.

I am Patty Wagner. I'm the assistant manager for the Office of Administration of the Department of Energy, National Nuclear Security Administration, the Albuquerque Operations Office.

The majority of Albuquerque's mission is accomplished through the use of five management and operating contractors, also referred to as M&O contractors. They include the University of California at Los Alamos National Laboratory; Lockheed Martin at Sandia National Laboratories; Westinghouse, TRU Solutions at the Waste Isolation Pilot Plant at Carlsbad, New Mexico; Honeywell, at the Kansas City Plant, and BWXT Pantex, at the Pantex Plant in Amarillo, Texas. Other efforts requiring contract services or items to support DOE Albuquerque's mission are accomplished through supply or support service contracts.

It is my understanding that our M&O contractors at Los Alamos National Laboratory and Sandia National Laboratories will provide independent statements regarding their small business programs. Therefore, my statement will focus on DOE Albuquerque.

The mission of our small business office is to serve as an advocate for small business to ensure they receive a portion of the contract awards.

We have been successful in meeting our socioeconomic goals in the past. We have a deliberate and methodical process for establishing goals for contracting with the small business community. Through this process, we annually examine total available procurement dollars, excluding our M&Os, and take into consideration funds required for existing contracts and forecasted requirements. In fiscal year 2000, approximately 50 percent or $66 million of our total dollars obligated were awarded to small businesses, an accomplishment we are very proud of, and three of the last five years, our Albuquerque office has won the Secretary of Energy's award for being aggressive and the most successful small business contracting.

We've been able to achieve our goals due to extensive outreach efforts. Our small business program manager and local DOE management participate in numerous small business conferences, educational seminars, trade fairs, matchmaker events, and networking functions with community organizations.

Some of the activities or organizations that we have been actively involved with include the Rio Grande Minority Purchasing Council, including co-sponsoring the council's annual conference and trade fair, the Small Business Administration, the State of New Mexico Procurement Assistance Program, the 8(a) Association, and the Air Force Research Laboratory to provide training and educational sessions; the SBA annual "Dollars & Sense" conference focusing on women-owned businesses; also the nationwide Second Annual DOE Small Business Conference, the Professional Aerospace Contractors Association Annual Briefing for Industry, and the Air Force Research Laboratory in a veteran's outreach event. And all of those are outreach efforts for the Department of Energy.

This year, we are expanding our outreach efforts to include historically underutilized business zones, commonly referred to as HUB zones, which I think Abe talked about.

Recently, our small business program manager met with the governors of the eight northern pueblos to provide an overview of how to do business with DOE and to generate mutual interest in doing business.

The Albuquerque operations office has many success stories of awarding contracts to small business concerns. One example is ATM Services, an 8(a) woman-owned small business. It's initial contract for personnel security had an estimated value of $5.6 million. When the contract was recompeted under 8(a) competition, the scope was expanded to include physical and cyber security, and ATM won the award estimated at $15.8.

Another example is Terradigm. Terradigm is an 8(a) company that was competitively selected under an 8(a) solicitation to provide environmental consulting at a total contract value of $6.5 million. Terradigm received an SBA Region VI award as an exemplary small business in July of this year.

We recently awarded a contract to Au' Authum Ki, an 8(a) Native American, woman-owned, HUB zone company, in the amount of $163,000. This construction work involves asbestos abatement and lead paint removal, and the contractor has successful experience performing similar work at military installations.

We also work closely with our M&O contractors to set annual small business goals. The process for establishing those goals is detailed in my written testimony. In addition, we maintain an ongoing interaction with our contractors to encourage their support and participation in numerous outreach activities.

In an effort to improve contracting with small businesses, we have three suggestions for the committee. We suggest you consider establishing a set-aside mechanism for women-owned businesses so that we can contract directly with these companies. We have goals for contracting with women-owned businesses, but we don't have a set-aside mechanism providing funding for mentor/protégé programs, but we think it would be helpful to have specific funding to incentivise that and provide funding for monetary incentives for subcontracting with Native American economic enterprises or organizations. FAR regulations allow this, but it's the same issue in terms of incentivising.

In summary, DOE Albuquerque will continue to make every effort to award prime contracts to small businesses by identifying po-

tential set-asides as contracts expire, perform outreach efforts and identify small businesses with the capability to support our requirements, monitor progress of our prime contractors, including our M&Os, in achieving their small business goals, and promote the small business program to in-house technical personnel who have upcoming contractual requirements.

Small businesses have contributed immensely to the accomplishment of our mission and the economy of our nation. We will continue to tap into their unique talents, capabilities, and expertise to successfully support our operation.

And since you said I could ad-lib a little, I will. It's not in the statement, but I think the point on the in-reach is very important, and I know the contractors, both LANL and Sandia and DOE, are all working to expand their in-reach programs, in particular making sure that all of our purchasers and buyers are aware of New Mexico firms.

[Ms. Wagner's statement may be found in appendix.]

Chairman MANZULLO. I guess—I know it's predetermined questions, but we've heard testimony like this in Washington, on several occasions. All the agencies are working overtime, providing all kinds of opportunities, and yet, we get hundreds and hundreds of letters from people like this that have been shafted; their companies grow smaller, the opportunities grow less, the prime contracting goes on more and more. And I've had one person from a federal agency actually come in and say the Small Business Committee is right, there's something seriously wrong with the whole procurement process.

Now, I appreciate your testimony, Patty, and you're a numbers cruncher, I know, and you'll do what you can on it.

Mr. Salgado, I appreciate yours, too, but I want to hear some response, perhaps from Mr. Nelson or Ms. Woodard, with regard to what these people are testifying to, and so far I see nothing except more promises of more outreach and asking Congress for more money in order to sit down to talk to the Native American tribes. I don't understand that.

Why are you coming to us with a $4.9 billion budget and asking for money, seeing as you could talk to the Native Americans who populate this area.

Ms. WAGNER. May I respond?

Chairman MANZULLO. Of course. This was not directed at you personally. This is the big "you,".

Ms. WAGNER. That's fine. I think what we're saying is that we think the mentor/protégé partnership between large business and small business is very successful in helping small businesses to grow their businesses, and money to incentivise the programs, typically speaking, have money reserved to run their programs, and incentivising larger businesses to help small businesses to become successful is what we're talking about, in terms of——

Chairman MANZULLO. I think they want orders. I'm going to ask the question, here, where are you buying your pens and paper at Los Alamos? I'm going to ask the question, what percentage of office desks, pens and paper, computers, consumer products used at Los Alamos are coming from New Mexico, and how much is coming from out of state? I think that's why these people are here.

In Washington, you know, Congress does everything we can in order to incentivise in order to get people to come out of poverty. And Native American tribes have had, obviously, a very difficult time, historically, in this country, and they are coming to us Republicans and Democrats, saying, "Look, the opportunities we have had in the past to contract with the federal government are diminishing.

Well, let's go on.

Ms. Woodard, let's go to you.

STATEMENT OF JOAN B. WOODARD

Ms. WOODARD. Thank you, Mr. Chairman, Mr. Vice-Chairman, Congressman Udall. I appreciate the opportunity, on behalf of Paul Robinson, to offer my words and his testimony. I will attempt to summarize my written remarks, which are quite extensive, in a way that will give you some material that will be of use in trying to understand the issues facing Sandia.

Sandia is a national laboratory serving the country with technology for national security. As a laboratory, we are to meet the country's needs with the best business practices and a strong foundation of quality. Just as the Department of Commerce, Malcolm Baldridge's national quality award emphasizes the importance of having a strong supplier network, we, too, see that as an important cornerstone, and small business is a cornerstone of our quality supplier network. We value our suppliers and strive to have relationships with them so that both we and the supplier community can achieve excellence.

As a federal contractor, we establish goals for small businesses, small disadvantaged, women-owned businesses, and 8(a) businesses. In the past five years, 57 percent of our procurement was done with small business. This past year, that percentage was 67 percent, or $275 million. In the past five years, an average of 50 percent of all of our procurement was done with firms in New Mexico. In fiscal year 2000, Sandia contracted with 1,214 firms in New Mexico, 89 percent of which are small businesses.

Over the past five years, New Mexico companies received 93 percent of the total dollar volume of Sandia's construction and architectural engineering projects, nearly 60 percent of that going to small businesses. We do not practice a preference to small business regardless of quality, however. Our strategy is to work with small businesses so their capabilities can benefit firms anywhere. Similarly, we do not have a policy of preference for New Mexico firms, but find that it makes really good business sense to have suppliers who are responsive and knowledgeable about the laboratory, and highly competitive in their capabilities.

We measure success in many ways. First, successful delivery to our customers of our technology products. To achieve the goals that I have mentioned above, we conduct surveys of our suppliers to understand problems that they face with our practices, and we look at awards and citations that the laboratory has received.

In 2000, the Small Business Administration awarded Sandia the Dwight D. Eisenhower Award for Excellence in Use of Small Business, and in 2000, DOE named Sandia the management and operating contractor of the year, in recognition of our outreach activi-

ties to encourage small businesses to work with the laboratory. Sandia received additional recognition when the United States Hispanic Chamber of Commerce named Sandia the southwest region business advocate of the year for 2000. Also personnel in the laboratory, like Ms. Cynthia Schneeberger, and Ms. Corina Gallegos have been recognized for their hard work on behalf of small business. Sandia's success in contracting opportunities for small businesses is the result of an intentional strategy.

In 1999, the laboratory director, Paul Robinson, established a procurement council to oversee and provide executive ownership of our strategy and the small-business responsibilities. As a best business practice, it is important to develop a team relationship with suppliers, which can help us learn where we must fix problems. A good example of that, in action, was with our staff augmentation contractors. Some years ago, listening to our contractors, we learned of the problems with our practices and made substantial changes, and we look forward to continuous improvement and teamwork with our staff augmentation contractors to help improve our practices.

There is a trend in global commerce today toward a highly competitive customer-supplier relationship. Large companies often invest significant effort in helping with guidance and expertise to their suppliers. We have four fundamental parts in our small business program. The first is teamwork and communication. Through our supplier community advisory council, we establish a mutual understanding, corporation and trust with our executives. Many of us participate on boards and chamber boards and panels in the community, working with small business. We have a business partner program that provides outreach.

Second, we create knowledge both ways. We have conducted small business orientation programs where we help the community businesses learn about the opportunities at the laboratory. We also have an office of small business advocacy, with the responsibility to raise awareness of small business capabilities within our internal organizations at the laboratory.

Third, we offer support to our suppliers for development of their business practices. Included in that is business training and ISO 9000 certification training, both of which were done in collaboration with Los Alamos and other entities in this state. Sandia also offers workshops in the areas of lean manufacturing and patent application principles and procedures.

Fourth, we offer technical assistance to suppliers. We have had a successful program through small business technical assistance, funded by DOE Defense Programs. We're at the end of that program. We now have a new program with the help of the state legislature.

In 2000, the New Mexico state legislature passed the Laboratory Partnership with Small Business Tax Credit Act. With limited gross receipts tax rebates, Sandia is now able to provide technical assistance to small businesses in New Mexico.

Within one month of the establishment of this law, we started our program. To date, we have 400 inquiries, 300 from outside of Albuquerque, completed 145 projects, 112 of which are from nonmetropolitan areas. We recognize that a large percent of our busi-

ness is with New Mexico firms in the Albuquerque area, and hopefully, through this program, we will develop a relationship, as well as help, working with these rural companies, to improve their capabilities so they can be quality suppliers.

Sandia is also a catalyst for regional development. We have an entrepreneurial program called New Ventures for employees to leave the laboratories and spin off small companies based on laboratory technology, personnel, or activities.

So, in conclusion, Sandia Laboratories is committed to enhancing the opportunities for small businesses. It makes good sense. At the same time that we promote regional economic development, we will strive to emulate best business practices and emerging trends in industrial customer-supplier relationships and realize the management efficiencies that our sponsors expect of us. We see no conflict in these goals. Our desire is to work with small businesses to improve their level of quality. We are partners with our small business suppliers for mutual excellence.

Thank you.

[Ms. Woodard's statement may be found in appendix.]

Chairman MANZULLO. Thank you very much.

Our last witness is Ronald Nelson, who is Director for Contracts Management, University of California Office of the President, Vice President for Laboratory Management. We look forward to your testimony.

STATEMENT OF RONALD A. NELSON

Mr. NELSON. Thank you, Mr. Chairman, Mr. Vice-Chairman, and Congressman Udall.

As you've indicated, I am the contracts manager for the University of California. In listening to the various people who have talked this morning, I thought I would depart a little bit from my written statement, simply to try to be more responsive to a lot of the comments made.

One of the questions that you seemed to have raised, Mr. Chairman, is what is the role of the contractor in a region such as northern New Mexico, particularly as alluded to by Abe, the 60-year experience that the contractors have here, and the impact on the community.

I would like to bring to your attention the Time of Communities Act in 1955, which was legislation which targeted various specific areas such as Los Alamos, Washington, Oak Ridge, et cetera. So during the period that this act was in place, that was a congressional statement of the role of the federal government in helping those communities in areas where the government predominated. And so, for many years, the role of contractors was somewhat secondary to the role of the federal government in that area.

With the expiration of that act in the early 90s, this changed, and from that point forward, the Department of Energy has encouraged its contractors, including the University of California, to develop programs that would help step into the breach, as these federal dollars were removed, that there would be ways in which economic development could occur in those areas where the contractors helped out, and that's really the context in which—in my written statement, I talk about the four-part initiative that the

University of California developed with regional leaders in 1996, in response to this.

And those four part areas involve the regional procurement program, which has been alluded to already, where it focuses its efforts on improving awards to northern New Mexico business enterprises, the majority of which, of course, are small businesses. We've done so through a preference program, as mentioned by Deputy Director Salgado, approved by the Department of Energy, and is documented in our procurement system at Los Alamos.

We have encouraged major suppliers, such as Johnson Controls, which is the on-site contractor, and Protective Force Technologies of Los Alamos, which is our large security supplier, to purchase regionally, as well. The University and Los Alamos have also established a procurement advisory group, which Tony alluded to in his participation, which involves regional business representatives to discuss evolving purchasing practices at Los Alamos and to share their business concerns.

The second part involves corporate citizenship. We opened a northern New Mexico office in 1996, as a means of being better engaged locally. The University and Los Alamos also established a foundation, which has been mentioned, that provides funds to regional education and community efforts.

Let me say, for a moment, the Los Alamos National Laboratory Foundation and the provisions that talk about how funds are distributed within the region represent a significant diversion from the prior history where the educational funds were focused in the Los Alamos community, and based upon the formulation that was agreed to with the Department of Energy, a process was established whereby schools in the region, with children of Los Alamos employees, would have an opportunity to enhance educational funding. If you so desire, we'd be happy to provide you with additional details about those procedures.

The University and Los Alamos also participates in the Northern New Mexico Supplier Alliance, an organization of major suppliers to the laboratories that looks for ways to further the goal of regional economic diversification.

The third part involves education and research. The University and Los Alamos established the Northern New Mexico Council on Excellence in Education to enhance the intellectual capital of the region, the place from which we draw the work force of tomorrow. The council includes educators drawn from northern New Mexico K through 12 schools, colleges, businesses, and the New Mexico Department of Education. The University and Los Alamos also sponsor a variety of research activities at New Mexico colleges and universities with funds derived from the management fee in Los Alamos.

The fourth part involves commercialization of Los Alamos-developed technologies, with an emphasis on creating new businesses in the region. The University and Los Alamos have an entrepreneurial leave program approved by the Department of Energy that encourages technologists at the laboratory to establish new businesses. The University and Los Alamos also license technologies to regional businesses, provide some basic training in business skills,

and offer technological assistance to regional enterprises at a lower cost than that charged to other businesses.

The University and Los Alamos have created an MBA fellowship program to bring MBA candidates from business schools, such as UC-Berkeley, Stanford and the University of New Mexico to Los Alamos to look at opportunities to establish businesses based upon Los Alamos technologies and to provide assistance to regional enterprises in need of business advice.

You can see that our four-part strategy directly involves small business enterprises both in our regional purchasing and our technology commercialization. Our four-part strategy also benefits the regional small business community indirectly through our community and education efforts.

To summarize, we understand that small business enterprises, as you have indicated, Mr. Chairman, and particularly those in northern New Mexico, are important to the Los Alamos National Laboratory, both as a high quality supplier base, and as a place for future employees. For these reasons, the University sees itself as having a stake in the success of its small businesses.

Earlier, you heard testimony from Deputy Director Salgado regarding the statistical information about the success of the program thus far, and some of the plans for the future.

I thank you very much.

[Mr. Nelson's statement may be found in appendix.]

Chairman MANZULLO. Thank you very much.

Mr. Udall.

Mr. UDALL. Thank you, Mr. Chairman. The issue here—and the chairman has hit on it a little bit, and I want to ask some of the second panel members about that—the business people that are here today are not unusual, in northern New Mexico, in their statements and complaints, and saying how we could improve. In fact, I met with the chamber group in Los Alamos recently where business people who had been in business a long time, right in Los Alamos, feel they're being ignored by the Los Alamos National Laboratory, that they aren't consulted on major changes that occur that impact their businesses.

The one example that they gave me is there's been a whole change in the work schedule at Los Alamos where there are now Fridays—Fridays end up being a free day, and with the work schedule, the way it works—and you know, Mr. Salgado, more than I do about this work schedule change, but this has had a dramatic impact on every business in Los Alamos, and their position—I don't know whether it was true or not, but their position was, they weren't consulted, they weren't asked to come in and say, "Is there some way we can work through this so that it is better for Los Alamos businesses?"

And so, when I hear these things over and over again, I have to believe that there's some—where there's smoke, there's also got to be fire. And I was wondering how you measure—how you really measure your success, in terms of engaging small businesses, increasing contracts, trying to do everything you can to improve the economic situation in northern New Mexico.

Many of us know that two of the surrounding counties have had very, very high unemployment rates since the Great Depression. I

mean, for all of the good words and intentions and everything else, we still, in Rio Arriba County and Taos County, have real problems in terms of getting people jobs, and those of you that are administering these, as the chairman said, billions of dollars, have an opportunity to open the door to many of these people to get jobs.

So my first question is, you know, how are we measuring success? Are we talking dollars to small businesses? Are we talking about an increase in contract numbers? Are we talking about an increase of jobs in these communities? I mean, how are we measuring our success, and can you point out for me, over the last five years, how you've—whatever measure you're using—how you're increasing and making progress in those areas.

And Mr. Salgado, why don't we start with you, since you put in your testimony that your goal is to place 35 percent with small businesses, $335 million, and you're on track to see that goal. I'm wondering, are these prime or subcontractors? Who are we talking about?

Mr. SALGADO. We are talking about dealing with the world of small businesses that we deal with in our procurement. We put a 35 percent goal on an estimated $1 billion procurement base.

As you're well aware, Mr. Congressman, there are large contracts up there with the guard force, or Johnson Control, so a substantial amount of our procurement dollars are tied into basically some major contractors and some unique circumstances, such as the fire department and things, given our geographical configuration and our location. So that 35 percent, the $350 million, is for small business. Those were the goals negotiated and accepted by the Department of Energy that we, as a laboratory, need to meet in order to fulfill those obligations.

I would indicate to you—you mentioned the Friday program at Los Alamos that has Los Alamos County concerned. That is a program by which the work force, over a period of two to three years, decided they would like to be able to have every other Friday off in some type of sequence. There was a lack of communication with the small business community in Los Alamos. It has negatively impacted some of the restaurants and other businesses in Los Alamos County, and we have made every effort to try to continue and enhance the dialogue with Los Alamos County so that type of situation does not increase itself.

Mr. UDALL. Are we talking about prime contractors, or are we talking about subcontractors?

Mr. SALGADO. We are talking about prime contractors that essentially tie into the supply designed into those areas that are dealing with providing services and supplies to Los Alamos National Laboratory. The prime contractors, we do not have the—Johnson Controls, the prime contractor, they have some subcontracts that they basically put into place, as well as some of the major construction.

Chairman MANZULLO. Would you be willing to furnish a list of those subcontracts?

Mr. SALGADO. Yes, sir.

Mr. UDALL. So on these prime contracts, then, Los Alamos really isn't doing any of the work, you're passing this on to the contractors, basically, the prime contractors.

Mr. SALGADO. There are prime contractors such as Hanzel-Phelps, which is building the new supercomputer building up there, they have subcontracts with a minority firm. Those are not included in our numbers. There is a long list of what I would call prime contractors. Johnson Controls, the Protective Guard Force, those are prime contracts that may have in and of themselves other subcontracts contracting with small business firms and minority firms. I do not have the numbers for you. The numbers provided here are our prime contracts for supplies and services at Los Alamos National Laboratory, providing services to us as a laboratory, and that's the 35 percent number.

Chairman MANZULLO. If you will, what is—the $335 million at Los Alamos, is that going to people like these people here?

Mr. SALGADO. That is going to all the small business activity both here and across the nation that basically supply goods and services to Los Alamos.

Chairman MANZULLO. But that's the prime contractors.

Mr. BARTLETT. No.

Mr. SALGADO. No, that is with Los Alamos.

Our prime contractor, Johnson Controls, they have a $135 million general contract. They also buy goods and services. They are not included in the 35 percent goal objectives.

Chairman MANZULLO. This $335 million, none of this is represented by these prime contractors.

Mr. SALGADO. None of that is represented by the prime contractors.

Chairman MANZULLO. Can I ask you a question? Where do you buy your stationery?

Mr. SALGADO. Our stationery is bought through just-in-time services. I don't have the names of the businesses.

Mr. ROYBAL. That is Boise Cascade. They currently hold the Just-in-Time (JIT) contract.

Chairman MANZULLO. And Boise Cascade holds the contracts for the post offices cross the nation.

Mr. ROYBAL. Sierra Vista was a small business, minority disadvantaged business here in Albuquerque, that had the JIT contract in Los Alamos, and they were purchased by Boise Cascade.

Chairman MANZULLO. Could you identify yourself.

Mr. SALGADO. This is Dennis Roybal, head of procurement at Los Alamos.

Mr. MANZULLO. Would you spell your last name for the record.

Mr. ROYBAL. R-O-Y-B-A-L.

Chairman MANZULLO. So Boise Cascade is—you're going to them for your office supply products?

Mr. SALGADO. Mr. Chairman, we had a contract with a small business in Albuquerque. Boise Cascade bought that business, and we had to honor that contract for a period of time. It's still under that contract.

Mr. ROYBAL. That's correct.

Mr. SALGADO. They bought out a small business, and the contract was with the small business, and so that contract has stayed in place.

Chairman MANZULLO. So they bought out that small business. The amount of procurement from that small business, did that increase once they bought them out?

Mr. SALGADO. Did the amount increase after Boise Cascade bought out the small business?

Mr. ROYBAL. Probably not. But it's based on demand, so it's relatively the same dollar amount.

Chairman MANZULLO. Do you know where the stuff is coming from?

Mr. ROYBAL. That Boise Cascade purchases?

Chairman MANZULLO. Yes.

Mr. ROYBAL. No, I don't. I imagine that Boise Cascade has several suppliers for different products.

Chairman MANZULLO. Do you know if any of those suppliers are local?

Mr. ROYBAL. I do not know, sir.

Chairman MANZULLO. This is the problem.

Mr. SALGADO. Mr. Chairman, I agree with you it's a problem. The problem we have is with the contract negotiated with the small business in Albuquerque which was bought by Boise Cascade. That contract has not expired, as far as I know, and has not been renewed. It's still the same existing contract; is that correct?

Chairman MANZULLO. So you contracted with a small business company for all your office supplies?

Mr. SALGADO. Or a portion thereof, yes.

Chairman MANZULLO. Is that correct?

Mr. SALGADO. Yes, that's correct.

Chairman MANZULLO. Did you contract with any other small businesses, besides the one that was bought out?

Mr. ROYBAL. We have 38 just-in-time contracts, such as with Ms. Morales, contracts that provide goods and services to the laboratory. Of the 38, 33 are awarded to small businesses, and 20 of those 33 are women-owned businesses.

Chairman MANZULLO. How does Boise Cascade figure into this? They are, obviously, not a small business.

Mr. SALGADO. They just bought the contract, and the contract remained in full force and effect.

Chairman MANZULLO. I think that DOE—we're here as the Small Business Committee—is representing that Boise Cascade could come in and buy up a company that you're under obligation with, that the government's certified as a small business provider——

Mr. SALGADO. That's correct.

Chairman MANZULLO [continuing]. At some point, either in the amount of the value of the total company, or the assets of the individual owner—in most cases, that's $750,000. Now we've got Boise Cascade who, incidentally, has a contract with all the US post offices, supplies them their pens and paper nationwide, to the exclusion of local supply stores, such as Mr. Martinez', that comes in; even though we passed these goals in Congress. This is not what we had in mind. This is not what we want.

So what I would like to see from the lab is a list of the small businesses that you're dealing with. I want to know who they are.

I want to know who the owners are. I want to know how much they're worth.

How do you answer Mr. Martinez, who's laid off half of his people that used to sell pens and pencils and paper supplies?

Is that right, Mr. Martinez?

Mr. MARTINEZ. Yes, Mr. Chairman. On top of that, when the JIT was formed in the 80s, they still went to the their local office supply store in Los Alamos and purchased about $1 million in goods and services over the ensuing five years. I couldn't go and open a store in Los Alamos, because my overhead would have increased twice what it was, and I couldn't have been competitive, with a double overhead.

Chairman MANZULLO. Mr. Montoya, do you have a statement?

Mr. MONTOYA. Yes, sir, Mr. Chairman. Thank you.

I think we're going back to attitudes again, and the attitudes are reflected in the way the numbers are expressed, and I assure you those numbers are developed, and as I say, statistically, you can get them to say whatever you want.

Now, as far as the University of California, I see them as being the prime contractor. Johnson Controls, PTLA are subs, and they keep referring to them as subcontractors. Now, when you talk about subcontractors and prime contractors, well, where do those goals apply, the goals set forth by the Small Business Administration, by the Small Business Committee?

Now, how does that get down to us? That's where the problem starts, is with the attitudes. How can they represent and say that they feel good with what they're doing, if part of their multibillion dollar budget, one point some million of it goes to a contractor like Johnson Controls?

Now, when they say 35 percent, 35 percent of what? Of the procurement dollars they have set a aside for procurement, or 35 percent of the total budget for Los Alamos, as the University of California being the prime contractor?

Now, if you take 35 percent of the total budget, then you're talking about the way NASA does it when they release these large multibillion dollar contracts, and they say okay, 35 percent must go to small, minority, 8(a), women-owned businesses.

Chairman MANZULLO. I think the problem here is——

Mr. MONTOYA. How we play with numbers.

Chairman MANZULLO. You are the prime contractor, here.

Mr. NELSON. Yes, we are the prime contractor. Johnson Controls and PTLA are major subcontractors.

Chairman MANZULLO. To you?

Mr. NELSON. To us, that is correct. And then they, in turn, I believe—and Dennis can address this more specifically, but when we have major subcontractors, such as PTLA and Johnson Controls, they have flowed down to them the various subcontract requirements associated with small business.

Chairman MANZULLO. But where are the companies they are contracting with?

Mr. NELSON. Where are they?

Chairman MANZULLO. Yes. Where are they coming from?

Mr. NELSON. A number of them are in northern New Mexico, and some of them are elsewhere.

Chairman MANZULLO. How many are in northern New Mexico, and how many are not?

Mr. NELSON. I wouldn't have that information.

Chairman MANZULLO. I think you should know that. I mean, the reason we are here is because of the tremendous amount of unemployment in this congressman's district, and when I see Native American councils that are here begging for work, and then you, as the prime contractor, don't even know where this work is going, I think there's an obligation to keep it here as long as it's certified and it's competent.

Mr. SALGADO. Mr. Chairman, if I could just add, part of the issue of what I will call the major subcontract, whatever terminology we use, part of those, under appendix J, when they negotiate the contract, there are economic development provisions in those contracts and commitments made by those subcontractors, such as Johnson Controls, or Day & Zimmerman, which owns PTLA. They have committed to create jobs in the valley, number one, and to create a financial structure to help the infrastructure, economically, in the valley. So at the same time we are looking for subcontractors, there are commitments they have made, pursuant to those subcontracts, for economic development.

Chairman MANZULLO. So you're going to a subprime contractor who doesn't have a base here; is that correct?

Mr. SALGADO. Johnson Controls, that's correct—I'm sorry for interrupting. They have established—as a tax base, they have established corporate offices, as I said, in northern New Mexico.

Chairman MANZULLO. Well, that means you're bringing in out-of-state companies to sit down and advise you on how they are going to develop the local people economically. That's what your subcontract does.

Mr. SALGADO. That's part of their requirements under that contract.

Chairman MANZULLO. No, I understand that, but obviously, it's not working. Abe?

Mr. SALAZAR. Yes. Let me give you some insight, because I've been in the valley, I've been on a lot of committees. I've seen Los Alamos come in and out of the valley, and they have a lack of commitment; bottom line, a lack of commitment.

Some of the examples of these initiatives was, again, when they renegotiated what they call the prime contracts. What they did in their contracts was to implement a little subsection in there, stating within their contract, within those five years, you have to have some type of economic development in the northern New Mexico section. It doesn't say how you do it. It doesn't give you specifics. It doesn't even say you have to purchase anything. It just says you have to have some type of economic impact.

Chairman MANZULLO. And what did they do?

Mr. SALAZAR. At the end of the day, two years went by and these primes didn't have to do anything; just met and met and met, and wasted a lot these business people's time, my time, over meeting after meeting, just to have another meeting, and at the end of the day, two-and-a-half years after this, halfways in their contract, then they build a building and say, "That's our economic impact."

Chairman MANZULLO. For their corporate offices?

Mr. SALAZAR. Not even their corporate offices. Supposedly, they were going to move some resources down to the valley. That never happened. And the one contractor that did commit, Lou Ganal—they were the only contractor that committed to the valley—they established themselves.

Chairman MANZULLO. Did you get an award for that?

Mr. SALAZAR. I sure did. I got a contract. They spent over $100,000 with my company the first year out, and then what do they do? They cut the contract. Talk about backwards. That's a little backwards, in my book.

On top of that, this is the game they play with numbers. You've got to be very careful what they are stating in the numbers. When they issue a contract, it doesn't mean they have to purchase. That's the reality.

Chairman MANZULLO. Could you, Mr. Salgado, get us copies of those contracts with Johnson Controls and Boise Cascade?

Mr. SALGADO. Yes.

Chairman MANZULLO. What other subs does the university have?

Mr. SALGADO. The other major sub would be Day & Zimmerman, that has the protective guard force there.

Chairman MANZULLO. That's the other major sub.

Mr. SALGADO. Yes. It's a uniformed guard and security service for the entire facility.

Chairman MANZULLO. Any other subs?

Mr. SALGADO. We have a whole list. Some are construction subs, that are basically building the computer center. As I've indicated, Hanzel-Phelps is another major contractor. They are completing construction——

Mr. SALAZAR. Excuse me. More about the contract vehicle.

Currently, we do have a contract with Los Alamos for $100,000. They write this up in the paper and say, "We just awarded another local vendor a contract."

David, how much have they spent to date?

UNIDENTIFIED SPEAKER. Zero.

Mr. SALAZAR. Zero. They don't have to purchase, but they can write it up in the paper that they awarded another contract.

Mr. MONTOYA. Mr. Chairman, if I could make a point on how they have been doing it for many, many years, and that is, the prime contractor, as it flows down to their subs, they set goals. They then write a business plan for providing—or contracting with small minority businesses. In that business plan, it states what they are going to contract for and what that goal is. The goal could be as low as 5 percent. However, there are no penalties to that sub or prime contractor if they don't meet their goals. The penalties should be, and we've been asking Congress to make that mandatory, is they should suffer at the award fee level. If you don't meet that requirement, then pull a certain amount of the award fee. Johnson Controls and PTLA both have failed miserably in the plans they provided Los Alamos on how to develop contracts with small businesses.

Chairman MANZULLO. What doesn't make sense is this: I was raised in business myself, and back in Illinois, we have a lot of manufacturing, for example, Caterpillar. Caterpillar, itself, deals with hundreds of subs for parts, for services, et cetera. Why is the

lab contracting this out to a prime contractor and not doing their own procurement? Why don't you do your own?

Mr. SALGADO. Well, we do our own procurement, Mr. Chairman. It goes back many decades, I believe. The fact of the matter is, for basically the maintenance and smaller construction activity, there's been one general contractor for the entire laboratory because of 43 square miles, 200 different buildings. So it has been thought to be extremely cost-effective to be able to have one contractor to come in and to manage that large work force for the maintenance and on-going infrastructure activity that the institution needs. That is the reason why they have gone to one contractor.

Chairman MANZULLO. That's for maintenance and infrastructure. Here we're talking about computers and paper and related services.

Mr. SALGADO. Many of those things, Mr. Chairman, are not under a major contractor. When I talk about Johnson Controls has to buy goods and services, they have to buy pens and paper, they have that within their purview to handle, under the terms and conditions of their contract. The laboratory is saying this 35 percent of the $1 billion procurement that will be put out in FY01, that that's what goes to the goods and services people around the table.

Chairman MANZULLO. Doesn't it concern you that you'll enter into a contract with a prime contractor that will bring in items from halfway across the country, to the exclusion of people right across the street, that have the very same items, to be competitive? Doesn't that bother you?

Mr. SALGADO. Absolutely.

Chairman MANZULLO. What are you going to do about it?

Mr. SALGADO. First of all, there's an assumption, and I don't have the information, that Johnson Controls, hypothetically using them as an example, is bringing in those goods and services, is not buying locally. I'm not quite sure of that, because——

Chairman MANZULLO. I would think you wouldn't have this high rate of unemployment if the local resources of this area were used, with the amount of taxpayers' dollars that are flowing into New Mexico.

I mean, when Congressman Udall and I first discussed this issue, about what was happening here, I had no idea it was as grave, until I came to this hearing and listened to these people over here, and then I heard you say the solution is more money from Washington, to set up more outreach programs.

I'll tell you what the solution is. The solution is to get away from prime contracting and to do the work yourselves, to have your own procurement officers, because prime contracting does not save money.

The Department of Defense, Inspector General's report showed that prime contracting actually costs the taxpayers more money, and it destroys local jobs.

Mr. SALGADO. Can I respond?

Chairman MANZULLO. Of course.

Mr. SALGADO. The majority of the Johnson Controls personnel—and I don't have the exact numbers—are all local residents—there may be one-half of 1 percent, possibly, that are not local residents—so those jobs and those employment jobs are staying here within the community.

Chairman MANZULLO. You're talking about supplies for the jobs.

Mr. SALGADO. Then, on the supply side, I don't have the numbers for you; I really don't.

Chairman MANZULLO. Can you get those for us?

Mr. SALGADO. Yes, we will get those for you. We will take a look at our top five what I call prime or major subcontractors——

Chairman MANZULLO. I want to see all of them. I want to see the pattern here. I want to know where these supplies are coming from.

Mr. SALGADO. We will gather that information.

Chairman MANZULLO. There are areas of this country, around Chicago and around the beltway in Washington, D.C., around San Francisco, around Los Angeles, that are just thriving commercially. It's incredible. Unemployment is at 1 and 2 percent. Then you have pockets, such as New Mexico, with incredibly high unemployment and vendors that are crying out, looking for work, and with the people in charge of procurement, not knowing where the supplies are coming from, I don't know about that.

Mr. Bartlett.

Mr. BARTLETT. Thank you very much. I, in a past life, worked on both sides of this issue. I worked for government and was involved with procurement on a technical level, and I also was a small business owner and did business with the government. One of the problems that I saw, both in working with the government and working for the government as a subcontractor, was the tendency of the buyers to award contracts to suppliers, subcontractors that they were familiar with, that had performed well in the past. And I understand how you get there, because if you're a buyer in the government, you are rated on the basis of how well your contractors perform. And so, if you issue an RFP, and you get half a dozen responses, and two of those are from companies you have dealt with in the past, and if they are responsive proposals, you're very prone to go with them.

And in this arena, the rich tend to get richer and the poorer to get poorer. And I understand how that happens, because the buyer rests easy at night. If he has let his contract to somebody he's familiar with, that's performed well in the past, the probability is they are going to perform well in the future.

How can we incentivize our buyers so that they are reaching out to the kinds of small businesses that have testified here today, so that they can be rewarded, so that they can—their appraisal can include reaching out? There are some risks when you reach out. There are certainly some risks. A new small business may, in all honesty, present themselves as being qualified in an area; on paper, they may appear qualified in the area, but they may not be able to perform as well as they anticipated, or as well as the buyer anticipated that they would perform. So there's some element of risk there.

How can we incentivize our buyers to assume this risk so that they can reach out to firms like these involved here? We recognize that there are going to be some work performance issues. You can't be reaching out to everybody and not have some contracts that are not going to be performed as well as others.

How can we incentivize them to reach out so we can bring more of these people on board? I've been concerned with this and interested in this now, for, oh, 40 years, I guess, a long time, working with the government and working as a part of government.

What suggestions do you have?

Mr. SALGADO. I think probably the key, number one, is to establish some matrix by which we can see that there is a reachout and maybe there is an infusion of new opportunity for small business, putting those in a performance matrix, basically, and holding people accountable for that component.

The second component that we have, that I addressed in my oral statement, is, essentially, we need to basically educate our buyers; and not just our buyers, but we need to educate the technical staff, because many times our problems rest in the fact that our buyers are merely getting information from technical staff members that require very specific parameters for whatever they're attempting to buy, not just paper and pens, but other issues that have technical requirements.

One of the issues that Benny has tried is going forward aggressively and educating the technical staff on the opportunity that small businesses can bring to the laboratory, and that follows Dr. Browne's directive that we need to increase this activity.

So it's a three-prong approach: The matrix for performance appraisals, holding people accountable, and setting standards.

Number two, education of the procurement staff and education of the technical staff, because we have found that is also a major problem. And you've indicated, rightly so, there's a comfort level and a comfort zone, and if they go to A, they'll go to A and A again, no matter what. And I think that is a problem we have to address, and that is an institutional culture issue to deal with, particularly with an institution like Los Alamos that has been doing this for an extended period of time, with a limited supply source.

Mr. BARTLETT. You used the word "culture." I personally think this is probably the biggest challenge we have. It's how to change the culture, and I don't know how to do that. If you're reaching out, if you're pushing the envelope, there's going to be some failures, and I think that that needs to be anticipated and built into the appraisal. As a matter of fact, if a buyer does not, once in a while, let a subcontract to somebody who doesn't perform as well as might be expected, he's not really reaching out.

Mr. SALGADO. That's very true.

Mr. BARTLETT. Somehow we have to build into—we have to anticipate that if you're really pushing the envelope, there's going to be some failures out there.

Mr. SALGADO. You're absolutely correct, because if you play in the soft comfort zone, you're never going to break out of that.

Mr. BARTLETT. Yes, and that's where you're playing. And I understand the incentive for doing that, because I've worked on both sides of that. I can remember, in small business, I began going through the small business contract area—I guess you can do that now on the internet and—not look at that every day; subscribing to that, it wasn't cheap for small business—then I would read things in there that I thought I could respond to, but, you know, I really didn't have a chance, because they didn't know me and

there were going to be several people respond, that they did know, that had worked for them before, and my proposal might have been just as good as theirs, but they didn't have any comfort level dealing with me, but they had a comfort level dealing with someone else.

I think, Mr. Chairman, this is major problem we have in the area, that we somehow need to change the culture. I think there are good intentions from the top down. People really believe that we have programs that are reaching out, but I think there's a comfort level for that buyer, and he's not going to let a contract to somebody that might make him look bad, if he doesn't know them. They may look good on paper, but he knows Joe, and Joe has performed for the last 15 years, and you know, Joe is going to perform well now, and this other guy looks just as good as Joe, but, you know, he's comfortable with Joe, so that's where he's going. How do we broaden this field?

Mr. SALGADO. Well, we've talked about the areas to do it, and ironically, many procurements are basically driven by the technical staff. They come to a procurement and they say they need this widget with these parameters. Again, it's the technical staff, and then, the buyer, he's caught between the institutional goals and the objectives, and the technical staff is sitting there, saying, "Wait a minute, I don't want to go off in this strange land. I want to make sure I get my widget built the way I want to." That's a dichotomy, and the culture has to change. We need interaction in introducing the small business and minority firms, in New Mexico particularly, to the technical staff, so they have the comfort level to know the professional cadre and suppliers out there to meet their needs. That is one of the first things to try to get in this cultural change.

Mr. BARTLETT. Do you have seminars that are generic in nature, where you let the local small business people know the kinds of goods and services that you need? There may be people out there that could meet some of your needs, and you don't even know they exist out there, and they don't know that they have the capability of meeting your needs, because they don't know what your needs are.

Do you have these generic kinds of seminars that just lay out the kinds of things you do and the kinds of support that you might contract for?

Mr. SALGADO. Yes, sir. In the last 18 months, we have had two major conferences dealing with basically bringing the suppliers together and talking to the suppliers about what we at the lab need in those areas.

We also had two separate distinct conferences where we had the technical staff come in and meet with the suppliers so the suppliers had an opportunity to talk to the technical staff and indicate what their capabilities are in providing goods and services, and we're having—our third conference is scheduled in the next—in October, again, for bringing them together, because what has happened, of course, the lab, given our own geographical configuration, is a difficult place to do business with, spread over 43 miles, being very decentralized between divisions and directorates, so, the answer is yes, we have had—we're having our third one, and we have had two others where we've offered for the suppliers to come in and

present to the technical staff what their capabilities are. So we are trying to create those lines of communications and comfort.

Chairman MANZULLO. Ms. Morales.

Ms. MORALES-GURULE. I just had a response to that.

Once again, I'm going to address the purchase cards. To me, we've always referred to them as what we call "power cards", because end-users can receive those purchase cards, and I believe they're anywhere from—your limit is $2,500 per purchase card user. So therefore, you have Los Alamos getting bombarded with mail order catalogs left and right. You have a technical user who has to get the job done, and get it done quickly. I think they're well aware of CJ and the JIT process, but it's much easier, I believe, to pick up that purchase card, call the 800 number and get it in here.

The problem I see with that is, I can sell a product for $10 on the JIT, and a mail order outfit can sell it for $10. Well, they'll advertise for $10, when it actually gets into the laboratory, after the shipping and the freight, that little $10 item might have turned into a $15 purchase that it costs the laboratory.

In the past, that division has picked up that shipping cost for the purchase card person, but yet they won't pick that up for me, as a local JIT vendor. And I think Abe hit it real good——

Chairman MANZULLO. Wait a second. You're saying the lab pays for the shipping for something done on a purchase card for an out-of-state vendor, but if you have it shipped to them, they don't pay for your shipping?

Ms. MORALES-GURULE. That's how I've always understood it works in the Bus division.

Chairman MANZULLO. What division?

Ms. MORALES-GURULE. Bus, Business Operations Division. The laboratory pays for the freight charges for those credit card purchases, whereas on the JIT—this is just recollection—ground shipping. If anything comes in overnight, then the end-users are charged for that. But what happens is, I, as a JIT vendor, have to absorb that shipping and handling cost, whereas a purchase card mail order, that's picked up by the Bus division, and the bottom line is, they're still going out of state. We are both providing the same service.

Chairman MANZULLO. Is that correct?

Mr. ROYBAL. That could be correct. What happens is, when we're issuing a contract or a purchase order, we negotiate the terms, we negotiate delivery terms, and it can either be FOB point destination or FOB point delivery. So when a purchase card places an order, the buyer will negotiate the terms and conditions, and sometimes it may be FOB point destination. There are times it could be FOB delivery point.

When the contract was negotiated with CJ Enterprises, they had the same opportunity to quote FOB, either destination or delivery. Apparently, it was negotiated FOB point destination. So therefore, she's responsible for paying for all delivery to the destination.

Ms. MORALES-GURULE. But when has a buyer gone out and negotiated with the mail orders?

Chairman MANZULLO. What you're doing is, you've got one contract with her, whereby she negotiates—it's pretty tough for small

business people to negotiate with the government, in the first place—whereby she negotiates to pay her own shipping, then you issue these purchase cards, and people could just take those and go outside the contract with her and buy whatever they want, and the shipping—then you pay for your own shipping. Is that correct?

Mr. ROYBAL. Again, that's partially correct. When she received her contract and she bid FOB point destination, she could—her price could have been based on those shipping costs built into the price already. And so, again, many times, when you negotiate a contract, a lot of those shipping charges are built into the price of the product, and so it's not quite that clear.

Chairman MANZULLO. I know, but with these purchase cards, that's not competitive, is it?

Mr. ROYBAL. No, they are not competitive because they're usually under $2500, and most of them——

Chairman MANZULLO. That's a lot of money for a small business, per transaction.

Ms. MORALES-GURULE. Per transaction.

Chairman MANZULLO. According to Patty's figure, what, $3.5 million, last year, was done on credit cards.

Ms. MORALES-GURULE. No. I had said that.

Ms. WAGNER. I didn't provide that figure.

Ms. MORALES-GURULE. The number was $35 million was done on procurement cards.

Mr. UDALL. Is that the figure?

Chairman MANZULLO. Was it $35 million?

Mr. ROYBAL. Yes.

Chairman MANZULLO. Was that on purchase cards?

Mr. ROYBAL. Approximately, yes.

Chairman MANZULLO. So that's all done without competitive bidding, the $35 million.

Mr. ROYBAL. Yes, that's correct.

Chairman MANZULLO. That's not very efficient.

Mr. ROYBAL. Well, when you consider the number of buyers that we have and the costs that would go into preparing solicitations and doing all that paperwork, it is.

Chairman MANZULLO. What types of things can these cards buy?

Mr. ROYBAL. They could buy computers, they could certainly buy office supplies, they could buy other products. We certainly encourage them to go to northern New Mexico, in our web site. When they go in to place a purchase card order, they go in through the web site, and it encourages northern New Mexico firms as where they ought to go.

Chairman MANZULLO. You encourage your employees to buy from northern New Mexico?

Mr. ROYBAL. Oh, certainly.

Chairman MANZULLO. But they can go outside the state and pay even more, to the exclusion of the home-grown folks here.

Mr. MONTOYA. If I could address that, Mr. Roybal. You encourage them, because you ask them to. Do you encourage them by saying "This will affect your performance evaluation"?

Mr. ROYBAL. I'm sorry, Mr. Montoya, we really can't do that, because these are federal dollars that are being spent. For us to go ahead and tell them to go to northern New Mexico, another firm,

in Maine, can call up and say, "I want to be able to compete for that project." We must open it up. These are federal dollars, so therefore——

Mr. MONTOYA. I understand totally; however, unless there is an in-reach program that really has teeth to it, none of these things we are talking about, and the reason we're here, are going to work, including those prime contractors that set goals where they're going to subcontract to small, minority, women-owned businesses. But if they don't meet their goals, what's the consequence? Nothing.

Now, if you set their goals and they don't meet their goals, and they got hit on their award fee, I think there would be a little more incentive.

Chairman MANZULLO. Mr. Udall, do you have some more questions?

Mr. UDALL. I want to go back to this 35 percent figure on procurements. I mean, are we talking about 35 percent of that is New Mexico businesses? It's your figure, Mr. Salgado. The goal is to place 35 percent, or $335 million, with small businesses. Are you on track to reach that goal?

Mr. SALGADO. That's correct.

Mr. UDALL. Are these all New Mexico businesses, the 35 percent?

Mr. SALGADO. No, sir, they are not all New Mexico businesses.

Mr. UDALL. Do you know what the percentages are?

Mr. SALGADO. Do you know the percentage of the 35?

Mr. GONZALES. Sir, I'm Bennie Gonzales, I'm with the small business office.

Mr. UDALL. You bet.

Mr. GONZALES. There is no specific goal for northern New Mexico.

Mr. SALGADO. Do you know what the percentage is, the percentage of that 35 percent? Do you know what has been—if we do the 35 percent of $350 million, do you know what the percentage for northern New Mexico or New Mexico businesses is?

Mr. GONZALES. Yes, of the $110 million—and I'm going to be talking about the $110 million, sir, that we did in FY 00—of the $110 million—I'm sorry, of the percentage goal that we had for small business in FY 00, we did $110 million in northern New Mexico, which is approximately one-third of the particular goal in 00. And we have it also broken down, in terms of data, in terms of how much we did in the seven northern counties.

Mr. UDALL. The other two-thirds is not New Mexico, then?

Mr. GONZALES. That is correct, sir.

Mr. UDALL. So it's outside of New Mexico completely?

Mr. GONZALES. Outside of northern New Mexico.

Mr. UDALL. So when we've got this figure here, 35 percent small businesses, $335 million, we're talking two-thirds of that money is going out of state, and a third of it is here in New Mexico?

Mr. GONZALES. No, sir. Two-thirds of that is outside the seven-county area. So in terms of how much goes to the state, we don't have those particular—that particular data with us, sir. We can provide that, but two-thirds goes outside of the northern New Mexico area.

Mr. UDALL. So can you break it down into New Mexico figures?

Mr. GONZALES. We can give you that information, yes.

Mr. UDALL. Do you have it on you now?

Mr. GONZALES. I don't have it with me, sir.

Mr. UDALL. Okay. And the seven-county area includes Rio Arriba and Taos, I assume.

Mr. GONZALES. Yes, sir.

Mr. SALGADO. Yes, sir.

Mr. UDALL. You all would agree that it's important in those counties, I mean, in terms of unemployment and the businesses that are there, to try to do everything we can to remedy that unemployment situation, which has been long-standing there, and these businesses are struggling to survive there?

Mr. GONZALES. Absolutely, sir.

Mr. ROYBAL. That's correct.

Mr. UDALL. And of the 335, Boise Cascade, it came out clearly, that can't be included as a small business. Somebody that comes in and purchases a contract, I mean, you're not going to include that in your figures next year; right?

Mr. ROYBAL. No, sir.

Mr. UDALL. Because that was a small business contract, and then this big national company comes in and purchases the contract. So you wouldn't use that next year to say to us, when we come back, you wouldn't say, "Oh, well, yeah, this was a small business contract, because they bought the contract"?

Mr. ROYBAL. That's correct.

Mr. UDALL. And when you're talking about contracts like this, we're not talking about a repeat of this Boise Cascade, where there are existing small contracts where big companies come in and buy them out.

Mr. ROYBAL. That is correct. To the best of my knowledge, that has been an isolated case.

Mr. UDALL. Okay. Now, one of the issues, Mr. Salgado, that's been raised here is this issue with Johnson Controls, of putting provisions in the contract so you can measure progress, and what is the provision that—what is Johnson Controls told about dealing—are you dealing with percentages, or is it just as Mr. Salazar says, it just says, you know, "work with small business"?

Mr. SALGADO. I think there are two issues here. Number one, there is a socioeconomic component of the contract where specifics were laid out—just as indicated—were laid out for the creation of, I believe, 600 jobs in the northern New Mexico area, and there were additional other terms and conditions specifically laid out, as far as their contributions to both public and civic activities in the northern New Mexico area. That's in the economic incentive component under the contract, in appendix J.

Under the other component, which would be the subcontracting goals and objectives, I am not sure as to the specifics that we have, if we have specific percentages that are required under that contract. And I'll have to submit that, for the record, to you, sir.

Mr. UDALL. Well, wouldn't you agree that for us to measure the progress you're making, you would be a lot better off having some targets in there, some goals as to what we're trying to achieve when we're dealing with a contractor, so we try to move towards those, rather than using general language which, if it's true, and

I have no reason to believe it wouldn't be, that as Mr. Salazar said, you know, they hold meetings and meetings and take up these folks' time, and then there's no real business coming out of it. So shouldn't we have goals?

Mr. SALGADO. You're absolutely right, and I'm not sure we don't have those in that contract. I don't know. I know we have the economic development side, but you're absolutely correct. That contract is coming up for extension—I think it's been in place for about four years, and it's coming back up, so we can revisit that entire contract. But you're absolutely correct, Congressman, that there should be goals and a matrix in that, on subcontracting in northern New Mexico with small businesses.

Mr. UDALL. Okay. And I would hope you would look at that when the subcontract comes up.

And the final question, and to get it in on this round, is, you talked about a security company. Is that a New Mexico company, the security company?

Mr. SALGADO. No—well, Day & Zimmerman is the corporate parent. It was established as a subsidiary in northern New Mexico. The PTLA guard force is in northern New Mexico, but it is owned by Day & Zimmerman, which is a large corporate company, I believe, in Ohio or in Philadelphia, and that was through a competitive process.

Mr. UDALL. And there are other security companies. I mean, we have a local security company, AKAL Security, that provides security for all of the US courthouses in the state. I mean, there are security companies that are here that provide those services, and that was done through a competitive process.

Mr. SALGADO. That predates me, sir, but, yes, it was through a competitive process.

Mr. ROYBAL. Yes, it was; and, also, it was one of the bidders on that contract.

Mr. UDALL. Okay. And do you put any incentive in your competitive bidding to try to bring in companies that are going to look at employment in northern New Mexico, and look at job opportunities, and look at opportunities for businesses in that competitive bidding process, and in your RFP say, you know, "We want you to do these kinds of things."

Mr. ROYBAL. That's correct, yes, we do, and that's what Mr. Salgado was talking about with regard to the northern New Mexico initiative portion of our request for proposals, and they must submit a proposal addressing job creation and educational opportunities, outreach, and just civic outreach activities.

Mr. SALAZAR. Can I clarify something? I think I need to clarify these initiatives, because what they have on paper sounds great, they look good, but in all reality, that is not the way it works.

When they did the initiatives, what you saw—and correct me if I'm wrong, when they initiated these initiatives, what you found was, you found a lot of what we call phantom companies. They establish themselves, so-called, in northern New Mexico; they get a small office, put it some place in Espanola, or in Santa Fe, or wherever, and they man it with maybe one person, they meet the criteria on paper, but there is no real economic development put there. They still do business the old way. They still get shipped

from someplace, they still deliver the services from someplace else. Those are not real numbers that you can actually look at. The real numbers are, you find the companies that are really established here, then you ask the question "How much have they purchased from you," "How much have they purchased from you and you?" These are real. These other numbers are not real; those are phantom numbers. You've got to be very careful what they put down on paper and what you're seeing.

Again, this is a stats playing game.

Chairman MANZULLO. This is the beginning of the hearing. I am very upset over what I've heard today. I think that what the labs are doing is that they are disregarding, in their own testimony, their responsibility, and just pandering it out to prime contractors, just to get rid of it, relying upon them to come up with your stats.

I mean, for example, you could take the purchase cards, and you could encourage the employees, and you could monitor where they're buying supplies from, whether they are coming from small businesses. You could use that as part of the compliance with small business set-asides. There's so much money going out of here, so many phantom companies, if Mr. Salazar is right. All we know is this, if what you are doing is correct, these people wouldn't be here. You wouldn't have the high unemployment in the surrounding areas of Santa Fe that are Mr. Udall's district. If what you are doing is correct, you wouldn't have these giant companies coming from the outside that are being the prime contractors and buying things to the exclusion of the local people.

There's a disconnect. There's something terribly wrong here, and that is the fact that you don't have to do prime contracting with small businesses. That's the lazy way out. That's the lazy man's way out, is to do prime contracting. You enter into a contract and say, "You do this and, by the way, come in here and do some good for the local people." And, by the way, establish some goals. Don't give this man a contract worth $100,000 and give him no business.

So I think this should come to an end, and I'm going to ask the Department of Energy—which, by the way, got an F for small business set-asides, and I can see why now—I want to see a radical change in what's going on with these labs, and I want to know how much the University of California is getting for its prime contract. I mean, you're sending people out here with MBAs from the University of California, people coming from California, or wherever they are coming from, coming to this area to figure out how you're going to do local economic development, and that's nothing less than ludicrous. These people here know how to do it, with the eight tribes. The people are here, the expertise is here. I mean, California created an MBA program for economic development, and here's a man representing eight tribes.

How many generations has your family been here, David?

Mr. CORDOVA. Many, many years.

Chairman MANZULLO. Many years. So people come in from the outside.

Mr. CORDOVA. Mr. Chairman——

Chairman MANZULLO. Before we do that, there was a gentleman from the SBA, and I wanted to get your name. Would you stand up and give your name.

Mr. SILVA. Orlando Silva is my name, and I head the SBA program for——

Chairman MANZULLO. Spell your last name.

Mr. SILVA. S-I-L-V-A.

Chairman MANZULLO. Your first name is?

Mr. SILVA. Orlando.

Chairman MANZULLO. You're with the SBA?

Mr. SILVA. That's correct.

Chairman MANZULLO. And your official title?

Mr. SILVA. I'm assistant district director for business development.

Chairman MANZULLO. That would include——

Mr. SILVA. New Mexico.

Chairman MANZULLO. Go ahead, please.

Mr. SILVA. Well, what I wanted to clarify, a little bit, was the Alaskan Native Corporation coming into New Mexico. What it did was, it proposed under the A76, to take over a program at the Air Force research lab, and it happened to be civil engineering. The result of that was that civil engineering does all of the design for the Air Force Research Lab, for contracting, general construction, for example. And since the Alaskan Native Corporation is an 8(a) certified firm, and they're tribally owned, they are not subject to the acquisitive threshold. So any project that they design is—they give it to themselves, and they exclude New Mexico firms. And since they're not subject to providing subcontracting goals, because they are disadvantaged, the New Mexico firms are not receiving any of that work. And that's what I was trying to clarify.

Chairman MANZULLO. Maybe we should take a look at that.

Mr. SILVA. I think so.

Chairman MANZULLO. Okay.

Mr. CORDOVA. Mr. Chairman, real quick.

Chairman MANZULLO. Okay, David, and then, let's conclude here.

Mr. CORDOVA. You know, one final thing. With me, it's hard not to get angry about, statistically, how Rio Arriba, where I live, is doing. We are angry, we're upset, we're concerned, we want to move forward in the right direction. We don't seem like we are getting quite the answers we need. We are not getting any accountability. Just like Mr. Salazar said, we are having meetings, but there's nothing coming out of the meetings, but you can put down on paper that you had a meeting with us.

The eight northern pueblo governors are expecting some sort of accountability for some of the issues going on here. We really feel that this is a huge misuse of some of the land and some of the things we've treasured for so years, and we definitely want to move forward.

We have the businesses right now, and if we don't have the businesses, we don't want a handout, but what we definitely want to do is to work with you to have you show us what we need to do so we can go after those contracts, and we're definitely here and we want to do that.

And if we need training, put us in the position where we can be trained. We want to learn, we want to learn and we want to learn now. If it doesn't happen now, then give us a five-year goal, give us a three-year goal, give us a ten-year, long-term goal. That's

what the governors want. And we really are looking forward to working with Los Alamos, and we want to change some of these figures, because the bottom line is, it's going to help the people, and that's all we want to do is help the people.

We're all in this picture together; and if we can all coordinate and work together, I think it's really going to help everyone out here, and we are all going to live a better life being neighbors to each other.

Chairman MANZULLO. We're having the same problem with the delivered healthcare services as we are witnessing today. The Healthcare Finance Administration has 5,000 employees. They contracted 71 medical providers for the providing of Medicare/ Medicaid across the nation—that's sort of like the prime contractor—and there's no accountability. There's zero. I don't think there's ever going to be any accountability as long as you have the prime contractor system set up the way it is now.

We're going to continue these hearings in Washington to find a way so that DOE will rise above an F. I mean, this is disgraceful, it's disgraceful, disgraceful to everybody. These small business people come here and find out that you have shirked your responsibilities simply by hiring a prime contractor, that promises in writing to do something about economic development, instead of subcontracting to small business. That's not why the SBA was set up. It was set up to encourage small businesses.

Mr. ROYBAL. Mr. Chairman——

Chairman MANZULLO. Okay, we're going to leave this record open for 21 days—is that sufficient? Let's make it 28 days. We'll leave the record open for 28 days for any member of the small business community to submit questions in writing, which we would like answered in the corresponding period of time of 28 days. Anybody in the audience that wishes to make a statement in writing, you'll also have 28 days, and I would suggest you get that to Mr. Udall's office. Could you facilitate that, Tom?

Mr. UDALL. Sure, you bet.

Chairman MANZULLO. Do you want to give the address.

Mr. UDALL. Michelle, will you give us the—Michelle is my district director here—for facilitating the statements through my office, and they should get them—what's the address?

UNIDENTIFIED SPEAKER. It's 811 St. Michael's Drive, Suite 104, 87505. They haven't changed the zip code on us.

Chairman MANZULLO. Okay. Thank you for coming. All of the written testimony of the members of Congress and the witnesses will be made a part of the record—I'm sorry, Mr. Bartlett.

Mr. BARTLETT. I just have two real quick questions. These phantom companies that I read about before I came here, and now they have been brought up again, can you, in your regulations—I know you want to be dealing with real local small businesses, you don't want to be dealing with phantom companies. Can you, in your regulations, do something to correct this, or do you need something from us, in terms of legislation?

Mr. SALGADO. I think, under our help and procurement issues, we can address that issue.

Mr. BARTLETT. The second thing is, something very intimidating to small businesses is all of the legalese and the regulations, the

hoops you have to jump through. Do you have translators and somebody to help these people?

Mr. SALGADO. We have had continuing training seminars dealing with that. That was part of the reason for the conferences we held in the Espanola Valley. We are instituting a process by which we'll have coaches to help people move through the maze, because it's intimidating and rather overwhelming.

Mr. BARTLETT. Thank you. Thank you very much, Mr. Chairman.

Chairman MANZULLO. Okay, this committee is adjourned.

[Whereupon, at 11:29 a.m., the committee was adjourned.]

DONALD A. MANZULLO, ILLINOIS
CHAIRMAN

NYDIA M. VELÁZQUEZ, NEW YORK

Congress of the United States
House of Representatives
107th Congress
Committee on Small Business
2361 Rayburn House Office Building
Washington, DC 20515-6315

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OPENING STATEMENT

CHAIRMAN DONALD A. MANZULLO
COMMITTEE ON SMALL BUSINESS

(Santa Fe, New Mexico)

Good morning and welcome to this hearing of the Committee on Small Business. A special welcome to those who have come some distance to participate and to attend this hearing.

I am most happy to join you here this morning in Santa Fe and in this historic building - the capitol of New Mexico. Last night I was the guest of Congressman Udall and had an opportunity to see some of your truly beautiful city.

Small Business is big business in the United States. Small business is at the very core of our economy and the corner stone of our free enterprise system. This is clearly established by statistical facts concerning this Nation's small business community.

For instance, 99.7 percent of all employers in the United States are small businesses. More than 50 percent of the private gross domestic product is attributable to small businesses. As a creator of new jobs, small businesses have far out performed large businesses.

As an example, over the one-year span from 1995-1996, small businesses produced over 78 percent of the net new jobs. The more than 8.5 million women owned firms provide 24 million jobs, which is more jobs than is currently provided by the Fortune 500 companies.

The effort in Congress to help small business is bipartisan. The Republicans and Democrats on the Committee work together to help small businesses.

A recent bill sponsored by Congressman Udall, the Native American Small Business Development Act, H.R. 2538, which is designed to assist Native Americans who are starting or expanding small businesses on tribal lands, was unanimously approved by the Committee. I anticipate that the bill will be passed by the full House of Representatives the first or second week we are back in session in September.

Again thank you all for participating in this hearing. And thank you in the audience for attending this hearing. I now yield for the opening statement by Congressman Udall.

U. S. House of Representatives

Congressional Field Hearing

To the

Committee on Small Business

August 27, 2001

TO:

Mr. Donald A. Manzullo
Chairman
Committee on Small Business
U. S. House of Representatives

Congressman Thomas Udall
Joseph M. Montoya Federal Building
120 South Federal Place, Room 1000
Santa Fe, New Mexico 87501

Nydia M. Velazquez
New York

Nelson Crowther
Counsel

Members of the Committee

Presented By:

Michelle Morales-Gurule
CJ Enterprises, Inc.
CEO/Owner

128 Longview Drive Los Alamos, New Mexico 87544 505.672.9435 Fax 505.672.3893

Committee on Small Business

August 27, 2001

Dear Mr. Chairman, Congressman Udall and Members of the Committee

My name is Michelle Morales-Gurule and I am the CEO/Owner of CJ Enterprises, Inc (CJE). I would like to take this moment to thank-you Mr. Chairman, Congressman Udall and the members of the committee for allowing me, a small woman-owned business, the opportunity to testify based on our experience and position with Los Alamos National Laboratory (LANL) a division of the Department of Energy (DOE).

History:
CJE was founded in April 1986 with the sole purpose of providing Computer Software, Peripherals and Services to Los Alamos National Laboratory. During our 15 year partnership with LANL, CJE has been awarded over 135 million dollars in Computer Related contracts. CJE was the last vendor to receive the award for "Vendor of the Year" and "Customer Service Vendor of the Year" presented by the LANL Business Operation Division (BUS) at the Just-In-Time procurement ceremony. These awards were especially exceptional to CJE since they were voted on by the LANL endusers based on their experiences with each JIT vendor. CJE currently administers four (4) Computer Related Just-In-Time (JIT) contracts awarded in 1992-1998. In 1998, CJE was granted a Blanket Order Agreement (BOA) for Computer System Repair and Services utilized by LANL endusers.

Our Success:
CJE continually strives to make each procurement most advantageous for LANL.
This is done by:

- Aggressively keeping in contact with our manufacturers while informing LANL of any changes in the technology industry which might effect their direction
- Adjusting with the current changes in the technology industry
- Through comprehension of the LANL procurement process as a whole
- Being innovative within the scope of our JIT contracts
- Being involved on a day to day bases with LANL endusers and procurement personnel
- Developing a small business relationship within the Los Alamos community
- Constantly being accessible to LANL endusers
- Knowing that CJE has options available to us through the LANL Small Business Office

Positives:

- LANL Business Operations (BUS) personnel extremely accessible and cooperative.
- LANL Small Business Office was responsible for enabling CJE to become board members on the following committees: Northern New Mexico Procurement Advisory Board and the Northern New Mexico Supplier Alliance Board
- Open to new ideas
- Provide new opportunities as they arise
- When in a position of difficulty, LANL has provided assistance towards CJE

128 Longview Drive Los Alamos, New Mexico 87544 505.672.9435 Fax 505.672.3893

CJE Concerns:

Government Purchase Cards:

-JIT competition is typically with fortune 1000 companies
-Lack of LANL property labeling of merchandise could make products unaccountable for unlike that of JIT policies/procedures
-Lack of accountability for purchased products, i.e. Leather goods
-Home delivery shipments
-Shortage of LANL personnel to oversee purchases card procedures by endusers.
-Lack of scrutiny of companies providing product unlike that of JIT procedures
-Add-on costs such as shipping and handling charges are paid for by LANL unlike that of JIT procurements with the exception of overnight freight
-Some rebates are not taken advantage of by LANL

Not always adaptable to the changing Industry

-Performance ratings are not always in the control for a vendors ie..backorders, discontinued items, etc. The vendor should not be penalize under these circumstances
-Differences between a *small* business and a *small* business. There is a difference of resources and accessibility for a small business with less than 50 people and that of a small business with 150 people

Going forward:

CJE would like to recommend:

-Flexibility within procurement procedures and polices.
-Greater value placed on Small Northern New Mexico Business
-Partnerships between small businesses rewarded. Let smaller companies form partnerships to bring their strengths together to provide the ultimate customer service for LANL or any other DOE facility
-Greater set-asides for small business with fewer than 25 employees
-Grants Vs Loans, because small business already have a certain amount of financial strain and lack some of the resources that larger companies may attain. CJE would like to see more Federal grant money set aside for the growth and development of smaller business.

In closing, the experience CJE has gained from with the Federal Government procurement has overall been positive and has allowed CJE growth within our corporation. CJE always looks forward to the challenges set forth due to the changes in the technology and Federal government industries. CJE looks forward in maintaining exceptional customer service while continuing our long-term partnership with our Federal government customers.

Sincerely,

Michelle Morales-Gurule
CEO/ Owner

128 Longview Drive Los Alamos, New Mexico 87544 505.672.9435 Fax 505.672.3893

Eight Northern Indian Pueblos Council, Inc.
P.O. Box 969
San Juan Pueblo, New Mexico 87527
(505) 852-4265 phone
(505) 852-4835 fax
www.8northern.org

Testimony provided to the Congress of the United States, House of Representatives Committee on Small Business, by David Cordova, Director of Planning and Economic Development for the Eight Northern Indian Pueblos Council, Inc. on this 27th day of August 2001.

My name is David Cordova, and I am the Director of Planning and Economic Development for the Eight Northern Indian Pueblos Council, Inc. (ENIPC), a non-profit consortium of the Eight Northern Pueblos of New Mexico. The consortium was established in 1967. The Board of Directors, for ENIPC, is the current governors of the Eight Northern Pueblos. The Pueblos have formed the consortium in order to deal with common issues that affect all the Eight Northern Pueblos. Our organization is unique, in that it is the only Native American Community Reuse Organization (CRO) in the United States. ENIPC was designated a CRO on April 2000 by the United States Department of Energy, Community Transition Office. Our mission, as a CRO is to develop strategies and goals that will increase economic development for the Eight Northern Pueblos. We intend to continue to provide community-based services in the areas for which ENIPC has been chartered: economic development, community services, social services, employment and training, and to assist member tribes to implement and manage their programs.

Regretfully, the relationship between the Eight Northern Pueblos and the Federal Government in regards to procurements has been minimal, or almost nonexistent. Our most recent research show that there has been less than $5000.00 in procurements to tribal business of the Eight Northern Pueblos in the past year. LANL has not worked directly with any Pueblo governments on any initiatives to date in 2001. The laboratory employment of Native American's is as well marginal, totaling only 139 or 1.8% of the 7,626 full time positions reported by the laboratory in 2001. The northern Pueblos accounted for only 59 of the 139 total positions held by the Native Americans in 2001. Of this figure, only one tribal member of the northern Pueblos held a supervisory position and none held managerial positions. The employment and procurements figures show there is a huge disparity between

the federal government procurements to the Eight Northern Pueblos. Improvements need to be made and a well-orchestrated effort needs to be put in place that will allow the Eight Northern Pueblos to successfully contract for opportunities with the federal government.

This year, The Small Business Office of the Los Alamos National Laboratory is attempting to improve the Eight Northern Pueblos small business presence at the labs. Several of the representatives of the Small Business Office have assisted the ENIPC in learning how to certify our business as Hub Zone, 8(a) Certified, Etc. Most recently, the ENIPC was asked by the Small Business Office to name a representative to the Procurement Advisory Panel, of which I was named as the Eight Northern Pueblos representative. A few procurement opportunities have been presented to the Pueblos. Currently, one of our tribally owned businesses, TSAY Corporation, has been working with the Small Business Office to secure a contract for the decommissioning of buildings. This is a step in the right direction. TSAY is excited about the opportunity.

Our perception of the Small Business Office is that they are finally stepping in the right direction but there are several issues to work on such as: 1) securing more contracts for the Eight Northern Pueblos businesses. 2) Teach and advise the Pueblos on how to access the opportunities that are available to them. 3) Opportunities need to be presented with adequate time, and in writing, as to allow the Pueblos time to respond. 4) If Government contracts are awarded to more qualified businesses, then direct that business to employ Native Americans from the Eight Northern Pueblos, so that they can learn the tools of the trade, and bring back to the Pueblos. 5) Procurement "red tape" does not allow the small disadvantage businesses of the Pueblos to successfully compete for contracts. Changes need to be made that will allow for the Pueblos to successfully bid on government contracts, Modification of requirements may be needed, to assist tribal businesses for procurement opportunities. Perhaps a probationary period with less stringent requirements may be needed to allow the tribal business to fulfill the government requirements to secure a procurement contract. These federal regulations have created companies as monopolies that are already established, and exclude competition from newly forming companies.

As of date, our research shows that there have been no loan programs administered by the SBA to any Northern Tribe, tribal business or entity. Many of the local federal SBA offices have not made an effort to assist the Pueblos or introduce us to what assistance they have to offer. The Espanola SBA office, for example, has <u>not</u> contacted my department to offer any of its services. Many Tribal businesses and small business owners do not have access to capital, and this hinders their growth and development.

More needs to be done to secure procurement opportunities for the Eight Northern Pueblos and tribally owned businesses. It needs to be done immediately. Perhaps the possibility of creating a Tribal Small Business Office that would assist not only

the Eight Northern Indian Pueblos, but also all the New Mexico Tribes, needs to be created. This will effectively deal with the lack of tribal procurement opportunities.

Marlo R. Martinez
209 N, Riverside Dr.
Espanola, New Mexico 87532

Congress of the United States
House of Representatives
Committee on Small Business

Honorable Congressman
Donald A. Manzullo
Chairman and Members
Of the Committee

Because many small minority business are short on resources, are undercapitalized and face cultural biases, one has to be very organized , proficient, work hard, self discipline, and preserverence in all aspects of business. We have to control costs to such an extent that while offering a competitive but fair price so that a reasonable profit is constantly attained.
New Mexico Office Products has been in business for over 40 years. In 1985 our company was selected as Minority Business of the Year and in 1986 Small Business of the Year for Los Alamos National Laboratory. In 1987 NMOP was awarded the SBA Administrators Award for Excellence. Those were the good years. That all changed when LANL changed their system to JIT Just in Time Contracting. This is when competitive bidding stopped in exchange for this principle of awarding all of the contracts to a handful of vendors usually those in Albuquerque with a large market area. This change in policy hurt all of the micro businesses of rural New Mexico for the last decade and a half. Doing business with Sandia National Laboratory in non existent in Northern New Mexico. If DOE would continue to prioritize its funding to companies such as Strategic Learning Services or others to serve as a conduit or clearinghouse to small businesses this would enable the small disadvantaged business to have better access to bids and the specific needs of the government. The time has come to re- evaluate the process used by DOE and it National Laboratories in which they buy their goods and services. Also breaking up JIT Contracts would surely spread the wealth. As it is now the same people keep getting the orders over and over year after year. I think it is only fair that everybody gets a piece of the action. This would mean an extra effort on behalf of the LANL and Sandia National Laboratory for the sake of truly supporting many other small business people, especially those in rural America. I believe the procurement buyers and managers at LANL have good intentions but others such as technical people would prefer to buy from the larger national firms with the belief that they can get a better deal. We have got to break this barrier and the time is now. For to long small business has paid its dues and the Fathers, Mothers, Brothers and Sisters of Northern New Mexico have died building its infrastructure and enduring the hazardous working environment in years past at DOE facilities.

Sincerely,

Marlo R. Martinez
President/CEO

Antonio R. Montoya
Chairman and Chief Executive Officer
L&M Technologies, Inc.

Testimony Before the

Committee on Small Business
US House of Representatives

Thank you, Chairman Manzullo and Members of the Committee on Small Business for coming to New Mexico and for allowing me to testify before your Committee. My name is Antonio Montoya, Chairman, CEO and owner of L&M Technologies, Inc. L&M Technologies has been providing technical and professional services to the public and private sectors for 28 years, primarily in New Mexico and in the Washington, DC area. We are an SBA certified Small Disadvantaged Business, although we do not feel particularly small or disadvantaged. Through the hard work of a lot of people, we have had a strong, steady growth history that resulted in revenues of over $19 Million in 2000 and we are projecting $24 Million in 2001.

L&M's commitment to quality and customer service has resulted in a number of awards for the company. L&M received the coveted New Mexico Zia Quality Award, an award based on the national Malcolm Baldridge Award criteria. L&M also earned the National Performance Review Award, by then Vice President Al Gore, and the US Small Business Administrator's Award for Excellence for our work at White Sands Test Facility and Sandia, respectively. So you see, Mr. Chairman, that L&M is not a company waiting for undeserved set-asides, but we are capable of competing with larger companies for government and private sector contracts.

Nevertheless, there are some areas of concern and one excellent positive example (Sandia National Laboratories) that impact our ability to continue our growth and contribution to our State and National economies. The examples of problem areas that we have experienced are the following:

1. NASA Headquarters arbitrary contract behavior
2. Los Alamos National Laboratory lack of opportunity for local businesses
3. Alaska Native Tribal contract advantages
4. DOE contract award subjectivity using LOCAR methodology

Contrasting these problems is the positive working relationship that L&M has experienced working with Sandia National Laboratories and the operations contractor, Lockheed Martin.

NASA Headquarters

Because of L&M's commitment to excellence, we were awarded a contract by NASA Headquarters to provide Safety, Reliability, Maintainability and Quality Assurance Services to NASA. During the course of the contract, NASA staff directed our program managers to subcontract a large amount of the work to certain subcontractors and a major University in the Maryland Suburban area. When it came time to extend the contract beyond the base and into the option period, L&M was informed that the contract would not be renewed because L&M had not met the 51% prime contractor requirement. Therefore, L&M was arbitrarily "set up" by NASA to allow them not to extend the contract. The company has since learned that the technical staff at NASA Headquarters was unhappy that the contract had been designated as a small business set-aside and it is apparent to us that they prevailed in not allowing a small business to continue the contract. According to NASA staff, the quality of L&M's performance was never an issue, and L&M's award fee ratings averaged in the high nineties.

To add insult to injury, L&M received a poor reference from NASA when we were pursuing a $50 Million contract with the Air Force at Malmstrom Air Force Base in Montana. The contracting officer contacted us to inform us of the bad reference. Thanks to the excellent help of Congresswoman Heather Wilson and her staff, we met with NASA Contract executives to "clear the record" for L&M. They agreed to reference a lack of task order work for not extending the contract. In spite of that, the staff has issued a letter that back tracks and negates the agreement with NASA leadership (see attached letter). Needless to say, L&M's reputation has been damaged by these actions and we urge the Committee to enact legislation to protect small business from such arbitrary agency practices.

Los Alamos National Laboratory

In spite of years of neglect and DOE contractual requirements, it is still very difficult for small New Mexico companies to obtain contracts with Los Alamos, particularly in the technical services area. L&M has not had a contract with LANL for over 10 years, even though our revenues and reputation have continued to grow elsewhere in DOE and other agencies. We can not diagnose the entire problem, but the Laboratory seems to favor large contracts with out-of-state firms that are not required to subcontract significantly with small local businesses. There appears to be wanton disregard for small business subcontracting practices that have worked very well in other settings. Anything the committee can do to improve the current situation would be very much appreciated by the New Mexico small business community.

Alaska Native Tribal Contracting Advantages

Small and disadvantaged companies throughout the country are extremely upset that Alaska Native tribal companies can swoop in and obtain contracts with no notice or opportunity for local small businesses to bid on the procurements. Any federal procurement is subject to this situation and a gross example was the awarding of a contract to a tribal firm to perform Management and Operations (M&O) services at Kirtland Air force Base. The Alaska Native owned company has revenues of over $1 billion and has no connection to New Mexico Indian Tribes.

It is our understanding that the parent company can also buy existing 8(a) companies and maintain their 8(a) status, a benefit denied other small disadvantaged businesses. This situation is an example of a well-intentioned idea gone sour and we hope the committee will remedy the situation by sunsetting the authorizing legislation.

DOE Contracting Procedures

In a recent (July 2001) small business RFP, the DOE introduced a selection evaluation criteria defined as "LOCAR", the Level of Conference Assessment Rating. In the RFP, they state that "the LOCAR will reflect our source selection evaluation board's subjective assessment of the likelihood that the offeror will keep its promises to comply with the terms and conditions of this request for proposals. The LOCAR will be an important consideration in the source

selection decision". It goes on to state that "in order to select the winning offeror, DOE will rank the offerors from best to worst by making a series of paired comparisons among them, trading off differences in LOCAR and price between the members of each pair".

We have not been aware of this type of subjective selection system being used in full and open (not small business) procurements and made numerous inquiries to determine if it had. We could find none. It appears that the DOE does not believe that small businesses are as reputable as other companies. Also, this indicates that all the audited financial data, client references, project descriptions, etc. which also must be included in the proposal are looked at as questionable from a small business.

We believe that small business or any business should be evaluated on facts and judged honest and capable to keep its word until proven otherwise. To ask a small business to spend its resources on a proposal that will be evaluated by an individual or individuals who will subjectively decide if it is honest or not without any intimate knowledge of the firm is unfair to every and all businesses and such practices must be stopped immediately. It appears totally against the FAR which works to eliminate subjectivity in award.

Sandia National Laboratories-a Shining Contrast

Mr. Chairman, I would be remiss in not mentioning the positive relationship our company and others have had with Sandia National Laboratories. Sandia has provided an opportunity for L&M to win a large competitive contract in the microelectronics manufacturing field. Furthermore, we have been designated as a strategic partner by Sandia and the Lab has mentored our small company to improve our policies and procedures. Sandia has also created a Supplier Community Advisory Council to provide input to Sandia on how to diversify their supplier base and create additional opportunities for New Mexico small and disadvantaged businesses. Sandia and Lockheed Martin deserve a lot of credit for achieving and indeed exceeding the goals of small business development through creative supplier relations programs.

Chairman Manzullo and members of the committee, thank for the opportunity to testify and thank you for coming to visit "The Land of Enchantment".

National Aeronautics and
Space Administration
Goddard Space Flight Center
Greenbelt, MD 20771

Reply to Attn of: 210.H

JUL 31 2001

L&M Technologies, Inc.
Attn: Ms. Kathleen Harer
4209 Balloon Park Road, NE
Albuquerque, NM 87109-5802

Ms. Harer:

In March 2001, representatives of L&M expressed concern to Congresswoman Heather Wilson that certain misunderstandings between NASA and L&M relating to NASA Contract NASW-99010 may have caused NASA to have an unfavorable appraisal of L&M's performance, resulting in their loss of this contract. In our response to Congresswoman Wilson dated April 16, 2001, NASA made clear that L&M's performance was not the basis for NASA's decision not to exercise any of the contract options to extend contract performance. Rather, NASA stipulated that its decision was based solely upon the fact that L&M was unable to meet the requirements of a clause in L&M's contract; which required that at least 50 percent of the cost of contract performance, incurred for personnel, shall be expended for employees of L&M.

Further, NASA arranged for a meeting between senior Agency officials and representatives of L&M to review and discuss this matter. This meeting took place at NASA Headquarters on April 30, 2001. NASA wishes to reiterate the basis for its decision not to exercise any of the options in the contract in an effort to seek finality of and to bring closure to this issue for the parties.

Contract NASW-99010 was awarded to L&M as a small business set-aside on March 31, 1999. The contract contemplated a basic term of two years ending on April 10, 2001, with three subsequent one-year options, which, if all were exercised, would extend the contract term through April 10, 2004. The contract contained a required clause specified by the Federal Acquisition Regulations (FAR), 52.219-14, entitled "Limitation on Subcontracting", which specifies that for contracts providing services that at least 50 percent of the cost of contract performance incurred for personnel shall be expended for employees of the concern (i.e., L&M). The "[L]imitation of Subcontracting" requirement is not unique to NASA, but rather is a requirement imposed by statute (15 U.S.C. 637(a)) upon all Executive Agencies and is required to all contracts if any portion of the requirement is to be set-aside for small business and the contract amount is expected to exceed $100,000.

NASA is obliged to enforce the applicable terms and conditions of its contracts and contractors are expected to perform their contractual duties and responsibilities in strict adherence with these same contract terms and conditions. During the basic contract performance period, L&M did not comply with the requirements of FAR clause 52.219-14 of their contract. Based solely on the inability of L&M to conform to the requirements of this clause, NASA believed that the exercise of any of the contract options was not in the best interest of the Agency.

The tasks issued by NASA during the basic performance period of the contract were appropriate and within the scope of the contract. NASA's decision not to exercise any of the contract options to extend contract performance should not be interpreted as a negative reflection of L&M, nor of your technical capabilities, which enabled L&M's performance of these tasks to meet or exceed all contract requirements. Rather, NASA's decision is merely our response to L&M's not meeting the requirements of the Limitation on Subcontracting clause.

If you have any questions regarding this matter, please contact me by telephone at (301) 286-4223 or by email at jbecker@pop200.gsfc.nasa.gov.

James L. Becker
Contracting Officer

National Aeronautics and
Space Administration
Goddard Space Flight Center
Greenbelt, MD 20771

Reply to Attn of: 210.H

JUL 31 2001

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Attn: Ms. Kathleen Harer
4209 Balloon Park Road, NE
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James L. Becker
Contracting Officer

Written Testimony
To the Committee on Small Business
of the
107th Congress of the United States of America

Abe Salazar, CEO
Computer Assets, Inc.
Espanola, NM

Business and Purchasing Practices
Of
Department of Energy Facilities in New Mexico

Computer Assets is located in the beautiful Espanola Valley. The Espanola Valley is where the first European capital was established in what is now the Continental United States. As a result, Espanola was established as a major center for trade within the Spanish Empire of North America. However, the importance of this area has diminished steadily over the last 100 years. The Espanola Valley is no longer regarded as a center for commerce and trade. In fact, development of industry is not recommended or fostered in this area. This is especially evident in relation to the Los Alamos National Labs Purchasing and Economic Development initiatives.

The Lab was established more than sixty years ago and not one viable company or industry has developed in the Espanola Valley, although billions of dollars of federal funding have been appropriated over the years. I believe this is a result of a systemic view of the Espanola Valley and its residents. I do not believe we are valued for our contributions to the success of the labs, or our potential as a partner in its continued success. However, there is still opportunity for the lab to promote and impact the economics of the Espanola Valley.

When I was invited to participate on this panel, it was requested that I give my views on the following issues:

1. Our Companies Success and the Impact of Federal Programs on Its Success,
2. Federal Programs Contributions to the Our Companies Success,
3. Procurement Programs and Practices at DOE Facilities in NM.

COMPUTER ASSETS

Computer Assets was established in 1993. Initially, the company provided professional services and software development for state and local government in Northern New Mexico. Eventually the company developed into a provider of networking services and equipment. This has been the company's focus for the last four years and has provided the basis for our rapid growth over this time. Currently, Computer Assets provides services throughout New Mexico and Arizona, with plans for expansion into Southern California, Southern Colorado, and West Texas. Computer Assets currently has 27 FTE with plans to grow to 35 by December of this year. Currently 80% of our workforce is located at our corporate headquarters in Espanola.

Computer Assets has been able to grow and develop through our employee's hard work and our ability to sell and deliver solutions to a variety of customers. To date federal procurements have accounted for less than 5% of our total revenues during any fiscal year. However, we have targeted the federal market as a key growth market and expect to see substantial revenue growth in this market over the next few years.

We are focusing on DOD projects and procurements as they have been the most open to working with our firm to date. Although our proximity to Los Alamos National Labs (LANL) seems to bode well for procurement opportunities, our experience has been that we are the least likely to be considered for large-scale opportunities. LANL has continually doubted that a company from the Espanola Valley has the ability or the resources to service such an opportunity.

FEDERAL PROGRAMS CONTRIBUTIONS TO OUR COMPANIES SUCCESS

Computer Assets has not utilized many Federal programs during our existence. We have looked into various loan and business development programs, but have found them either hard to work with or lacking the expertise we required at the time. We understand that we probably don't know of many programs that could offer needed expertise or help in many situations. Unfortunately, when you get wrapped up in running a business it leaves little time to invest in researching government programs

The one program that we have been aware of, the Small Business Administration has assisted in developing procurement vehicles for our company. We have received both our 8A Certification and HUBZone status. We believe these procurement programs will enable us to reach our federal revenue goals and develop the resources that are required to service government contracts.

PROCUREMENT PROGRAMS AND PRACTICES AT DOE FACILITES IN NM

Approximately five years ago, LANL laid a number of employees of which a large number were from Northern New Mexico, particularly the Espanola Valley. From this incident arose a number of programs that whose intention it was to built inclusion of this area in LANL's vast economic impact on New Mexico. I would like to focus on two of these programs as they directly impact our company and our children.

1. The Northern New Mexico Procurement Imitative
2. LANL Foundation Education Technology Funding Initiative

NORTHERN NEW MEXICO PROCUREMENT INITIATIVE

This program was created to develop and promote LANL procurements with business based in Northern New Mexico, primarily Rio Arriba and the Espanola Valley. The purpose was to develop an economic base in areas historically not impacted by LANL dollars. Initially, LANL and each of the prime contractors were required to fulfill a certain percentage of their procurement from the targeted area. However, the program was weakly enforced and lacked a strategic plan to implement the program. The result was that the initiative lacked a clear direction and was eventually diluted by the geographic expansion of the program. The initiative was expanded to include the majority of Northern New Mexico, which included Los Alamos, Santa Fe, and Rio Rancho. Unfortunately, this gave LANL the opportunity to conduct "business as usual" and still proclaim the programs success.
As for other government programs, we have not attempted to utilize any of the programs that are offered in the area with the exception of the resources of Strategic and Learning Services, which was funded by LANL through the Northern New Mexico Procurement Initiative. This program ran a very successful program, in which they had LANL buyers fulfill purchase orders in their Espanola office at the end of last federal fiscal year. I believe a number of businesses in the valley were able to fulfill a number of purchases under the program. However, once the fiscal year ended so did the program. It seems that once the required procurement ratios were met that the program was scrapped.

This is the case with various outreach programs that are currently engaged throughout the DOE facilities. They are facing an uphill battle unless they are given some procurement authority and the ability to review procurements with ample time to recommend small business alternatives and opportunities.

Along with the purchasing initiatives, LANL also set a requirement that each of the contractors develop a "Northern New Mexico presence". This has resulted in a number of unmanned offices in the area. The only company that made more than a cursory commitment to the Espanola Valley was Fluor Daniel. Fluor Daniel was awarded a prime subcontract four years ago and immediately set up shop in the City of Espanola Industrial Park at the behest of LANL. However, projects were never given to them and eventually they were forced to close up shop and their contract was awarded to a firm located in Los Alamos. Some of the reasons cited was their lack of proximity to LANL

staff and their high overhead costs, both, which were a result of their commitment to running their contract out of Espanola. This has effectively dissuaded any further contractors from locating in the Espanola Valley.

Although I believe that the Northern New Mexico Procurement Initiative could positively affect the Espanola Valley, I believe further oversight and clear and measurable goals need to be established and monitored. It is imperative that this initiative proves successful, or a deeper economic chasm than the one that exists today will develop.

LANL FOUNDATION EDUCATION TECHNOLOGY FUNDING INITIATIVE

This initiative was developed to close the funding gap that resulted from the supplemental funding that the DOE has provided to the Los Alamos Public Schools for decades. The funding was based on the proportion of students whose parents worked for LANL that each school district in the area had. However, unlike the Los Alamos Public School District funds these grants had many strings attached to them. Basically the Districts had to apply each year for the funds and the funds could only be used for technology programs. Additionally, the final expenditure of these funds required the approval of the foundation. Also, the per capita proportion was nowhere near the funding that the Los Alamos Schools has historically received.

The program itself is a great help to each of the school districts and provides much needed resources for the expansion of technology programs. However, it has also caused some concern in the case of the Espanola Public Schools. The Espanola Public Schools has experienced some turnover in their Administration and Technology Departments over the last year. This has resulted in a lack of continuity in their technology programs. As a result they have been unable to develop a satisfactory plan for the use of the foundation funds due to them. In the midst of this situation they also had trouble during the implementation of their E-rate project. As a result the LANL foundation forced them to allow a foundation consultant to run their technology program or risk the funds being pulled by the foundation.

I believe this was not the original intent of the program, and since the schools had not requested the use of the funds without a clear direction. I believe that they have taken due diligence in ensuring that the funds are going to be used wisely.

Finally, I think that the DOE facilities are a great asset to New Mexico and provide great service to our country. This testimony has primarily focused on the Los Alamos National Labs since the company has had little to no interaction with Sandia National Lab. However, I believe both of the labs can be even more of an asset as they embrace their economic leadership role in our state and economic regions. But in order to be an effective leader they must learn to focus on their extended communities and look for procurement opportunities in their local communities.

Testimony

By Joseph Salgado, Principal Deputy Laboratory Director
Los Alamos National Laboratory
To The Committee On Small Business
United States House of Representatives

Subject: Small Business Report
August 27, 2001

INTRODUCTION

Thank you for giving me the opportunity to provide this statement on the status of Los Alamos National Laboratory's small business procurement programs. Los Alamos is proud of its record in assisting small businesses and at the direction of Laboratory Director John Browne we intend to offer maximum procurement opportunities to all small businesses, with a particular emphasis on regional firms. To accomplish this, our strategy is to:

- Educate and assist small businesses with process and technical skills required to meet Laboratory needs;
- Form alliances with small-business development organizations to further the growth and quality of local firms;
- Target historically underserved areas of the supplier community;

- Establish internal Laboratory awareness of the importance of increasing the small-business participation for Northern New Mexico suppliers; and
- Educate and assist small-business firms in thinking and competing globally.

SMALL BUSINESS PROCUREMENT OVERVIEW

Increasing procurement opportunities is very important to the Laboratory. We believe that an indicator of our success can be seen in the procurements awarded to small businesses. In this fiscal year, for example, we will place about $1 billion in procurements. Our goal is to place 35 percent, or $335 million, with small businesses. We are on track to exceed that goal.

In fact, from our Fiscal Year '96 baseline, and except for one year when we fell one-half of one percent short of our goal, we have consistently exceeded the small-business goals set by the Department of Energy. We are proud to say that we have awarded a total of $1.1 billion to small businesses across the nation in the last five years.

REGIONAL PROCUREMENT EFFORTS

We strive to enhance local opportunity in procurement awards. Our emphasis over the last year and a half has been focused to a large extent on a seven-county region of Northern New Mexico. Appendix J of the contract with DOE chartered a concerted effort in the region. The majority of our Outreach Programs focus on assisting Northern New Mexico suppliers in an effort to enhance economic development of the region.

What does this mean for Northern New Mexico? In Fiscal Year '96, the total number of small-business dollars spent in the region was $64.8 million, benefiting 449 small businesses. In FY 00, expenditures were up to $110 million with 454 firms. While we realize the number of firms has not significantly increased over this five-year period, those 454 firms represent more than two-thirds of the supplier base. Also significant is that there has been a large increase in the number of dollars per procurement transaction.

We feel strongly that the small businesses of Northern New Mexico must have the best opportunity we can offer to do business with the Laboratory. We will continue to provide technical support to area small businesses so that they may successfully compete for more and larger procurements. As an example of our activities, we recently solicited four small, disadvantaged businesses in the region to provide networking equipment for our computing division under the Laboratory's Northern New Mexico Preference Program. One of the companies, Abba Technologies Inc., was awarded a five-year, $4 million contract.

Native American Initiatives

We also initiated our Pueblo 2002 Program, which will engage the local Pueblos in the procurement arena. This initiative recognizes that we must reach out to our Native American neighbors and commit to involving them in Laboratory business opportunities. For example, we are now establishing contracts with several of the Eight Northern Pueblos to engage them in the Cerro Grande Fire restoration effort. Additionally, our plan over the next year is to assist them in the development and implementation of their

business systems and processes, so they can successfully compete for Laboratory and federal contracts.

HUB Zone Certification Program

The Laboratory's Historically Underutilized Business (HUB) Zone Certification Program is another initiative to assist regional firms. The Small Business Administration designated most of Northern New Mexico as HUB Zone areas. A certified business located within a HUB Zone receives priority procurement status for federal and Laboratory contracts. While the Laboratory's program to certify HUB Zone companies is only three months old, we have submitted 50 certifications on firms in the seven-county area. Our measure of success will be to certify one-third of our known Northern New Mexico suppliers, 200 firms, by the end of the calendar year.

Based on projected Laboratory expenditures, our HUB Zone procurement requirement for this year will be about $1 million, which we will far exceed. The recent award of a large contract to the Anvil Welding Company of the Espanola Valley is an example of our HUB Zone Program success. Under the $1.6-million contract, Anvil Welding is furnishing wood-incineration equipment for the Cerro Grande Fire rehabilitation project. The company is one of the first HUB Zone certifications that we submitted to the SBA. The Laboratory's Small Business Office also assisted Anvil Welding in obtaining an exclusive distributorship for non-polluting wood-product incinerators.

Laboratory Internal Efforts

We are committed to continual improvement in our small-business procurement program, and have identified several internal initiatives to

expand it. Next year, for example, we plan Phase Two of our In-reach Program, targeting two particular areas. First, we will focus on educating our scientific and technical staff on the availability of products from Northern New Mexico small businesses. Second, we will also emphasize purchases from small businesses in our Credit Card Purchase Program.

OUTREACH ACTIVITIES

In the early days of the Laboratory, we established the Small Business Outreach Program to assist companies with learning how to do business with the Laboratory and to help the Laboratory identify regional procurement opportunities. The Small Business Outreach Program continues to actively engage as many firms as possible in Laboratory small-business initiatives.

Networking

In the last 18 months, we conducted two major business conferences to educate New Mexicans on how they can most effectively work with the Laboratory. These conferences each drew more than 500 attendees. In the same time frame, we hosted two technology expositions at which Laboratory employees learned about the goods and services available in our state. One of the conferences boasted more than 100 local businesses exhibiting their products. The next small-business technology expo will be held this October in Pojoaque, N.M. This conference is being hosted by the Northern New Mexico Supplier Alliance, a small-business association that Los Alamos has mentored and developed over the past year and a half. We expect almost 200 exhibitors for this year's conference.

We also have implemented a Small-Business Ombuds Program at the Laboratory. Under the Program, the Laboratory Ombuds is available to assist businesses with questions, contact information, or resolution of difficulties.

Communication

We believe that communication with the business community is one of the keys to our success, and use a variety of methods to communicate. For example, we established a Web site that promotes small-business-related activities. During 2001, we received a monthly average of 7,500 visitors to the site. For businesses that do not have access to the Internet, we publish a monthly newsletter that is distributed to more than 600 firms and particularly targets Northern New Mexico companies. We also work closely with the Northern New Mexico Supplier Alliance, a network of area suppliers, to not only award contracts with member firms, but to help them prepare to do business with the Laboratory in the 21st Century. Additionally, we created a Web-based database for our technical and procurement staff that identifies Northern New Mexico suppliers. It has expanded to include more than 600 Northern New Mexico suppliers that are small businesses.

THE FUTURE

In conclusion, I would like to emphasize that the Laboratory is committed to small-business procurements, particularly in Northern New Mexico. In addition, I personally as the Laboratory's Chief Operating Officer will be paying close attention to this program. I am pleased with our progress in developing the Laboratory's small-business procurements and committed to continuing to improve the Laboratory's performance.

Thank you for this opportunity to discuss the important program with you.

Written Statement
By Patty Wagner, Assistant Manager
Office of Management and Administration
Albuquerque Operations Office
National Nuclear Security Administration
U. S. Department of Energy
To the
Committee on Small Business
United States House of Representatives

Subject:

Small Business Issues

August 27, 2001

INTRODUCTION

Thank you for the opportunity to provide this statement on the Department of Energy (DOE), National Nuclear Security Administration, Albuquerque Operations Office (AL) small business procurement program. The Albuquerque Operations Office supports the Department's mission to:

- Maintain a safe, secure, and reliable nuclear weapons stockpile.
- Manage nuclear materials awaiting permanent disposition.
- Achieve a restored environment.
- Maintain a strong science and technology base.

The majority of Albuquerque's mission is accomplished through the use of five management and operating (M&O) contractors and they include:

- **The University of California** at Los Alamos National Laboratory located in Los Alamos, New Mexico
- **Lockheed Martin** at Sandia National Laboratories located in Albuquerque, New Mexico and Livermore, California
- **Westinghouse TRU Solutions** at the Waste Isolation Project Plant located in Carlsbad, New Mexico
- **Honeywell FM&T, LLC** at the Kansas City Plant located in Kansas City, Missouri, and
- **BWXT Pantex** at the Pantex Plant located in Amarillo, Texas

Other efforts requiring contract services or items to support DOE Albuquerque's mission are accomplished through supply or support service contracts.

The M&O contractors will provide independent statements regarding their small business programs and practices. Therefore, this statement focuses on DOE Albuquerque.

SMALL BUSINESS ACHIEVEMENTS

The mission of our Small Business Office is to serve as an advocate for small businesses. Our small business achievements have been commendable in the past. However, before we discuss achievements, it is important to explain the process we use to develop our local goals.

First, in the goaling process we use upcoming fiscal year budget projections and deduct operating expenses and funds allocated to M&O contracts and reimbursable work. The remainder is the total available for procurement contracts. For example,

Budget Projection	$4,922,000,000
Less	
Salaries/benefits/travel/training	134,871,000
Utilities	6,174,793
Credit Card Purchases	3,467,914
Pueblo Cooperative Agreements	1,500,000
Other	345,886,650
Rents/leases of supplies and/or equipment	2,017,886
Funds allocated to M&Os, AL Area and Regional Support Offices (includes operating capital)	3,676,000,000
Reimbursable Work	638,000,000
Total Deductions	$4,807,918,243
Total available for AL Procurement Contracts:	$ 114,081,757

Second, we identify existing contracts, those in source selection, and any other forecasted requirements to be funded for the upcoming fiscal year. The majority of the total available dollars is allocated to existing contracts, which currently consist of large business, small business, 8(a), small disadvantaged businesses, women-owned businesses, historically underutilized business zones (HUBZones), grants, and cooperative agreements. To continue our example, out of the $114,081,757 available $113,681,757 was reserved for existing contracts.

Finally, we are left with a small amount of procurement dollars for new awards with which to fulfill our socioeconomic goals. In this example, $400,000 was left for potential awards in support of achieving our objectives. It should be noted that we are being proactive by examining large business contracts that are due to expire within a three-year horizon for the possibility of setting them aside for small business participation.

The following table summarizes our achievements for the past three years.

Fiscal Year (FY)	Total Procurement Dollars Obligated	Total Dollars Obligated to Small Businesses	Goals	Accomplishments
FY00	$132,737,000	$66,583,000	50.6%	50.1%
FY99	$186,992,000	$87,284,000	35.5%	46.7%
FY98	$218,810,000	$74,625,000	30.4%	34.1%

OUTREACH EFFORTS

Each year, the Albuquerque Operations Office meets or exceeds its goals in the small business socioeconomic categories due in large measure to its extensive outreach program. AL's continuing efforts to manage an aggressive socioeconomic outreach program are outlined below.

PARTNERING WITH MANAGEMENT AND OPERATING CONTRACTORS

- The Small Business Office partnered with DOE's Management and Operating (M&O) contractors and the Rio Grande Minority Purchasing Council (RGMPC) in a program called "Corporate and On-site Spotlights." This joint quarterly initiative has provided a forum for corporate/government entities to visit small, minority and women-owned vendors at their place of business. The spotlights allow the vendors to market their companies and provide an on-site tour of their business thus allowing the buyers a first-hand view of the business and its capabilities.
- AL is a committee member for the Statement of Cooperation between Sandia National Laboratories, Los Alamos National Laboratory, and the Albuquerque Hispano Chamber of Commerce. Other members include: the City of Albuquerque, Bernalillo County, Albuquerque Technical-Vocational Institute, Albuquerque Public Schools, the Hispanic Cultural Center, Hispanic Cultural Foundation, Public Service Company of New Mexico, Barelas Community Development Center, the Hispanic Round Table, and the University of New Mexico. Signatories of this Statement of Cooperation are committed to communicate and work interdependently to help resolve problems and issues facing Hispanics relative to education, employment, business, and cultural celebration.
- The Small Business Program Manager is a member of the Sandia National Laboratories Supplier Community Advisory Council. The council's activities are intended to strengthen relationships between SNL and the business community.
- The Small Business Office plans to participate with the Los Alamos National Laboratories (LANL) and the Northern New Mexico Alliance in the annual conference and trade fair called "New Horizons." The event is a networking opportunity for approximately 600 small business owners in northern New Mexico.
- As part of an effort at facilitating collaborative efforts between the M&O's, the AL Small Business Program Manager has initiated a meeting with the M&Os Small Business Program Managers to share successful outreach activities. This also allows an opportunity to leverage our resources to identify and educate small businesses, and match contractual requirements with products and services they provide.

PARTNERING WITH OTHER GOVERNMENT AGENCIES

- AL co-sponsors the annual "Federal Dollars and Sense" Workshop with the Small Business Administration (SBA) and the Air Force Research Lab. This workshop focuses on women-owned businesses.
- AL's Small Business Office had contracting information available at a Veteran's outreach event with Kirtland Air Force Base.
- AL co-sponsored the annual SBA Small Business Week Recognition Celebration. This event recognized small business nominees and award winners.

- Partnered with the State of New Mexico Procurement Assistance Program at its annual conference and workshops.

PARTNERING WITH COMMUNITY ORGANIZATIONS

- AL maintained a high level of support for the Rio Grande Minority Purchasing Council (RGMPC). The RGMPC membership is comprised of small, minority, and women-owned businesses, corporations and government entities. DOE uses the small business membership of the RGMPC as a source for its solicitations. All of DOE/AL's management and operating (M&O) contractors are members of this organization. AL co-sponsors the annual RGMPC trade fair that is the largest networking event of this type in New Mexico. In addition, AL encourages participation of new, emerging companies in this event by covering registration fees for 3-4 companies. The recent RGMPC conference and trade fair was held at the Hyatt Tamaya on the Santa Ana Pueblo.
- The Small Business Office co-sponsors the annual Rio Grande Minority Purchasing Council awards program that recognizes accomplishments of member organizations. AL has received the Service Dedication Award for ongoing and outstanding support of the RGMPC. Albuquerque and its M&O contractors have won many awards including: Government Buyer of the Year, Government Advocate of the Year, and Member of the Year.
- DOE/AL is a member of the 8(a) Association. Three of our M&O contractors are involved in the DOE Headquarters 8(a) Pilot Program Initiative.
- The Small Business Office is active with the U. S. Hispano Chamber of Commerce. Current activities include partnering with the Hispano Chamber and Sandia National Labs in a Meet the Buyer session in November 2001.
- DOE partnered with NEDA Business Consultants in a Memorandum of Agreement to co-host and support the New Mexico Minority Enterprise Development Week (MEDWEEK) activity which was held in conjunction with the Rio Grande Minority Purchasing Council monthly Matchmaker Breakfast.
- DOE/AL participates in the annual Briefing for Industry sponsored by the Professional Aerospace Contractors Association. AL provides a forecast of opportunities for the upcoming year. Other presenters include Air Force, State of New Mexico, and Sandia National Laboratories.
- DOE partners with the national organization of IMAGE by a Memorandum of Understanding to promote government business opportunities in the Hispanic community.

OUTREACH RESULTS

- 100% set-aside of its construction awards for qualified 8(a) firms.
- Recent award to an 8(a), women-owned, Native American HUBZone construction company. Proposed award to an 8(a), Native-American HUBZone landscape and grounds maintenance company.
- Accomplishment of approximately 50% to small businesses in fiscal year 2000.

FUTURE OUTREACH INITIATIVES

- Coordinate outreach strategies to identify and attract qualified Native American businesses. This will include participation in local and national conferences

sponsored by business associations such as the National Center for American Indian Enterprise Development and the National Indian Business Association.

- Network with tribally owned businesses and individually owned Native American businesses on how to do business with DOE.
- Participate with Small Business Development Centers in seminars that explain the special authorities applying to Native American businesses in order to maximize participation in DOE procurement actions.
- This fiscal year, we are expanding our outreach efforts to include historically underutilized business zones, commonly referred to as HUBZones. HUBZones are historically underutilized business zones that may be located within qualified census tracts; qualified non-metropolitan areas; or lands within the boundaries of an Indian reservation. The outreach focus for HUBZone companies is tribally owned-businesses or individually owned businesses on Indian reservations. The Albuquerque Metropolitan area and areas throughout New Mexico are surrounded by Native American tribal lands, which are HUBZone areas. This provides opportunities to identify and attract HUBZone businesses. These tribes have begun to diversify their business entities in products and services that DOE has a need to contract. To increase the percentage of HUBZone to which DOE awards contracts, the Small Business Program Manager has:

  - Met with the Governors of the Eight Northern Pueblos to give an overview of how to do business with DOE/AL. Future meetings will deal with matching DOE and M&O requirements with the products and services that tribally-owned businesses offer.
  - Met with the business entities at the Pueblo of Laguna in conjunction with the New Mexico Procurement Assistance Program to encourage participation in networking events and to ensure that the companies completed SBA registration and certification.
  - Actively participates in the American Indian Chamber of Commerce networking events and educational seminars.

All of these Outreach Efforts facilitate identifying potential vendors for specific contract requirements. We are focusing on communicating our requirements to the small business community by educating them on what we purchase. This includes identifying upcoming known requirements and contracts expiring in the next three-years that are anticipated to be renewed. We want to give them ample time to make good business decisions, search for teaming partners when necessary, and utilize their limited resources wisely. If we don't buy what they have to offer, these small businesses can focus on marketing to agencies or companies who do.

SUCCESS STORIES

The Albuquerque Operations Office has many success stories of awarding contracts to small business concerns. One example is ATM Services, an 8(a) woman-owned small business. Its initial contract for personnel security had an estimated value of $5.6 million. When the contract was re-competed under 8(a) competition, the scope was expanded to include physical and cyber security, and ATM won the award estimated at $15.8 million.

Another example is Terradigm, Inc., an Albuquerque 8(a) company. Terradigm was awarded a contract valued at $6.5 million in November 1997 as a result of having been

competitively selected under an 8(a) set-aside solicitation. Terradigm provides support to the DOE/AL's Office of Environmental Operations and Services in accomplishing AL's environmental program missions. Terradigm has received performance ratings of Excellent in all rated areas: Quality of Service, Cost Control, Timeliness, Business Practices, and Customer Satisfaction; and received a SBA Region VI award as an exemplary small business in July of this year.

Pacific Western Technologies is another example of a successful small business. Pacific Western Technologies, an 8(a) company, provides highly technical expertise in the area of environment, safety, and health. This company currently has a $12 million contract.

We awarded a construction contract to Builtek Contractors, Inc., an 8(a) and now a HUBZone firm. This contract includes seven orders valued at $133,529, and there are three more orders estimated at $158,678 pending award.

We recently awarded a construction contract to Au' Authum Ki, an 8 (a) Native-American, woman-owned, HUBZone company in the amount of $163,000. This work involves asbestos abatement, and lead paint removal.

Percent of awards to small businesses has systemically increased over the past three years and success stories continue to emerge.

OVERSIGHT OF MANAGEMENT & OPERATING AND OTHER PRIME CONTRACTORS

DOE establishes socioeconomic goals with each M&O contractor annually. Annual goals are proposed by the M&O contractors based on their assessment of past history, business projections and opportunities that may occur for small business subcontracting. DOE reviews the M&O assessment to ensure agreed to goals reflect a realistic small business opportunity forecast. Goals for each M&O are different because their mission, physical location and projected budgets for major projects may offer differing opportunities for first tier subcontracting with small businesses. For example, SNL occupies a fairly compact area on a military base with a substantial portion of its infrastructure support provided by the military. In contrast, LANL facilities are spread over 43 square miles and requires significant infrastructure support by a large business contractor to support scientific and technical mission activities. Additionally, large or complex facilities construction, such as the Strategic Computing Complex at LANL are often not practical to set aside for a small business. However, even if the M&O budgets include major projects that do not offer opportunities for first tier subcontracting with small businesses, those first tier subcontract awards to large businesses are required to have socioeconomic goals, thus indirectly enhancing the small business program.

DOE/AL conducts regular interface meetings with the M&O contractors to monitor the contractor's progress in meeting the established goals. The contractors report on progress in accomplishing their socioeconomic goals through the latest quarter of the appraisal period, and the likelihood of meeting the goals by the end of the appraisal period. As the fourth quarter is typically a period of increased purchasing activity, predicting a problem in meeting a socioeconomic goal is often not foreseen until the last quarter of the fiscal year. If problems are evident indicating that the goals cannot be met, DOE monitors the contractor's purchasing activity to determine if the goals were unrealistically established or due to contractor's failure to improve performance to meet

the goals. When the contractor does not meet a socioeconomic goal, this is taken into account for the annual assessment. In consideration of this, all factors impacting the contractor's failure to meet a goal is reviewed, including the contractor's efforts to work around barriers to accomplish the goal. If the situation warrants, the contractor's performance assessment can be adversely impacted for failure to meet socioeconomic goals. In extreme cases a failure to meet subcontracting goals or demonstrate a good faith effort can potentially impact individual personnel performance evaluations and/or bonuses. However, since the contractors typically meet socioeconomic goals, or make good faith efforts through documented actions, this has not been the case, although it is an option that can be used to enforce the goals.

For all prime contracts requiring subcontracting plans, socioeconomic goals are assessed bi-annually through Standard Forms 294, Subcontracting Report for Individual Contracts and 295, Summary Subcontract Report. If it appears that the contractor will not meet its goals, the Contracting Officer is responsible for contacting the contractor to determine if there are barriers or other circumstances preventing them from obtaining the goals. Further actions to remedy the situation depend on the particular situation.

EXPANDING OPPORTUNITIES FOR SMALL BUSINESSES

In an effort to further improve contracting with small businesses, we suggest Congress consider the following:

1) Establish a set-aside mechanism for women-owned businesses so that we can contract directly with these companies;
2) Provide funding for mentor-protégé programs; and
3) Provide funding for monetary incentives for subcontracting with Native American economic enterprises or organizations.

CONCLUSION

In summary, DOE/AL will continue to:

- Make every effort to award prime contracts to small businesses by identifying potential set-asides as contracts expire.
- Perform outreach efforts and identify small businesses with the capability to support DOE/AL's requirements.
- Monitor progress of our prime contractors, including M&O, in achieving their small business goals.
- Promote the small business program to in-house technical personnel who have upcoming contractual requirements.

Small businesses have contributed immensely to the accomplishment of our mission and the economy of our nation. We will continue to tap into their unique talents, capabilities and expertise to successfully support our operations.

Statement of Joan B. Woodard
Executive Vice President and Deputy Director
Sandia National Laboratories

United States House of Representatives
Committee on Small Business

Field Hearing in Santa Fe, New Mexico
August 27, 2001

Statement of Joan B. Woodard
Executive Vice President and Deputy Director
Sandia National Laboratories

United States House of Representatives
Committee on Small Business
Field Hearing in Santa Fe, New Mexico
August 27, 2001

INTRODUCTION

Mr. Chairman and distinguished members of the committee, thank you for the opportunity to testify today about small business programs at Sandia National Laboratories. I am Joan Woodard, Executive Vice President and Deputy Director of Sandia. Sandia National Laboratories is managed and operated for the U.S. Department of Energy (DOE) by Sandia Corporation, a subsidiary of the Lockheed Martin Corporation.

Sandia is a multiprogram laboratory of DOE and one of the three National Nuclear Security Administration (NNSA) laboratories with research and development responsibility for nuclear weapons. Sandia's job is the design, development, qualification, and certification of nearly all of the non-nuclear subsystems of nuclear weapons. We perform substantial work in programs closely related to nuclear weapons, including intelligence, nonproliferation, and treaty verification technologies. As a multiprogram national laboratory, Sandia also performs research and development for DOE's energy and science offices, as well as work for other national security agencies when our special capabilities can make significant contributions.

I will begin my testimony with a brief overview of Sandia's small-business performance, followed by a discussion of our small-business strategy. The remainder of my statement will discuss many of Sandia's programs and initiatives for small-business and regional economic development. Sandia has been recognized for its active and innovative small-business program. Some of our successful practices may be useful elsewhere, just as we continually search for new ideas to improve our programs.

SANDIA'S SMALL-BUSINESS PERFORMANCE

Sandia has a long history of partnership with the local small-business community. We actively support the small, small minority, and woman-owned businesses in New Mexico. We demonstrate this strong commitment through our procurement activity and our partnering efforts.

We value our suppliers and strive to establish relationships with them so that both Sandia and the supplier community can excel. We fully recognize that small businesses provide the innovation, agility and "can do" attitude that help Sandia achieve its mission.

Socioeconomic goals are set annually with DOE for placing contracts with small-business suppliers. In addition, Sandia requires a subcontracting plan for each large-business contract award where subcontracting opportunities exist to include socioeconomic goals for subcontractors. These goals are negotiated to ensure that adequate consideration is given to small and minority businesses.

I am pleased to report that Sandia National Laboratories met or exceeded all its goals for small, small disadvantaged, women-owned, and 8(a) businesses in each of the last five fiscal years, and we are on track to do the same in fiscal year 2001 (data are included the Appendix). Fifty-seven percent of our procurement dollars went to small businesses during the last five fiscal years, a total of nearly one and one-half billion dollars.

About half of all the funds that Sandia spends on commercial business procurements is with firms in New Mexico ($250 million per year on average). In fiscal year 2000, Sandia placed contracts with 1,364 firms in New Mexico, and 1,214 (89 percent) of them were small businesses. Over the past five years, New Mexico companies received 93 percent of the total dollar volume of all Sandia construction and architectural engineering projects, nearly 60 percent going to small businesses.

Sandia National Laboratories places procurements throughout the United States. After New Mexico, we place the largest number of procurements in California, followed by Illinois, Arizona, Texas, Massachusetts, Washington, Colorado, and New York. Out of $411 million spent on commercial procurements in fiscal year 2000, 67 percent ($275 million) went to small businesses nationwide.

These figures are encouraging, but it would be misleading to leave the impression that our procurement policy gives preference to small and local businesses regardless of merit or comparison with other competitive entities. Our goal is to acquire goods and services that meet the requirements of DOE mission programs in terms of performance, cost, and schedule. The many small businesses that win awards with Sandia National Laboratories must meet high quality standards.

We also try to measure success by how the laboratory's supplier community regards our performance and fairness as a major purchaser of goods and services. We solicit feedback and conduct customer satisfaction surveys to evaluate our performance as seen by our established

suppliers and the small businesses participating in our outreach programs. The results of these surveys are generally very positive, and we formulate action plans as necessary to improve our performance when feedback indicates opportunities for improving a process.

We recognize that an important part of our job is helping small enterprises acquire access to the business knowledge and tools for meeting the high performance standards we require. We encourage our suppliers to build quality into their organizations. We strive to create strategic relationships with suppliers based on mutual application of quality principles. Later in this statement I will discuss the elements of our small-business program and the special initiatives we have taken to help small businesses succeed.

I would like to mention that Sandia's success in the small-business arena has been recognized with several national awards. In 2000, the Small Business Administration (SBA) awarded Sandia the Dwight D. Eisenhower Award. The award is presented each year to large businesses that operate as federal prime contractors, recognizing those that have excelled in their use of small businesses as suppliers and subcontractors.

Also in 2000, DOE designated Sandia its Management and Operating Contractor of the Year, in recognition of our outreach activities to encourage small businesses to work with the laboratory. Sandia received additional recognition when the United States Hispanic Chamber of Commerce named us the Southwest Region Business Advocate of the Year.

In June 2001, Sandia received the Department of Energy's Small Business Special Emphasis Award, recognizing the laboratory's many initiatives in the area of small business contracting.

In May 2001, the SBA honored Sandia's manager of supplier relations, Ms. Cynthia Schneeberger, with the Frances Perkins Vanguard Award, which recognizes an individual in government or industry for excellence in the use of women-owned small businesses as prime contractors and subcontractors. Ms. Schneeberger was also selected by the SBA as the 2001 New Mexico Minority Small Business Advocate of the Year. And another individual on Sandia's staff, Ms. Corina Gallegos, was awarded the National Association of Purchasing Management's 2001 Charles J. McDonald Minority Business Advocate Award for outstanding contributions to small, minority and women-owned business.

As Sandia's deputy director, I am proud of the efforts of our professional staff to reach out to small business. Their commitment is reflected in positive results for the small-business community and the laboratory's successful execution of programs.

SANDIA'S SMALL-BUSINESS STRATEGY

Sandia's success in providing contracting opportunities for small businesses is the result of an explicit strategy established and overseen by top management and carried out by talented professionals in our procurement and partnerships organizations. We are proactive in seeking out small, minority, women-owned, and 8(a) suppliers to compete for our contracts. We are committed to developing and maintaining efficient processes for subcontractor solicitation, selection, and award. Our procurement and partnership organizations conduct outreach programs and arrange technical assistance for small businesses to encourage their success. It is our desire to develop a responsive and efficient supplier base by managing supplier relationships effectively and by improving the ease of doing business with Sandia.

Strategic Sourcing and Procurement Principles

In 1999, Sandia's laboratory director chartered a Procurement Council to formulate a strategic sourcing plan for the laboratory and develop support mechanisms to carry out the plan. The council is chaired by Sandia's chief financial officer and is composed of senior members of management.

The Procurement Council oversees our corporate strategy for strategic sourcing, including definition of overall policy and vision for the future. The ultimate goal of strategic sourcing is to enhance and strengthen the laboratory's effectiveness in serving the nation through the highest quality suppliers and continuous improvement of the quality of our contractor community. The council integrates our mission needs with a corporate strategic sourcing plan to optimize the relationship with our contractor community and enhance Sandia's economic impact in New Mexico and the region.

One of the first tasks of the Procurement Council was to articulate a "Strategic Sourcing Statement of Intent." This statement reflects Sandia's corporate commitment to strategically procure goods and services that satisfy our national security mission needs in an environment fair to all participants:

Sandia National Laboratories commits to:

- Enhancing and strengthening the mission of the laboratory through strategic sourcing;
- Enhancing supplier partnerships through supplier development and mentoring;
- Appropriately supporting and utilizing small, small disadvantaged, woman-owned, and 8(a) businesses;
- Improving timeliness of our purchased products and services by procuring regionally, as appropriate;

- Creating an atmosphere of trust with our supplier community; and
- Ensuring that procurements are conducted in a fair and open manner.

The Procurement Council provides executive management oversight and direction of internal programs implementing the laboratory's strategic sourcing objectives. It provides a line to executive ownership of our small-business responsibilities, as opposed to allowing ultimate responsibility for those functions to terminate in the procurement organization. The council's initiatives and scope of oversight include supplier partnerships, development, and mentoring; laboratory support and utilization of small, minority-owned, women-owned, and 8(a) suppliers; identification of strategic sourcing opportunities; a mentor/protégé program; and establishment of a small-business advocacy office and a supplier ombuds function.

Sandia's Policy on New Mexico Impact

Sandia's management is well aware of the significant role of the laboratory in the economic well-being of New Mexico. Unlike many states that are home to hundreds of large industrial enterprises, New Mexico does not have a vast, diversified industrial base. The impact of the NNSA and DoD laboratories on the economic well-being of New Mexico is very significant. A study conducted by New Mexico State University showed that the impact of Sandia on New Mexico's economy is more than three times the value of its expenditures there.

Sandia does not have a preference policy for New Mexico suppliers, although some in the local business community and in state government have called for such a policy. I believe a formal policy of "buy New Mexico first" would be harmful both to the laboratory and to the competitiveness of New Mexico's emerging industrial base.

A better approach, in my view, is to recognize that the primary objective of the procurement program of the laboratory must be to meet the requirements of the NNSA mission. It is simply good business practice to encourage local and small suppliers to be competitive with the capabilities, responsiveness, and performance of other providers anywhere in the country.

We do believe that Sandia has a special responsibility to help the New Mexico economy to grow and flourish. And equally important, we need a local supplier base that can offer world-class capabilities, services, and products with high levels of quality performance. It is essential that we have access to suppliers who are very responsive to our needs, who can deliver in a timely fashion, and who have knowledge of the laboratory's programs and business practices, and will work closely with us to meet our deliverables.

We also have a special responsibility to the United States government and its taxpayers to use modern business practices to optimize the efficiency of our supply network. There is a

dramatic trend in global commerce today toward highly cooperative customer-supplier relationships in industrial clusters. Large manufacturers often invest significant effort, guidance, and expertise in their supplier communities and realize significant efficiencies and cost savings. The government expects no less from us. This is a key concept of the Department of Commerce's Malcolm Baldrige National Quality Award.

Sandia is working to develop teamwork relationships with suppliers where both Sandia's and contractors' interests are better aligned. This is key to our long-term success. We are learning to communicate more effectively. Working together, we must continue to find ways to meet our program customers' needs for "better, faster, and cheaper" services and products.

An example of significant efficiencies and cost savings achieved with the assistance of our contractors is seen in the area of staff augmentation contracting. Previously, Sandia had hundreds of contractors providing staff augmentation. Today that number has been reduced to eight. Seven of these eight firms are small businesses, and six of the firms are minority or woman-owned enterprises. These firms are stronger, more responsive and flexible, and are able to compete at a higher level. Last year over 94 percent of our consolidated staff augmentation work went to small, woman-owned, or minority-owned businesses.

With the cooperation of the supplier community, we have automated the cost allocation process, reduced invoice processing costs and other internal contracting costs, gained advantages related to economies of scale, simplified processes, and challenged our contractors to reduce their costs as well. These combined internal and external efforts have resulted in savings of well over $9 million per year. These savings, while important, cannot take precedence over the need to acquire the level of talent we require.

We recognized that the consolidation process for staff augmentation contracts was not going to be a painless process. Many of our suppliers expressed their concerns to us about these changes, and we responded with sincere efforts to addresses the issues and problems they raised as best we could. Hopefully, most who participated in the process would agree that, working together, we have strengthened our contractors' ability to acquire and retain the supplemental talent we need for our mission success. However, I acknowledge that we still have some way to go to satisfy all the remaining concerns in the local business community on this issue.

These two objectives—helping New Mexico small businesses and fostering a world-class supplier base for our mission needs—should not be seen as incompatible. The national laboratories' small-business activities are not an entitlement program. There will be efficiencies in procurement practices that will cause some pain and dislocation in the supplier community, and those changes will require adjustment by suppliers. An important objective of our small-business

program is to help local suppliers acquire the knowledge and tools to ensure that their business practices and products are up to world-class standards. We invest significant resources and expertise in programs and initiatives to work with small-businesses in New Mexico for this purpose.

SMALL-BUSINESS PROGRAMS AND INITIATIVES

Sandia National Laboratories sponsors an array of programs and initiatives intended to maximize opportunities for small businesses to become suppliers for the goods and services we require to accomplish our national missions.

Small Business Outreach Activities

Sandia's supplier outreach effort begins with executive management. Top management engages in supplier outreach programs through participation in various activities, as well as strategic planning and resource allocation to support outreach programs. A major outreach initiative by Sandia's management was the creation of a Supplier Community Advisory Council in 1999.

The charter of the Supplier Community Advisory Council is to obtain local supplier feedback and advice on procurement policies, procedures, and practices that impact the supplier community. Council members include community leaders and local suppliers, as well as Sandia's chief financial officer and procurement and partnership managers. (As deputy lab director, I periodically participate with the Advisory Council.)

The Community Advisory Council is a forum for dialogue with Sandia regarding the use of regional purchasing strategies and the establishment of measurable goals to support economic growth, strengthen regional business enterprises, and stimulate greater regional employment and infrastructure. The Council's activities are intended to foster mutual understanding, cooperation, and trust between the local business community and Sandia National Laboratories.

As part of our active dialogue with our supplier community, Sandia works hard to surface issues that may be of concern. An example was the general concern regarding Sandia's implementation of its staff augmentation contracts consolidation, mentioned earlier. To address our suppliers' concerns, Sandia commissioned an 8(a) Task Force, co-chaired by Miguel Rios, president of Orion Corporation, and James Tegnelia, vice president of Sandia's DoD Programs Business Unit. The Task Force was very effective in identifying issues and proposing solutions. Sandia has implemented the recommendations of the 8(a) Task Force. Several of the Task Force participants are now current members of the Supplier Community Advisory Council.

In addition to the outreach activity conducted through the Community Advisory Council, several Sandia executives are active with community organizations that support economic development. For example, I serve on the board of directors of the Greater Albuquerque Chamber of Commerce. Sandia's manager of supplier relations, Cynthia Schneeberger, is on the board of directors of the Rio Grande Minority Purchasing Council.

Our vice president of Manufacturing Systems, Science and Technology, Lenny Martinez, is very active with the Albuquerque Hispano Chamber of Commerce, where he sits both on the board of directors the small business committee. Sandia National Laboratories and our operating contractor, Lockheed Martin Corporation, are corporate members of that organization, which has an emphasis on small business. Mr. Martinez is co-leader of a small-business initiative called "e-mercado," which proposes to use the Barelas Job Training Center as an incubator where small businesses can grow their e-commerce capabilities. Sandia's Small Business Partnerships Office is supporting this effort by sponsoring a study and a pilot program for the Hispano Chamber.

Many other Sandia executives, managers, and staff are active in a variety of community organizations that support the growth and sustainability of small-businesses in New Mexico. Three individuals, including the laboratory director, are members of the Economic Forum, a group of CEOs from both large and small businesses that is very influential on New Mexico's economic policy development. Four Sandians serve in committee leadership positions in the Greater Albuquerque Chamber of Commerce. Other groups supported by Sandia volunteers include Albuquerque Economic Development, which recruits new businesses to the area; the Association of Commerce and Industry; the Albuquerque Business Education Compact; and NextGen Economy, a statewide organization promoting high-tech economic clusters.

Sandia has been active with numerous outreach efforts to encourage minority businesses in marketing their products and services to the national laboratories, including trade fairs, business community forums, the DOE Small Business Conference, and other activities. Our Supplier Relations Department sponsors a Business Partners Program, which performs outreach with the supplier community with specific emphasis on local chambers of commerce and business development organizations. Sandia contracting representatives meet with members of such groups to discuss business opportunities. The program is a communication vehicle to give the community general information on how to do business with Sandia, to provide awareness of marketing opportunities, and to meet face-to-face with Sandia's procurement staff.

Sandia has collaborated with the Small Business Administration and the New Mexico Small Business Development Centers (SBA/SBDCs) to provide information and assistance to minority, disadvantaged, and women-owned small businesses. For example, in partnership with these

agencies we have invited women entrepreneurs to informational workshops on Sandia's New Ventures entrepreneurial program. We have also developed and delivered an in-house Small Business Innovation Research (SBIR) informational training package for use by the SBA/SBDCs in targeting rural, predominantly Hispanic, small businesses. We have benefited by sharing information and materials with the SBA/SBDCs so that they can pass information about opportunities at Sandia to its population of small businesses, a population heavily composed of minority, disadvantaged, and women-owned companies.

Small Business Orientation Activities

Many newer small businesses are unfamiliar with the procedures and processes for doing business with national laboratories. Sandia sponsors and conducts forums, workshops, trade fair presentations, and individual supplier orientations on how to do business with Sandia. One-on-one supplier orientations are frequently conducted with small businesses, and suppliers are given opportunities to demonstrate their goods and services to appropriate buyers and users in Sandia's technical organizations. Brochures, supplier guides, and our web site provide information and training on how to do business with Sandia.

Sandia' supplier web site,* started in 1996, has proved to be a wonderful resource for small businesses. The site is a user-friendly tool that provides a variety of procurement information, such as notice of subcontracting and bidding opportunities and contract status, payment, and delivery data. The web site also includes a comprehensive supplier reference guide with essential information for new suppliers on how to initiate business with Sandia National Laboratories, how to develop a marketing strategy, and how to take advantage of opportunities for supplier training and outreach activities. We post a schedule of supplier training and networking classes and events sponsored by Sandia and local or regional business development organizations. Our quarterly supplier newsletter is also available on-line, with timely information on Sandia's procurement activities.

Small Business Advocacy Office

Last year, Sandia established an Office of Small Business Advocacy to improve our interface with New Mexico and regional small businesses and to raise the awareness of small-business capabilities among our internal program organizations. The goal of the Small Business Advocacy Office is to increase small-business competencies and capabilities through mentoring, training, technical assistance, and networking. This office works with Sandia's technical organizations and

* www.sandia.gov/supplier

procurement departments to offer technical and managerial advice to help small businesses become better suppliers and increase the awareness of small-business capabilities within Sandia's internal organizations.

Supplier Development Programs

Sandia offers a variety of supplier development resources. They include: training opportunities for local suppliers in various aspects of business efficiency and product marketing; quality assurance training in accordance with ISO 9000 standards; and a new mentor-protégé program offered by Sandia's Small Business Advocacy Office.

Business Training Opportunities

In conjunction with Los Alamos National Laboratory and the Albuquerque Technical Vocational Institute, Sandia has helped develop workshops supporting the Small Business Innovation Research and Small Business Technology Transfer Programs (SBIR/STTR) of the Small Business Administration. We provide support to these workshops by contributing trainers and consultants, time, expenses, and assistance with workshop organization. During this fiscal year, Sandia-supported SBIR/STTR workshops have been offered in several locations throughout the West that have large representations of minority-owned and women-owned small businesses, as well as several New Mexico rural communities.

Sandia also offers workshops for suppliers in principles of lean manufacturing and in patent application principles and procedures. These classes are offered in several cities in New Mexico throughout the year. Other training events by Sandia or other organizations are posted on Sandia's small-business programs and supplier relations web site.

ISO 9000 Training

Sandia National Laboratories is a principal member and participant with New Mexico 9000, an alliance that also includes the New Mexico State Economic Development Department, Honeywell International, and Los Alamos National Laboratory. New Mexico 9000 was created to provide assistance to New Mexico small business in achieving compliance with the ISO 9000 quality standards.

The International Organization for Standardization (ISO) is a worldwide federation of national standards bodies from approximately 90 countries, including the United States. ISO promotes international standards to facilitate global trade. The ISO 9000 series is a set of standards on quality management and quality assurance.

There are many benefits for a company to implement ISO 9000 standards in its operations. Increasingly, industrial customers throughout the United States and worldwide are requiring ISO 9000 certification for their suppliers. Government agencies such as the Department of Defense and NASA are also beginning to require ISO certification. Because we are committed to emulating best industrial practices, it is Sandia's intent to move toward adopting the ISO 9000 methodology as well.

The New Mexico 9000 program takes small groups of companies and prepares them for certification through a year-long series of classes. The program began two years ago with 23 companies participating in Los Alamos, Santa Fe, and Albuquerque. A seminar recently conducted in Albuquerque drew 68 companies and more than 100 participants. The program gives a price break to small businesses.

Mentor-Protégé Program

We have recently begun a Mentor-Protégé Program with the intent to establish long-term advisory relationships with small businesses, focused on improving their business practices and processes and thereby creating a positive economic impact for the region.

Last spring, Sandia's Office of Small Business Advocacy conducted a series of focus groups in Farmington, Las Cruces/El Paso, and Albuquerque to listen to concerns and gather feedback from the small-business community. The Mentor-Protégé Program was developed as a response to some of the feedback collected in those sessions. The pilot program matches technical and managerial mentors from Sandia's staff or successful Sandia suppliers with small-business suppliers (protégés) who apply for this assistance.

The long-term goals of the Mentor-Protégé Program are to strengthen the competencies and capabilities of our regional supplier base; create an active support system for regional small business; improve communication among businesses in the region through business-to-business networking; and to create a positive regional economic impact through increased utilization of small businesses.

We conducted information sessions on the Mentor-Protégé Program this month in Farmington (August 16), Albuquerque (August 21), and Las Cruces/El Paso (August 23). We had significant participation in those introductory sessions, and several companies indicated a desire to apply for participation in the program.

As we proceed with the Mentor-Protégé Program, we will be careful not to create unrealistic or inappropriate expectations for what Sandia can do for a small business. Sandia's mentors cannot be involved in writing or reviewing proposals for a business, for example. The program

should not be interpreted as implying a promise to award a contract at the end. We hope that expectations will be realistic, and we will evaluate the pilot phase of this program after an appropriate time.

Technical Assistance under the Defense Programs Small Business Initiative

For several years, Sandia has been a participant in the NNSA Defense Programs Small Business Initiative (SBI). This program focuses on assisting the manufacturing and advanced technology development segment of the small-business community and is aimed at creating partnership opportunities aligned with Defense Programs needs. SBI allows small businesses to tap into the advanced technological capabilities of the laboratories to help match small business needs to the NNSA Defense Programs mission.

Sandia can only provide technical assistance that does not compete with services that are readily available in the private sector. SBI provides small businesses with access to technical consultation, technical information, and specialized or unique equipment and facilities. Depending on the nature of the technical assistance required, we will work either at the small business site or in our laboratories and facilities. The technical assistance provides technology transfer from our labs and facilities to small businesses and is an opportunity for NNSA Defense Programs to identify unique capabilities in the private sector that may be of value to the mission.

The assistance provided is in the form of up to $5,000 of work performed by Sandia scientists or engineers. No funds are disbursed to the participating companies. The assistance service is offered at no charge to qualified U.S. small businesses. It is available on a first-come, first-served basis, and is generally limited to one request per business per year. Assistance is contingent upon the availability of qualified personnel to perform the work.

Under the SBI, Sandia works directly with individual small businesses to solve problems that are beyond the technical means of the companies to resolve. Often these have been problems that—unless the troubles could be quickly diagnosed and solved—would have led to the failure of the business. We also work with small-business associations to reach a greater number of participants by addressing common problems and opportunities and matching laboratory capabilities with the generic needs of groups of small businesses.

Sandia has helped many small businesses with technical problems. Here are a few examples:

- **Quatro Corporation:** This electronics manufacturer turned to Sandia for help in developing a process for recovering solid waste from printed wiring boards during manufacture. Sandia helped the company test a prototype process they developed for extracting and reclaiming waste material. Quatro is evaluating the patentability of their process and

whether to design an environmentally safe manufacturing plant based on it. If such a facility is built, it could create approximately 50 jobs.

- **Radiant Technologies, Inc:** Engineers from Sandia helped Radiant Technologies perfect a manufacturable prototype read/write optical disk they developed for commercial computer memories based on ferroelectric thin films.
- **Southwest Tire Processors:** An example of a small-business assistance project in rural New Mexico, Southwest Tire Processors of Socorro recycles rubber tires into chunks, powders, and sprays for use as insulation, water and sound barriers, and playground/patio materials. Assistance provided by Sandia in adhesive development enabled the company and its partners to design a new product line of full-circle waste tire recycling. A new small business, Material Recovery of North America, was created to commercialize the equipment, process, and end products.
- **Bio-Nucleonics, Miami, Florida:** Bio-Nucleonics develops radioisotopes for health sciences applications and had taken an interest in designing stents to be used in angioplasty treatments. Sandia helped the company apply an alloy formulation with unique-shape memory properties. Assistance in developing alloys of this type cannot be found commercially.
- **Axsun Technologies, Billerica, Massachusetts:** Axsun Technologies develops and manufactures photonic subsystems for optical communication networks. The company accessed Sandia's expertise in the emerging MEMS (micro-electro-mechanical systems) process known as LIGA, a microfabrication process that uses x-rays to create patterns in materials used to form molds. Metal is electroplated onto the mold, and the mold is used to create microparts. Sandia benefited in this project by fostering the creation of a future commercial source for Defense Programs LIGA applications.

These are just a few examples of the many successful small-business technical assistance projects between Sandia and local companies. We believe Sandia's Small Business Initiative has had a significant impact, both regionally and nationally. Sandia National Laboratories has executed more than 1,550 technical assistance agreements with small businesses in 45 states since its inception in 1994. Our program has assisted 450 small businesses in New Mexico, helping to sustain the local industrial base and the jobs and economic benefits that it provides.

This is the last year of funding for Sandia's Small Business Initiative. Originally, the program was funded from a line item called the Technology Transfer Initiative (TTI), which was later changed to the Technology Partnership Program. Unfortunately, when Congress appropriated large sums for TTI in its early years (on the order of $200 million in fiscal years 1994 and 1995)

it attracted aggressive lobbying. DOE was unable in some cases to prevent ear-marking of TTI funds for industry sectors for which the alignment with Defense Programs' mission was dubious.

Consequently, the Technology Partnership Program line item was ultimately discontinued in fiscal year 2001. With the assistance and oversight of DOE, Sandia was permitted to carry over sufficient funds to continue the Small Business Initiative effort for one more year. We believe SBI provides value to our programs, and it is one of the few vehicles we have for providing technical assistance to small businesses located outside of New Mexico. We hope that some means will be found to allow SBI to continue in fiscal year 2002 and beyond.

Technical Assistance under the New Mexico Small Business Assistance Program

The 2000 New Mexico State Legislature greatly expanded Sandia's resources for small-business assistance by passing the "Laboratory Partnership with Small Business Tax Credit Act." Because Sandia National Laboratories is operated by Sandia Corporation, a subsidiary of an industrial corporation, it does not qualify as a not-for-profit entity. Consequently, transactions between it and its suppliers are subject to the New Mexico Gross Receipts Tax. This legislation provides a limited gross receipts tax rebate to Sandia for assisting small businesses in New Mexico.

Sandia created its New Mexico Small Business Assistance Program just one month after the tax credit became law. The program is entirely funded by gross receipts tax rebates (up to a cap of $1.8 million) at no cost to the federal government. We provide technical assistance to qualified New Mexico small businesses up to a value of $5,000 for businesses located in Bernalillo County and up to $10,000 for businesses in rural areas of the state.

In just its first year of operation this program has been enormously successful. We have handled nearly 400 inquiries—300 from outside Albuquerque—and completed 145 projects, 112 of them from non-metropolitan areas. Currently, 89 projects are in-process, 70 percent of which are with companies not located in Bernalillo County.

Here are a few success stories attributable to Sandia's New Mexico Small Business Assistance Program:

- **P&M Plastics, Mountainair, New Mexico:** P&M Plastics is a rural, minority-owned, manufacturer of road, park, entrance, and other signs for federal agencies using recycled materials. With the cooperation of New Mexico State University and the U.S. Department of Agriculture, Sandia helped design a process to maximize throughput by altering the mechanical design of an extruder so that it creates continuous sheets. P&M estimates it can increase its employment by a factor of five during full production.

- **Quicktruss, Inc., Farmington, New Mexico:** Quicktruss is a very small manufacturer and distributor of paint sundries for professional painters. Sandia helped the company with CAD design, modeling, and rapid prototyping. Product component models were developed using stereolithographic and selective laser sintering processes. The prototype models will be used to verify the conceptual design of a device that will be used for cleaning surfaces before painting. As a result of this activity, the company was able to obtain the services of a machinist in the San Juan College Incubator to improve the prototypes and begin initial manufacturing in Farmington. Quicktruss estimates revenue will triple by 2002 with this new manufacturing process.
- **Stolar Horizons Research, Raton, New Mexico:** Stolar Horizons is a small business with a high-tech product for a primary industry in New Mexico. Sandia provided vibration analysis and motion calibration measurements and assessed dampening and integrity parameters for a sensor they designed for use by the mining industry. Our work contributed essential data for designing ruggedness into the product to ensure field reliability and to help determine manufacturing requirements.

New Ventures Program

Sandia's New Ventures program was established to help spin off new companies based on the laboratory's technology, personnel, or activities. Several years ago, Sandia began offering entrepreneurial leaves of absence for employees who wanted to venture into the private sector to start a business based on technology in their area of expertise. Entrepreneurial ventures are notoriously risky, and Sandia's entrepreneurial separation policy made it possible for a former employee to return if a venture failed.

New Ventures matches technologies to markets, champions laboratory policies on behalf of entrepreneurs, and assists in the formation of new business enterprises. Over 100 Sandia employees have taken the Entrepreneurial Separation to Transfer Technology (ESTT) since the inception of the program.

Perhaps our most outstanding example of a successful entrepreneurial venture is the MODE Division of EMCORE Corporation. MODE (Micro Optical Device Engineering) was founded by an employee of Sandia National Laboratories who had a vision for commercializing a new semiconductor laser based on fabrication techniques explored in Sandia's Microelectronics Development Laboratory. His start-up was acquired by EMCORE Corporation of New Jersey, a manufacturer of photovoltaic panels and other electro-optical devices. MODE's vertical-cavity surface-emitting laser (VCSEL) products have found a large market in the internet and telecommunications industries.

Regional Economic Development

Many studies have demonstrated the importance of technology clusters to the economic progress of a region. It is an unfortunate paradox that New Mexico is home to several world-class institutions of science and technology and yet it remains one of the most economically disadvantaged states in the nation. Several year ago, Sandia championed a vision to pilot the cluster concept in New Mexico to create a more integrated technological community that can attract greater investment by high-technology industry.

We call this concept the New Mexico Technology Corridor, stretching from Los Alamos National Laboratory in the north to New Mexico State University in Las Cruces. This corridor contains a world-class array of technology-based organizations, including Sandia and Los Alamos national laboratories, the U.S. Air Force Phillips Research Laboratory, the Santa Fe Institute, White Sands Missile Range, the Lovelace Respiratory Research Institute, the University of New Mexico, New Mexico State University, and the New Mexico Institute of Mining and Technology.

Sandia advanced the concept of a Science and Technology Park to be situated at the crossroads of this corridor adjacent to Sandia National Laboratories and Kirtland Air Force Base. The development effort for the park is now under the direction of the independent Sandia Science and Technology Park Development Corporation (STPDC), a tax-exempt 501(c)(3) company. The facilities of the research park will be designed to accommodate the needs of high-technology companies and bring them into close proximity to Sandia's extensive reservoir of scientific research, technical talent, and world-class facilities.

EMCORE, mentioned above, became the first tenant of the park by building a manufacturing plant for optical devices and photovoltaic arrays, a facility that it has recently expanded. Other companies, including some small businesses, have announced plans to locate in the Sandia Science and Technology Park.

We believe the technology cluster concept, centered on a high-technology research park and involving the New Mexico national laboratories, will be a continuing stimulus to regional economic development and offer greater opportunities for the growth and success of small businesses.

CONCLUDING REMARKS

Sandia National Laboratories is committed to actively supporting and utilizing small businesses and enhancing their opportunities through a variety of supplier development and

mentoring programs. At the same time, we will strive to emulate best practices and emerging trends in industrial customer-supplier relationships and realize the management efficiencies that our sponsors expect of us. We see no conflict in these goals. Our desire is to provide opportunities not just for contracting, but for small businesses to deliver levels of quality performance that make them competitive with peer companies anywhere in the world. We are eager to partner with our small-business suppliers for mutual excellence.

APPENDIX

Small Business Contracting Results, FY1996–2001

	Small Business			Small Disadvantaged		
FY	Goal	Actual	Millions	Goal	Actual	Millions
2001*	55.0%	67.2%	$268.2	12.0%	14.3%	$57.2
2000	50.0%	67.0%	$275.8	10.0%	18.4%	$75.5
1999	55.0%	71.1%	$225.8	10.0%	22.6%	$71.6
1998	55.0%	58.2%	$326.4	14.3%	14.3%	$80.3
1997	55.0%	62.3%	$334.0	11.0%	23.1%	$123.8
1996	56.4%	63.2%	$321.0	11.6%	16.6%	$84.1

	Women-Owned			8(a)		
FY	Goal	Actual	Millions	Goal**	Actual	Millions
2001*	10.0%	15.0%	$59.9	6.5%	10.8%	$43.2
2000	8.0%	11.3%	$46.4	6.0%	7.1%	$28.8
1999	8.5%	19.9%	$63.0	5.0%	11.9%	$37.7
1998	9.0%	10.0%	$56.3	4.5%	6.8%	$38.3
1997	9.0%	10.8%	$57.8	5.0%	12.8%	$68.7
1996	9.3%	12.0%	$61.2	5.4%	7.7%	$39.0

*FY2001 data is through the third quarter.

**8(a) goals are set internally by Sandia

Written Statement

By: Ronald A. Nelson, Director for Contracts Management
University of California Office of the President
Vice President for Laboratory Management

To The Committee On Small Business

United States House of Representatives

August 27, 2001

Chairman Manzullo, Ranking Member Velazquez and Congressman Udall, I am Ron Nelson, Director for Contracts Management in the Office of the President of the University of California. My responsibilities involve acting as the University's contracting officer for the three Department of Energy laboratories managed by the University, including the Los Alamos National Laboratory. I want to thank you for your kind invitation to speak about the University's record on doing business with small business enterprises in northern New Mexico.

The University of California fully supports the federal policy of maximizing subcontracts with small business concerns, including veteran-owned, service-disabled veteran-owned, HUB Zone, small disadvantaged, and women-owned small business concerns. That commitment is documented in our contract with the federal government. But we have also made commitments in our contract with respect to northern New Mexico enterprises as part of a four-part strategy developed with regional leaders in 1996. This strategy is intended to enable the University to play a useful role in diversification of the regional economy. The University understands that small business enterprises, and particularly those in northern New Mexico, play an important part in assuring that the Los Alamos National Laboratory has access to a high quality supplier base and workforce, both now and in the future.

Written Statement of Ronald A. Nelson, University of California
August 27, 2001

I would like to take a few moments to describe the University's four-part initiative and how small business enterprises are affected by these strategies:

The first part involves regional procurement. Since 1996 the University and Los Alamos have had a focused effort in improving awards to northern New Mexico business enterprises, the majority of which are small businesses. We have done so through a preference program approved by the Department of Energy and documented in our procurement system at Los Alamos. We have encouraged major suppliers such as Johnson Controls and Protective Force Technologies of Los Alamos to purchase regionally as well. The University and Los Alamos also established a procurement advisory group involving regional business representatives to discuss evolving purchasing practices at Los Alamos and to share business concerns.

The second part involves corporate citizenship. The University opened a northern New Mexico office in 1996 as a means to be better engaged locally. The University and Los Alamos also established the Los Alamos National Laboratory Foundation that provides funds to regional education and community efforts. The University and Los Alamos participate in the Northern New Mexico Supplier Alliance, an organization of major suppliers to the laboratory that looks for ways to further the goal of regional economic diversification.

The third part involves education and research. The University and Los Alamos established the Northern New Mexico Council on Excellence in Education to enhance the intellectual capital of the region – the place from which we draw the workforce of tomorrow. The Council includes educators drawn from New Mexico's K-12 schools, colleges, businesses, and the New Mexico Department of Education. The University and Los Alamos also sponsor a variety of research activities at New Mexico colleges and universities with funds derived from the management fee at Los Alamos.

The fourth part involves commercialization of Los Alamos-developed technologies with an emphasis on creating new businesses in the region. The University and Los Alamos have an entrepreneurial leave program approved by the Department of Energy that encourages technologists at the laboratory to establish news businesses. The University and Los Alamos also license technologies to regional businesses, provide some training in basic business skills, and offer technological assistance to regional enterprises at a lower cost than that charged other businesses. The University and Los Alamos have created an MBA fellowship program to bring MBA candidates from business schools such as UC Berkeley, Stanford and the University of New Mexico, to Los Alamos to look at opportunities to establish businesses based on Los Alamos technologies and to provide assistance to regional enterprises in need of business advice.

You can see that our four-part strategy directly involves small business enterprises both in our regional purchasing and our technology commercialization. Our four-part strategy also benefits the regional small business community indirectly through our community and education efforts.

In summary, the University understands that small business enterprises, and particularly those in northern New Mexico, are important to the Los Alamos National Laboratory both as a high quality supplier base and a source for future employees. For these reasons the University sees itself as having a stake in the success of small businesses. We believe our record is a good one. Mr. Joe Salgado, Principle Deputy Director for the Los Alamos National Laboratory, is here today to provide the details about the small business program at Los Alamos. Again, thank you for inviting the University to participate in this hearing.