

**SERVING SMALL BUSINESSES: EXAMINING THE  
EFFECTIVENESS OF HUBZONE REFORMS**

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**HEARING**  
BEFORE THE  
**COMMITTEE ON SMALL BUSINESS**  
**UNITED STATES**  
**HOUSE OF REPRESENTATIVES**  
ONE HUNDRED FIFTEENTH CONGRESS  
FIRST SESSION

HEARING HELD  
SEPTEMBER 13, 2017



Small Business Committee Document Number 115-035  
Available via the GPO Website: [www.fdsys.gov](http://www.fdsys.gov)

U.S. GOVERNMENT PUBLISHING OFFICE

26-773

WASHINGTON : 2018

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## **SERVING SMALL BUSINESSES: EXAMINING THE EFFECTIVENESS OF HUBZONE REFORMS**

**WEDNESDAY, SEPTEMBER 13, 2017**

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

The Committee met, pursuant to call, at 11:00 a.m., in Room 2360, Rayburn House Office Building, Hon. Steve Chabot [chairman of the Committee] presiding.

Present: Representatives Chabot, Luetkemeyer, Kelly, Blum, Comer, Bacon, Fitzpatrick, Marshall, Norman, Velázquez, Evans, Clarke, Adams, and Schneider.

Chairman CHABOT. Good morning. The Committee will come to order.

We are here today to talk about H.R. 3294, the HUBZone Unification and Business Stability Act of 2017. This bipartisan bill implements important reforms of the Small Business Administration's Historically Underutilized Business Zone Program, more commonly known as the HUBZone Program. The program's core mission is to bring economic hope, independence, jobs, and businesses to depressed areas marked by high unemployment and poverty. This is accomplished through the use of Federal contracting preferences.

H.R. 3294 helps the program achieve its mission objectives by providing legislative solutions to the challenges and weaknesses identified by small businesses and government watchdogs. Measures proposed in this bill would create more opportunities for our rural communities by potentially expanding the number of rural areas qualified for HUBZone area designation. Certified firms operating within economically distressed rural and urban communities would benefit from the consistency this bill would bring to the ever-changing HUBZone area designations. These measures would encourage small businesses currently deterred by these issues to now seek their HUBZone certification, which would promote greater competition within the Federal contracting landscape. The bill would also create an extra layer of protection for areas devastated by natural disasters or catastrophic events by potentially prolonging the area's HUBZone designation. This is intended to promote revitalization and economic growth within those unique areas.

This change is particularly relevant in light of what our neighbors in Texas and Louisiana and Florida have faced following Hurricanes Harvey and Irma.

Ms. VELAZQUEZ. Puerto Rico, too.

Chairman CHABOT. Yes, and in Puerto Rico as well, and in many of the islands in the Caribbean.

Additionally, the bill would strengthen performance assessment and fraud prevention measures recommended by the Government Accountability Office, GAO. This includes mandating the collection of critical performance measures and requiring the SBA to verify recertification information. These are among a few of the provisions in the bill intended to benefit HUBZones, small businesses, and the communities in which they operate.

I have always said that this Committee is a rare place where bipartisanship is the norm and crafting good policy for the betterment of small businesses knows no party lines. This has truly been a bipartisan effort to begin fixing the core issues facing the HUBZone Program. And I would like to especially thank our ranking member, Ms. Velázquez, for leading this important piece of legislation, and I hope that this is a positive first towards reforming the HUBZone Program.

I look forward to hearing from our witnesses here this morning. We have a very distinguished panel, all of whom are HUBZone small business owners themselves.

We want to thank all of you for being here today, and I would now like to yield to the ranking member, Ms. Velázquez, for her opening statement.

Ms. VELAZQUEZ. Thank you, Mr. Chairman, and I, too, echo your comments. We enjoy a very good working relationship. We know our responsibility in this Committee is to work on behalf of small businesses and that is what we do. And in that spirit, we craft bipartisan legislation, and when we do that we have a better product and we are all very proud of it.

Each year, the federal government procures more than \$400 billion in goods and services from businesses around the country through government contracts. The Historically Underutilized Business Zone Program, or HUBZone Program, was created in 1997 to provide federal assistance to firms located in economically distressed areas. By lowering barriers to entry into the federal marketplace for these firms, the HUBZone Program has fostered competition while helping rebuild communities. Businesses in HUBZones play a large and vital role in our nation's economy because they create jobs for those residing both inside and outside of these economically distressed areas.

However, since its implementation, the HUBZone Program has not reached its full potential. From ensuring that only certified businesses enter the program, to being able to present evidence that the program is meeting its mission, SBA has largely failed in the basic operation of this program. This Committee has heard from the GAO on a number of occasions, each time they report on the program's problems. Most disappointing to me was the poor oversight that allowed GAO investigators to get fake businesses certified even though they did not meet eligibility requirements. In most instances, those certifications could have been verified by SBA simply asking for additional information on the location of the business.

While GAO's most recent report shows that there have been improvements in the certification process, these changes are not

enough to ensure that businesses are adhering to the program's requirements. This shows a clear need for legislation. That is why I introduced H.R. 3294, the HUBZone Uniformity and Business Stability Act of 2017, or HUBS Act, along with Chairman Chabot. This bill will help ensure that small firms in underutilized business areas have fair and equal access to the federal marketplace. Many areas will likely lose status this year because of changing data, crippling many rural economies.

H.R. 3294 will forestall this change in many affected areas. The HUBS Act will establish a 5-year cycle for determining the geographic boundaries of HUBZones, creating greater certainty for companies. It will also change the calculations for how certain geographic areas qualify for the program, potentially adding as many as 1,000 rural and nonurban counties. This alone has the potential to help more businesses avail themselves of the HUBZone initiative benefits. Most importantly, the legislation includes new performance metrics to ensure the data collected by the SBA will allow us to measure the program's success and economic impact.

I look forward to hearing from our witnesses today about how the proposed legislation can improve the HUBZone Program and provide sufficient oversight for initial certification, recertification, and business development to ensure new businesses enter the program. Nearly 90 percent of the HUBZone areas still do not have a business participating in the area. This low participation rate has resulted in the failure to meet the 3 percent prime and 3 percent subcontracting goals.

The dollars and actions awarded through these programs have continually decreased since fiscal year 2008. Only 82,000 actions worth \$6.8 billion, negative 1.67 percent of prime contracting dollars, were awarded to HUBZone firms in fiscal year 2016. It is my hope that this Committee can work together to reverse this trend.

I want to take this opportunity to thank all the witnesses who are going to be offering their insights on making the program more effective and helping economically challenged areas.

Thank you, Mr. Chairman. And I yield back.

Chairman CHABOT. Thank you very much. The gentle lady yields back.

And if Committee members have opening statements, we would ask that they be submitted for the record.

Without objection, so ordered.

And I will take this time now to explain our timing limits here and the lighting system which will assist you in keeping to the time limits. It is pretty simple. You get 5 minutes and then we will have 5 minutes each of us to ask questions. And there is a lighting system that will help you a bit. The green light will stay on for 4 minutes. The yellow light will come on to let you know you have a minute to wrap up. And then the red light will come on and we would ask you to, you know, try to stick within that if at all possible. We will let you go over a little bit, but not too much. So try to stay within that if at all possible.

I would now like to introduce our panel here. The first witness will be Shirley Bailey. Ms. Bailey appeared before the Subcommittee on Contracting and Workforce earlier this year, and we welcome you back here today. Ms. Bailey is testifying today in her

capacity as a board chair of the HUBZone Contractors National Council. Ms. Bailey has been deeply involved in the HUBZone Program for many years, both in her service as a HUBZone Council board member and in her personal experience as a small business owner. Ms. Bailey is the co-owner, executive vice president, and chief operating officer of GCC Technologies, a successful HUBZone-certified small business located in Garrett County, Maryland. We are looking forward to hearing your testimony here this morning. Welcome.

Our second witness is Robert Schuerger. Mr. Schuerger is the founder and lead attorney for a successful HUBZone-certified law firm based in Columbus, Ohio, with an office in Wilmington, Ohio.

Why not Cincinnati, too? My goodness.

In addition to serving various public sector clients, including local governments, hospitals, and universities, Mr. Schuerger's firm also works with the United States Department of Education. His firm was recently awarded a prime contract with the United States Department of Justice, in large part due to his HUBZone certification. We thank you for being here and we look forward to your testimony, as well.

And our third witness is Mr. Dennis DuFour. Mr. DuFour joined The Data Entry Company, or TDEC, 20 years ago after a career in the insurance industry and is the third generation within his family to serve as president of the company. TDEC is a HUBZone-certified small business providing labor-intensive services to the public and private sectors, such as document management and call center assistance. Under Mr. DuFour's leadership, the company tripled its revenues and expanded its growth in the Federal sector to include over a dozen Federal clients. Some of these clients include the Department of Homeland Security, Department of Labor, Department of Justice, and Department of Defense. And we also welcome and thank you for your testimony.

And I would now like to yield to the ranking member to introduce our fourth witness.

Ms. VELAZQUEZ. Thank you, Mr. Chairman.

It is my pleasure to introduce Mr. Carlos Meléndez, the COO and cofounder of Wovenware, an 8(a) and HUBZone-certified small business located in San Juan, Puerto Rico. Since 2003, Wovenware has been developing custom software solutions for enterprises in the telecommunications, healthcare, and distribution industries. Today, Wovenware has more than 90 employees in Puerto Rico that are mostly engineers, computer scientists, and data scientists. Wovenware has been part of Inc.'s 5,000 list of the fastest-growing private companies in the U.S. three times, and 60 percent of its revenue comes from customers located outside Puerto Rico. Mr. Meléndez has a bachelor's degree in electrical engineering and a juris doctor, both from the University of Puerto Rico. Mr. Meléndez is also the vice chairman of the board of ConPRmetidos, a nonprofit organization that connects people to faster commitment with personal, social, and economic development of Puerto Rican communities wherever they are. Thank you, and welcome.

Chairman CHABOT. Thank you very much. We welcome all the witnesses here, and Ms. Bailey, you are recognized for 5 minutes.

**STATEMENTS OF SHIRLEY BAILEY, CO-OWNER-EXECUTIVE VICE PRESIDENT AND CHIEF OPERATING OFFICER, GCC TECHNOLOGIES, LLC; ROBERT A. SCHUERGER, II, PRINCIPAL AND ATTORNEY AT LAW, LAW OFFICES OF ROBERT A. SCHUERGER CO., LPA; DENNIS DUFOUR, PRESIDENT, TDEC; CARLOS MELENDEZ, CHIEF OPERATING OFFICER AND CO-FOUNDER, WOVENWARE**

**STATEMENT OF SHIRLEY BAILEY**

Ms. BAILEY. Thank you. Good morning, Chair Chabot, Ranking Member Velázquez, and members of the Committee. My name is Shirley Bailey, president and board chair of the HUBZone Contractors National Council. I appreciate the opportunity to testify before you today.

The council's membership includes HUBZone-certified small businesses, other small businesses, prime contractors, and other organizations interested in the HUBZone Program. In addition, the HUBZone Council is an advocate as it relates to procurement and entrepreneurial policy and continues to seek needed modernization of the program. To that end, the Council fully supports H.R. 3294, the HUBZone Uniformity and Business Stability Act of 2017.

During the Subcommittee on Contracting and Workforce's March 2 HUBZone hearing titled "Learning from History: Ideas to strengthen and modernize the HUBZone Program," the council's testimony revolved around the lack of business certainty, constantly changing area designations, and lack of performance metrics. I am pleased to see that the Committee has taken steps to address these issues and others in H.R. 3294.

The first important reform in H.R. 3294 that I would like to discuss is the transition from the annual ACS designation updates to a 5-year cycle beginning in 2020. Freezing designation changes with the exception of disaster area and BRAC declarations will provide businesses operating in HUBZones the stability and certainty that they need to make the necessary investments in their communities without worrying that they will lose their HUBZone designation the following year.

The second major reform included in section 3 of the bill eliminates the qualifier nonmetropolitan from State median income when determining area eligibility. Currently, a nonmetropolitan county must have a median income below 80 percent of the State's nonmetropolitan median income to qualify for HUBZone designation. Of our Nation's 1,984 nonmetropolitan counties, only 207 currently qualify for HUBZone designation under this income formula. However, 89 percent of all of our nonmetropolitan counties in the U.S. have median incomes less than 80 percent of their State median incomes. We believe that this change will go a long way toward creating jobs in rural America and assist in bridging the income gaps by providing opportunities and economic development in our Nation's most distressed areas.

I would like to give you a few State examples of the number of additional nonmetropolitan areas qualified as HUBZone areas as a result of the income calculation reform in this bill. There will be 6 counties in Ohio; 13 counties in New York; 39 counties in Missouri, including Montgomery County in Missouri's Third Congres-

sional District; 20 counties in Kentucky, including 9 counties in Kentucky's First Congressional District; 28 counties in Kansas, including 13 counties in Kansas's First Congressional District; 6 counties in Mississippi, including Calhoun, Choctaw, and Oktibbeha, sorry about that, in Mississippi's First Congressional District; 21 counties in Florida, including Putnam County in Florida's Seventh Congressional District; 5 counties in South Carolina, including Cherokee County in South Carolina's Fifth Congressional District; 11 counties in Iowa, including Floyd, Monona, Webster, and Wright counties in Iowa's Fourth Congressional District.

Another critical reform pertains to qualified disaster areas. In light of recent Hurricanes Harvey and Irma, H.R. 3294 includes a timely provision that empowers the SBA administrator to extend the HUBZone designation of a qualified disaster area that has not fully recovered. As we know from past national disasters, recovery can take months, and sometimes even years, before communities are made whole again. Our hearts go out to the victims of these historic storms, and it will take all of us to help these areas truly recover. We believe the extended HUBZone designation can play an important role in recovery efforts.

As I stated in March, many areas are going to lose their HUBZone status by the beginning of 2018. Our members need Congress to act this year to avoid a major disruption in the program. As this bill suggests, the HUBZone Program cannot succeed with eligibility constantly in flux. Any delay will result in substantial loss of HUBZone firms. Not only is this difficult for small HUBZone companies, it is also a setback for the HUBZone qualified areas that need the business income and job generation this program encourages.

As a point of personal privilege, I would like to acknowledge Vivian Ling of Chair Chabot's staff and Helena Locke on Ranking Member Velázquez's staff for their hard work in collaboration with the council in drafting this important reform legislation.

Again, I would like to thank you for allowing the council to testify at this very important hearing, and I look forward to answering any questions. Thank you.

Chairman CHABOT. Thank you very much. Our staff loves those shout outs, so thank you very much. They do not get enough, so we appreciate their hard work.

Mr. Schuerger, you are recognized for 5 minutes.

#### **STATEMENT OF ROBERT SCHUERGER, II**

Mr. SCHUERGER. Thank you. Good morning, Chairman Chabot, Ranking Member Velázquez, and members of the Committee. My name is Robert Schuerger, and I am the founder and lead attorney for the Law Offices of Robert A. Schuerger. Founded in 2008, we have been a HUBZone-certified law firm since August 2016. I am also a member of the HUBZone Council. Thank you for giving me the opportunity to testify today.

Chairman Chabot, it gives me great pride to know that the Committee is led by a fellow Buckeye. Thank you.

Schuerger Law's principal office is based in a HUBZone in urban downtown Columbus, Ohio. We also maintain an office and 11 employees in Wilmington, in rural Clinton County, Ohio. Since our

founding, Schuerger Law has grown to 52 employees. This job increase is directly attributable to our HUBZone status as it has allowed us to become a Federal subcontractor to the Department of Education and a prime contractor for the Department of Justice.

The Clinton County office was uniquely qualified to be our satellite office as DHL had just moved out of the regional airport, leaving thousands without jobs. We have stepped in and taken over a space in the airport with a target to grow the business through our Federal procurement to at least 40 jobs.

I am pleased the Committee has undertaken the task of changing a program badly in need of change. In my view, H.R. 3294, the HUBZone Uniformity and Business Stability Act of 2017, provides much needed stability to companies like mine. Clinton County, home of Wilmington, will lose its HUBZone designation in 2018. I certainly favor the approach in H.R. 3294 which freezes the current HUBZone eligibility maps until 2020. It would provide us with the transition time our firm needs while we decide how to keep our valued employees and find a new office. Transitioning from the annual ACS to a 5-year process will enable our firm to find that location and make the capital investments necessary to continue bringing economic development to the hard-working people of Ohio.

The HUBZone online tool, that requires the SBA to “clearly and conspicuously provide access to the data used by the administrator to determine whether or not an area is a qualified area in the year in which the online tool was prepared” is also a significant requirement.

It will assist HUBZone firms that maintain offices in multiple locations, like Schuerger Law. This tool, updated every 5 years, would ensure HUBZone firms have the latest information on HUBZone eligible areas. This bill also ensures that the SBA administrator removes redesignated areas that are no longer qualified, which has been a problem in the past with many companies who have undergone the extensive certification process only to find the HUBZone qualified area lost its designation.

Another provision of the bill, including subsection 31(d)(6) provides a firm who loses certification 30 days to submit documentation to the SBA to reestablish eligibility. Since the certification process is time-consuming, this is a commonsense approach to the process. We believe it will incentivize HUBZone participation. Firms that may be hesitant to become HUBZone certified have clear recourse should they feel that their certification was unjustly revoked.

I would note that the Federal Government has never met its goal of contracting 3 percent of its contracts to HUBZone companies. I would urge the Committee to keep up its oversight of Federal agencies and encourage them to contract with HUBZone firms. It is certainly important to Clinton County, Ohio, and many other areas in this country. Adoption of this legislation is critical to the success of the program, and time is of the essence. We really need action this year to ensure that firms like mine can continue to work in the program.

In closing, I want to emphasize that the HUBZone Program is an important economic development program. Incentivizing companies

to locate in depressed areas is a good policy approach. However, changes must be made to the program, such as those in H.R. 3294.

Thank you for the attention you have brought to this critical issue, and for all of your work supporting our Nation's small businesses and those in Ohio. I look forward to answering any questions.

Chairman CHABOT. Thank you very much.

Mr. DuFour, you are recognized for 5 minutes.

#### **STATEMENT OF DENNIS DUFOUR**

Mr. DUFOUR. Chairman Chabot, Ranking Member Velázquez, and members of the Committee, my name is Dennis DuFour and I am the president of The Data Entry Company, TDEC. I appreciate this opportunity.

TDEC was started in 1958 by my grandfather, who was an insurance agent. He sold a group hospitalization policy to the National Active and Retired Federal Employee Association and needed a way to process applications, so he started TDEC to open mail, enter application data onto punch cards, and deposit checks. Shortly thereafter, my dad went to work for TDEC, adding customers like the National Geographic Society, Citibank Credit Cards, and the Republican National Committee. A stressful time was had when the FBI decided to investigate a break-in in the Watergate and wanted to see the data we had collected. That investigation ultimately ended in the resignation of Richard Nixon.

Today, 59 years later, my brother and I run TDEC, focusing on similar services as the founding, including data entry. We have 300 employees and do not take lightly the fact that we run a third-generation business, which statistically only survives 12 percent of the time.

In March of 2002, I applied for HUBZone certification. The program analyst assigned to our application was Mariana Pardo, who I note is now the director of the HUBZone Program. After a thorough examination of our application, we were welcomed into the program shortly thereafter. We began to market this valuable certification to the Federal Government and to large prime contractors. Five years later, we won our first prime contract with the National Oceanic and Atmospheric Administration, providing administrative support services to the Northwest and Alaska Fisheries Science Centers. We were re-awarded this contract in 2012. We continue to serve for this valuable customer today.

For 15 years, we have continuously maintained our HUBZone certification through examinations, recertifications, and even a protest. We are proud to report that 47 percent of our employees live in HUBZones, which is significantly higher than the 35 percent requirement of the program. We achieve this because we continually seek to hire, attract, and retain employees in underserved, economically distressed areas.

In 2018, 4 months from now, Garrett County, where my and 11 other businesses are located, will no longer be a HUBZone. I was wondering if this was an isolated event, so my team and I researched and found that there are 15 other counties similar to Garrett that will lose their HUBZone certification in January. We also

found another 71 counties will lose their certification in July of 2018.

Knowing that I was not alone, I started a campaign to reach out to HUBZones. I called this "Save our HUBZone." And I asked a very simple question to other HUBZone firms like TDEC, "How will losing your HUBZone status affect your business?" I received many replies. Here are a few.

From Detroit, "HUBZone communities need HUBZone companies. No one better understands the community than those who are in it. Take away the lifeline of the community and the community itself will wither."

Atlanta, "I am looking to hire students that come from a community that needs assistance, public assistance. We are providing jobs because of our HUBZone certification."

Hamilton County, Ohio; Cincinnati, Ohio, "HUBZone firms are vital to creating jobs and employment opportunities for the citizens who reside in HUBZones, most of whom are not highly skilled, but are hardworking, dedicated, and want to learn."

So my message is simple: We need stability. Stability will be achieved by freezing the HUBZone map until 2020 and then adjusting it every 5 years thereafter. Remember, it took us 5 years to get our first prime contract.

In the coming weeks, we need to decide whether we stay in our current location in Garrett County or move. If we move, many people will lose their jobs, coupled with the fact that we have been in Garrett County for over 50 years. Frankly, it is difficult, costly, and a distraction to move a business. So I ask you to act immediately on H.R. 3294 and give HUBZone communities stability. It is the most important economic issue facing rural American today.

Again, I appreciate this opportunity, and I am available to answer any questions.

Chairman CHABOT. Thank you very much.

Mr. Meléndez, you are recognized for 5 minutes.

#### **STATEMENT OF CARLOS MELÉNDEZ**

Mr. MELÉNDEZ. Thank you. Good morning, Chairman Chabot, Ranking Member Velázquez, members of the House Small Business Committee. Thank you for the opportunity to speak today as the Committee examines the effectiveness of HUBZone reform.

My name is Carlos Meléndez, and I am the cofounder and chief operating officer of Wovenware, an 8(a) and HUBZone-certified business located in San Juan, Puerto Rico.

As you all know, Puerto Rico was seriously affected by Hurricane Irma 1 week ago today. Most of the island has been without power and water at different points, but as you can attest from my presence here today, we are resilient and do not let these types of setbacks stand in our way of achieving economic development for our U.S. territory.

Since 2003, my company, Wovenware, has been developing custom software solutions for enterprises in industries such as telecommunications, healthcare, and distribution.

It took us 3 months to organize and fill the application for the HUBZone Program and 3 additional months to get certified. We are

grateful for the help provided by our local PTAC, the Puerto Rico Federal Contracting Center, before and during the process.

Here at Wovenware, we have recently been highly focused on developing smart and predictive software solutions that use artificial intelligence, predominantly Deep Learning, to help companies derive greater insights from their data and automate key functions. This deep expertise has allowed Wovenware to enter the Federal market and conduct AI-related projects for the National Geospatial Intelligence Agency. Today, Wovenware employs more than 90 people, most of whom are software engineers, computer, and data scientists.

Despite the fact that Wovenware has been part of the Inc. 5000 list of the fastest-growing companies for 3 years, and that 60 percent of our revenue comes from customers outside our physical island boundaries, it is only recently that we were given the opportunity to work with the Federal Government as a subcontractor on a DigitalGlobe NGA contract. We need more out-of-the-box thinkers like DigitalGlobe's executives Rob Torres and Tony Frazier, who gave us the opportunity to win this Federal contract.

"Lead with quality, not certification," was the recommendations Mr. Robb N. Wong, associate administrator of the SBA, gave companies like ours during a previous hearing of this Committee. A fair recommendation, but one in my opinion that underestimates the difficulty of getting your first Federal contract, despite years of high-quality, referenceable private business experience, especially in an economically depressed area like Puerto Rico.

It has taken Wovenware almost 4 years and significant investments to get our first Federal contract. I hope the proposed new performance metrics outlined in the HUBS Act put a spotlight on this problem and help SBA develop initiatives to stimulate the opportunities that originally inspire hope for HUBZone companies.

While we are pleased to have received HUBZone certification late last year, there is much more that can be done to ensure that it accomplishes its original goal, to give small businesses in underserved areas a chance to succeed. It is our hope that a reformed HUBZone Program lowers the barrier of entry for Federal contracts for companies like ours.

While currently one-third of Federal contracts are filled right here in Washington, D.C., and the remainder elsewhere in the U.S. States, Wovenware's success serves to prove that there is enormous untapped potential for making Puerto Rico and other HUBZone areas the next frontier for outsourced Federal projects.

Three key amendments on the HUBZone reform bill have the potential to generate this environment. These amendments are the new performance metrics, new 5-year time model, and grace period. The new performance metrics will highlight the use, and not use, of the program by Federal agencies and how effective, or ineffective, the program is in helping businesses sell to the Federal Government.

The 5-year time model that will allow the SBA to recalculate HUBZone areas in 5-year increments and the grace period for firms dropping below the 35 percent threshold for employees from a HUBZone will provide Federal agencies certainty into the number of HUBZone companies available for their contracting opportuni-

ties. It is my hope that this certainty will translate into additional HUBZone-only opportunities and will thus increase the use of the HUBZone Program to the point where the 3 percent contracting mandate be achieved.

Revising the provisions of the HUBZone Program so that it remains true to its original intentions, to jumpstart opportunities for small businesses to succeed, would empower small businesses not only in Puerto Rico but across the country with a path to revitalized growth.

The spirit of innovation, entrepreneurship, and inspiration, combined with a steadfast perseverance, that Hurricane Irma proved so well, is alive and well in Puerto Rico. A reinvigorated HUBZone Program would be just the right spark, not only for Puerto Rico, but for small businesses everywhere to ignite hope, confidence, and ultimately growth that will stimulate healthy economies across the country. Thank you.

Chairman CHABOT. Thank you very much.

And I will now recognize myself to begin the questioning for 5 minutes.

Mr. DuFour, I think I am going to start with you. I had, quite frankly, kind of a boring technical question I was going to ask you. Then you talked about Nixon and Watergate. Tell us about that. How was your company involved in that? That has got to be interesting?

Mr. DUFOUR. So, the Republican National Committee, back in the day when they solicited donations, they would solicit donation checks and basically a remittance slip. And our firm would enter the donation information—name, address, other information that needed to be filed with the Federal Election Commission—and deposit the check for the RNC.

And so one summer we were on vacation and my dad got a call from the office. And the office said, “Mr. DuFour,” who he is here today, “The FBI is in the lobby and they want to see the data that we have collected for the RNC.” And he said, “I will be right there.”

Well, it was an 8-hour drive and he got right there. And he said to the FBI, “Well, this is not public information. I do not think I can share this with you.” And they retorted, “Then we are going to shut down your business.” And he said, “Here is the data.”

So ultimately, that did lead to extend the investigation, and unfortunately, the resignation of our sitting president.

Chairman CHABOT. Thank you very much.

Now I will get to my boring questions and things of that nature.

Ms. Bailey, I am going to start out with the boring questions with you. You have highlighted that this bill may extend the number of rural areas qualified for HUBZone designation. Could you describe some of the challenges that your firm and other rural firms encounter that may differ from those located in urban areas? And how will this legislation help to alleviate those issues?

Ms. BAILEY. Okay, definitely. Many of the rural areas, one of the major issues that they have is, one, they do not have the population density. People tend to be spread out. They are not around a central major industry such as the Federal Government. They tend to be further around 50, you know, further past 50 miles from those distance, so you have larger commute type things. They do

not have the access to the infrastructure in a lot of the cases. You do not have strong connections with broadband, those types of areas, where we need the encouragement of additional companies coming into these areas to make it feasible and more cost-effective for agencies to come in and put the infrastructure in place. So you are looking at these types of areas where you are dependent upon these companies, and the HUBZone Program, if we can get companies to relocate and help with the economic development of these rural areas, then we are going to be able to add the infrastructure and the training and the capacity for these employees and have other opportunities that may be in the areas that these individuals are actually locating.

A lot of rural areas are not interested in relocating to the cities for employment. They have to travel long distances to do that, and although I am not saying that they do not, because a lot of them do it out of necessity, but from a family standpoint and from them being able to keep their unit together, and for us to be able to encourage our children to stay in their hometowns, to go to college, come back to their hometowns and invest in their hometowns, the HUBZone Program is a great way to do that and to help with the economic development in these areas.

Chairman CHABOT. Thank you very much.

Mr. Schuerger, one of the reasons the Federal Government has not met its 3 percent HUBZone small business goal is because there is some belief, I think, among some that among the agencies that the HUBZone small businesses are limited to a certain type of work, like janitorial services, for example. Could you talk about your experiences, kind of overcoming such obstacles? And do you have any suggestions on how to reverse that type of thinking?

Mr. SCHUERGER. Yes. Thank you for the question.

In our situation, it was a unique opportunity because we do a lot of inbound/outbound call center work, collections work, and we were able to team up with Franklin County and their res care operation, and actually, they helped us recruit potential employees for the firm that we would then bring in, train, and then a number of them would become full-time employees for the law firm. So I think the goal is to, with this bill, allowing other types of companies to pursue HUBZone opportunities by increasing the geographic region of that will, in essence, help more different types of companies to go after the HUBZone status.

Chairman CHABOT. Thank you very much.

I apologize, Mr. Meléndez, I have run out of time. So I now recognize the ranking member for 5 minutes.

Ms. VELAZQUEZ. Thank you, Mr. Chairman.

Mr. Meléndez, the federal government has yet to meet the 3 percent prime contracting goal or the 3 percent subcontracting goal for the HUBZone Program. Furthermore, only 25 percent of dollars awarded to HUBZone firms come from a HUBZone contract. What do you recommend Congress do to spare agency use of the sole source and set-aside authority given to them through the HUBZone Program?

Mr. MELÉNDEZ. Yes. My first recommendation is that the performance metrics will help a lot to shine a spotlight on that problem. I think first of all it is going to be a data problem, getting the

information out there. Then it is going to be how the SBA and Congress can help show that information in a useful way that tells a story of how HUBZones are really not being used. That should pressure agencies to take a hard look into what they are doing and think outside the box and just bring more opportunities for sole source and HUBZone-only contracts because they will see that there are companies that can actually provide those services.

Ms. VELAZQUEZ. Thank you.

Ms. Bailey, as we discussed before, program participation dropped immensely following the release of the 2010 census data, and the program now also incorporates the ACS data that updates every year causing more uncertainty. Furthermore, nearly 90 percent of HUBZones do not have a single certified firm. How will the proposed 5-year cycle impact HUBZone Program participation from a business owner perspective?

Ms. BAILEY. Definitely, it is going to give us more certainty because knowing that you have 5 years and the requirement to have the available data there will give the business owner the opportunity to be able to assess areas that if he has to move, where he could go to and have more information. It is going to allow companies to consider when they are coming into the HUBZone Program how much time they have. And also, in addition, even if they do come within that 5-year period and the area does get redesignated, they still have the 3 years, which will give them that period of time to make these decisions. The 5-year is going to provide people who are entering into long-term leases. A lot of our leases are 5-year terms. Contracts are 5-year terms. So that will give us the ability to make those decisions on doing that.

Ms. VELAZQUEZ. Thank you.

Mr. Schuerger, would you like to comment on the same question?

Mr. SCHUERGER. I would, yes, echo Shirley's sentiments that the 5-year, you know, someone like myself, it is a critical part because you invest in infrastructure. You invest in job training. You create jobs in areas that, you know, that jobs need to be created. And then, you know, 6 months later, or a year later as is current, the rug gets pulled out from under you. So I believe strongly in this bill that that 5-year window will then allow more companies to pursue the HUBZone status to create those jobs knowing that there is stability within the program.

Ms. VELAZQUEZ. Thank you.

And Mr. Schuerger, I would like you to comment on the following question. SBA does not currently send individual notices to businesses to notify them of changes affecting their HUBZone eligibility. SBA has stated that it is a business owner's duty to keep up to date. How realistic is it for small firms to be aware of every change potentially affecting their status?

Mr. SCHUERGER. I think it is very tough, particularly when, you know, I mean, obviously, it is our responsibility as companies to try to stay up to date, but it is also the SBA's responsibility to make sure that timely information is produced in order to stay up to date and not when you check something changes after you have checked and then all of a sudden they say it is your responsibility. That is what, you know, those are the types of issues that make

the program tough and probably allows people to believe that they, you know, it is not worth them participating in.

Ms. VELAZQUEZ. Mr. DuFour?

Mr. DUFOUR. I better turn that on.

It is incumbent upon the small business to stay on top of regulation. It would be an added benefit if it was more proactively coming from the SBA, yes.

Ms. VELAZQUEZ. We are going to make it more proactive. But, yeah.

Mr. DUFOUR. Brilliant.

Ms. VELAZQUEZ. So my question is does the legislative requirement that SBA refresh the HUBZone map every 5 years and/or any time there is a base closure and qualified disaster help fix this notification problem?

Chairman CHABOT. The gentlelady's time is expired, but you can answer the question, whoever—

Ms. VELAZQUEZ. Mr. Schuerger.

Chairman CHABOT. Mr. Schuerger?

Mr. SCHUERGER. Yes, absolutely.

Ms. VELAZQUEZ. Thank you. Thank you.

Chairman CHABOT. Thank you very much. The gentlelady's time is expired.

The gentleman from Missouri, Mr. Luetkemeyer, who is vice chairman of this Committee, is recognized for 5 minutes.

Mr. LUETKEMEYER. Thank you, Mr. Chairman. And I would be remiss if I would not mention my predecessor of my being here in Congress is here this morning, and I want to mention Kenny Hulshof is in the audience. And he left some really big shoes to fill, and the only way I am coming close is I do have big feet. So, welcome, Kenny.

Thank you all for being here this morning. It is an interesting conversation we are having on the HUBZones here. And you know, my first question, obviously, we have got 19,000 census tracks, 828 counties, 108 base closures, 593 qualified Indian lands covered by HUBZones, and only 6,000 certified small businesses. Why are we having difficulty getting businesses in the program I guess is the first question?

Ms. BAILEY. Can I take part of that?

Mr. LUETKEMEYER. Yeah, fire away.

Ms. BAILEY. One of the major problems is the lack of HUBZone set-asides. When we have the contracting vehicles there, it is going to encourage more firms to participate in the program. So, you know, over the years, we are not making anywhere near. We are actually going down in meeting the 3 percent goal. And you find that when we start to meet that 3 percent goal, more and more firms will enter the program. They do not see that this investment in this program is going to pay off if there is no set-aside programs.

Mr. LUETKEMEYER. Okay. So do you see the program actually enticing businesses into the zone or are you just picking up businesses that are already in the zone itself?

Ms. BAILEY. No, I think it is enticing businesses into the zones.

Mr. LUETKEMEYER. Do you have some numbers on that?

Ms. BAILEY. No, I do not have anything in particular, but we can use us for an example. The reason that we are in Garrett

County is because it was a HUBZone. We looked. We are actually out of Frederick County to begin with. We moved to Allegheny; it lost its designation. And when we were looking to move to another HUBZone, that was one of the major factors we were looking at. And Garrett County is why we moved to Garrett County. Go ahead.

Mr. LUETKEMEYER. Because in my mind what would look like a pretty small number of businesses that are actually qualified for HUBZone, is there enough competition for contracts set away so that we actually have a good competitive bid from somebody in that zone? Or is it single source? And maybe we are overpaying for services.

Ms. BAILEY. Well, at one point there were over 13,000 HUBZone firms until the census came and a lot of them were removed from the program because of the changes in the census data. And we believe that at that point in time there was definitely two or more in every NAICS code. Right now we have roughly 6,000 firms, which is pretty equivalent to some of the other set-aside programs as well. So, you know, I think that by encouraging more contracting, HUBZone contracting, we can encourage more firms to get in there. Yes.

Mr. LUETKEMEYER. Okay. Let us take that a step farther. So if you wind up with more businesses coming into the HUBZone, is that going to hurt existing businesses that are HUBZone with more competition?

Ms. BAILEY. Well, competition is good. So, it will encourage more HUBZones to be competing in different areas, more diverse markets. We believe that we can open up the number of market areas that the HUBZones are participating in. One of the fallacies right now is that still a lot of people believe it is more in construction and janitorial and those types of things, but our largest business sector that is growing is the IT services, so.

Mr. LUETKEMEYER. Well, the reason for my first question with regard to the lack of competition, if they are not—if our contracts are vectored with those folks, there is not enough competition, then competition will drive those prices down and be impactful.

Ms. BAILEY. Well, you know, I still think that even with the 6,000 firms and the number of HUBZone set-asides that we have, we still have a considerable amount of competition throughout the HUBZone Program at this point.

Mr. LUETKEMEYER. Very good.

In the bill, it extends the time period for which a qualified disaster area is considered as such and proposes to modify the definition of base closure area by aligning it with the definitions of qualified census tract and qualified metropolitan area. Are there other areas that we could designate similar to a disaster area or base closure area that we could add to this list that you are aware of? I guess my question is, are we complete with the way we are designating this? Are there other problem areas that we could see that could help by expanding the definition of a HUBZone that would be helpful?

Ms. BAILEY. At this point, I do not have any answer to that at this point. I have not thought about that.

Mr. LUETKEMEYER. Rest of the panel got any ideas? Questions? Are we spot on with what we are doing here?

Mr. DUFOUR. I think you are spot on. I think that 3294 really clarifies the BRAC, it clarifies the disaster location, and it incentivizes companies to go into those locations. I think you nailed it.

Mr. LUETKEMEYER. Okay, perfect. My time is expired. Thank you, Mr. Chairman.

Chairman CHABOT. The gentleman's time has expired.

The gentleman from Pennsylvania, Mr. Evans, who is the ranking member of the Subcommittee on Economic Growth, Tax, and Capital Access, is recognized for 5 minutes.

Mr. EVANS. Thank you, Mr. Chairman.

Ms. Bailey, how important is the certainty that H.R. 3294 attempts to legislate to the types of businesses which your council is composed of?

Ms. BAILEY. As far as from the certainty standpoint, it is from the investment. These HUBZone firms are going in. They are investing in buildings that need renovation. They are going in and investing their financial assets in hiring and training HUBZone employees. One of the additional costs when you hire, a lot of the HUBZone employees do not have the required skillsets. So this encourages these firms to go in and develop training programs, to hire individuals in those areas, and provide them with the skillsets. But you are investing in long-term leases. You are helping the economic development of those areas by renovating buildings. We actually bought a building from the county and renovated that building. And so those investments, you need that amount of time in order to start to recover that and to be able to get your business off the ground.

Mr. EVANS. Can you give an example of the types of businesses?

Ms. BAILEY. We are actually a professional services business, IT businesses. We went into Garrett County where right now there was only one other HUBZone firm at the time we went in there. We now have 11 businesses. There are several different, a variety. We have some IT businesses. We have professional services businesses. Higher skill level businesses are coming into the area as a result of the HUBZone Program.

Mr. EVANS. Mr. Meléndez, I read your testimony and share your frustration at the challenges in getting Federal contracts. I have no question, but simply applaud your patience and your resolve in making it here under extremely trying circumstances. So just talk a little bit about, this is your chance to, if you had to say something to us, specifically ways that we can really assist you.

Mr. MELENDEZ. Yes, for us it has been a long journey, like I said in the testimony. It has been 4 years, almost 4 years in the making of us trying continuously, coming here to D.C., establishing contacts. Like I said in my testimony, I think a third of the contracts are competed here in the D.C. area, and I will tell you that probably 85 or 90 percent of them have to start or at least at some point start here. So it does take considerable time and investment for companies like ours to come here and establish those contacts. Make sure that all private experience is taken into consideration when a contracting officer is gambling with an opportunity with us. Like I said in my statement, we can have 10 years of private expe-

rience, but for the contracting officer I have nothing. So getting that message out is important.

There are companies like ours that are HUBZone companies that have serious and good experience and letting them know that it is really not a gamble to give them their first chance. It is just kind of the wedge into starting your Federal contracting process. I think that help will be greatly appreciate.

Mr. EVANS. I thank you, too, for all you have tried to do.

Mr. MELENDEZ. Thank you.

Mr. EVANS. Thank you, Mr. Chairman.

Chairman CHABOT. The gentleman yields back. Thank you.

The gentleman from Kentucky, Mr. Comer, is recognized for 5 minutes.

Mr. COMER. Thank you, Mr. Chairman. And let me begin by saying the HUBZone Program is very important to small business and economic development in my congressional district in Kentucky. I have 13 of my 35 counties, as you mentioned. One of the challenges that we have in rural America is trying to sustain our best and brightest people in those areas, and I think this is part of the solution. HUBZones, economic freedom zones. We have to incentivize businesses to want to stay or want to relocate into the rural areas.

So my first question is to Ms. Bailey. In your testimony, you described the impact that H.R. 3294 might have on rural small businesses. From the perspective of the HUBZone Council, can you tell us how H.R. 3294 might benefit those firms that are located in urban areas?

Ms. BAILEY. Definitely. The one major impact for those in urban areas is going to be the freezing of the maps. That will enable them in those areas to be able to have more certainty, because the urban areas, the numbers probably change quicker. You know, the map probably changes, you know, quicker than the rural areas do. But it is a census area consideration and I think that by freezing that for 5 years will give a lot more certainty to those firms as well and be able to encourage more firms to move into those areas as well.

Mr. COMER. One of the complaints I would hear when I was a member of the Kentucky General Assembly from the legislators representing the urban areas is that, you know, they are subsidizing the rural areas with the fact that the rural areas do not have an adequate tax base, and I think that it is important to note that this can help urban areas in many ways and that being one way. So I appreciate that.

I also have to highlight a HUBZone contractor in my district, Geo Consultants in Kevil, Kentucky, which is in Ballard County. They specialize in environmental and disaster cleanups. They are going to be very busy in the coming weeks and months to take care of trying to fix those areas in the aftermath of the hurricanes, but this is a program I strongly support.

I appreciate you all's testimony here today and we look forward to working with you in the future.

Thank you, Mr. Chairman. I yield back.

Chairman CHABOT. Thank you very much. The gentleman yields back.

The gentleman from South Carolina, Mr. Norman, is recognized for 5 minutes.

Mr. NORMAN. Thank you so much. Thank you all for taking your time to come testify.

I guess this is for any of you. I am a developer. I have been in private business for a lot longer than I have been in politics; fraud and abuse, inflated contracts. Mr. Luetkemeyer mentioned competitive bids. Does this bill have safeguards that prevent fraud and abuse and the system from being abused, in your opinion?

Ms. BAILEY. Well, I think that the inclusion of putting in some performance metrics and a little bit more information will provide that assurance against fraud and abuse, also. And not only that, from the HUBZone Council perspective, we do a lot of our own policing as well to make sure through the education and the training and the constant reassurance that we have with even our members and outside, that we help police in those areas to ensure that the fraud and abuse does not come into this program. So I think that by including more stringent performance metrics and information reporting, I think that we can control that throughout the industry.

Mr. NORMAN. Give me an example of a metric that you think would have teeth.

Ms. BAILEY. I think that one metric that might have teeth is a reporting of, let us just say, as new contract awards come up, stronger program exams from the SBA's perspective to ensure that they are checking those who are winning these contracts. The recertification program, restrengthening the recertification of the SBA to ensure that firms are compliant and continuing to be compliant. And I think that those are the major ways to help to ensure that we are continuing to reduce the fraud, waste, and abuse in the program.

Mr. NORMAN. Anybody else?

Mr. SCHUERGER. Yes. I think one of the key areas this bill, you know, focuses on, you know, the payroll snapshot for the business, because at any point in time the HUBZone or the SBA can come in and request your existing payroll, which then, obviously, if you are not following or even close to the guidelines of the HUBZone Program then you would be violating the program and kicked out. So I think strengthening that ability will definitely help alleviate some of the fraud and abuse you talk about.

Mr. NORMAN. Has that happened, the checks and balances that you talk about?

Mr. SCHUERGER. I think that is part of what the bill is beginning to empower the SBA to do now.

Mr. NORMAN. Okay.

Mr. SCHUERGER. Is to allow them to begin to do that more aggressively, whereas before I think there was more lackadaisical oversight of that; hence, the opportunity now to strengthen it.

Mr. DUFOUR. Let me just add that the Federal Acquisition Regulations also has a provision to protest. So when a HUBZone set-aside procurement, if an award goes to a HUBZone firm and another HUBZone firm says I do not think they are a HUBZone, there is a process that is followed. It escalates to the SBA and it is incumbent upon the SBA to basically do a complete examination. They are going to ask you if the business is still in a HUBZone and

they will verify it. They are going to want to see that you have 35 percent of your employees living in a HUBZone, and they will verify it. And then finally, they are going to want to know that the ownership is 51 percent U.S. citizen, and they verify that.

I have been through that protest process. It works. I have also been on the opposite where I have protested and the award was retracted from a firm that was actually not a HUBZone. So I think there are good checks and balances, not just in this bill, but in the FAR.

Mr. MELÉNDEZ. I would add that reporting that includes comparative analysis between the other SBA programs and the whole Federal contracting as a whole will actually help to provide those checks and balances and give a spotlight to those possible fraud and abuse cases particularly.

Mr. NORMAN. Well, you all are in the trenches and as we move forward, as you see things that can be added, whether it gets amendments in this bill or not, it would be great to let your thoughts be known in proving this.

Thank you, Mr. Chairman. I yield back.

Chairman CHABOT. Thank you. The gentleman yields back.

Ms. Adams, would you want to go now or do you want to—we will come back to you after one or—I do not know. Your feet are on the ground. Are you good?

Ms. ADAMS. They are good.

Chairman CHABOT. Okay. The gentlelady from North Carolina, Ms. Adams, who is the ranking member of the Subcommittee on Investigations, Oversight, and Regulation, is recognized for 5 minutes.

Ms. ADAMS. Thank you, Mr. Chairman. I had a major overlap this morning. And I want to thank all of the witnesses for being here today and taking the time to share. Thank you for your testimony.

Mr.—is that Schuerger?

Mr. SCHUERGER. Yes.

Ms. ADAMS. Okay. All right. In your testimony you stated that the HUBZone certification process was at times challenging due to long wait periods, analysis, analyst changes, and an understaffed HUBZone office. Through your recertification experience, have you found these problems to be rectified? And if you have not, how can we ensure that the process is efficient and impervious to fraud?

Mr. SCHUERGER. Thank you for the question. I believe my circumstance was unique in being a law firm because what took place was in being a law firm, there are lawyers in my law firm that are agents for other companies. So what happened during my certification process is that there was an assumption that we had 20 companies under our ownership when that was not the case, but as a law firm you exist as an agent for other entities. So clarifying that confusion with the HUBZone analyst, what happened was we got handed off to another HUBZone analyst who then re-explained. So the lack of consistency with the analyst that you have and then the lack of an ability to request the same analyst when you resubmit the information, when it goes to a new analyst, it is a whole, you know, the process starts all over again.

So in my specific example, I think it has been rectified from when I first applied back, you know, and then got certified in 2016 to where it is now is, you know, through the council we have been able to raise some of those issues with the current HUBZone director. And I think Ms. Pardo has taken a look and I think hence the strengthening of here in this current House bill that is being presented I think will help that.

Ms. ADAMS. Okay.

Mr. Meléndez, in your experience, do small businesses incur some additional costs when they are located in and employee workers who reside in economically distressed areas such as costs to recruit and train workers?

Mr. MELENDEZ. I think there are costs associated to that. I think there would be other costs if you were in a highly populated or highly competitive urban area, so I think those actually in the long run will balance themselves out. There are definitely a lot of different challenges for being in an underdeveloped and rural area, like you clearly explained. Hiring takes a lot more time, so actually, the grace period and being able to at least add a little bit more time to that would be greatly beneficial to the bill, I think. But apart from that, and the training, I think, like I say, it will balance. It does balance a little bit out.

Ms. ADAMS. Okay. Thank you.

SBA is still in the process of streamlining certifications through [certifysba.gov](http://certifysba.gov) and perfecting this process. How can Congress ensure that the HUBZone process changes for the better once it is incorporated into this new website? That is a question for anyone who would like to answer it.

Ms. BAILEY. Well, I think one of the major things is integrating the application process, the maps, and the recertification process all into this [certify.gov](http://certify.gov), and to be able to incorporate the requirement for performance metrics. On behalf of the HUBZone, I can tell you that most of the HUBZone firms would be happy to provide data if there was an easy way to do that. And if they could incorporate that within the system where we could go in and provide periodic information, this would be a greatly desirable improvement in the overall HUBZone Program.

Ms. ADAMS. Okay. Does anyone else want to quick answer? Okay, all right. Thank you very much.

And Mr. Chair, I will yield back.

Chairman CHABOT. Thank you very much. The gentlelady yields back.

The gentleman from Pennsylvania, Mr. Fitzpatrick, is recognized for 5 minutes.

Mr. FITZPATRICK. Thank you, Mr. Chairman. Thank you all for giving us your time today.

I think it is safe to say that in a Nation with 20.1 trillion in debt that growing our economy is far and away the most significant challenge facing this Congress and this country. I have no doubt that programs like this help in that regard, infusing cash into economically distressed areas.

My question is regarding this statute in particular. Clearly, in addition to Federal incentives, you have State enterprise zones. You have county economic opportunity zones. You also have munic-

ipal incentives. In your experience, in the implementation of these programs, how seamless is the integration in these various programs to hitting the target, the intended target of making sure that we maximize employment opportunities for people in these areas?

Mr. SCHUERGER. It is not really a seamless process. You know, the municipality and the county and the State each have their own organizations and entities by which they answer up to, and then to try to integrate that into the HUBZone Program. One of the things that we have had success with has been working, like in Clinton County with the Wilmington Port Authority with the airport. They have been supportive locally in giving us incentives on top of the HUBZone status in order to employ there in that economic distressed area. So that is an example of what you talked about, sort of a seamless working relationship between the local entities, not exactly hand-in-hand, but all of those enticements help in creating the jobs in an economically distressed area.

Mr. FITZPATRICK. So when you say it is not seamless, are we essentially dealing with a patchwork of programs that are affecting different types of people, different entities, different zones in the community?

Mr. SCHUERGER. I would say yes. Through my experience, that would be correct.

Mr. FITZPATRICK. Is there anything in this legislation on a Federal level we can do to increase that integration? Because I would think that if we designate a certain area, that that is an area in need, then why not pull together all the resources? Because these are all taxpayer dollars, just on different levels, hitting the intended target in unison to expand economic growth.

Ms. BAILEY. I think that is a great idea. And not only that is that also what we need to be doing is through the education and the encouragement of these areas that this is one of the toolkits for them to use for their economic development and the workforce training. Now, we do see that in a lot of the rural areas, and SBA has been working on trying to put a toolkit together that they took around on their HUBZone Destination Tours to each one of these areas. So I think that we see that happening. We see that those areas that are in need, they are trying to work together, and it is a consolidated team as part of their economic development. But it is an important thing through the HUBZone, through the HUBZone Program, to encourage that you are working with economic development groups. You are working with the educational groups. You are working with your workforce development groups to make this program successful.

Mr. FITZPATRICK. So is that an amendment you think would be a good idea for this statute?

Ms. BAILEY. Well, I think it would be a great idea if we could figure out a way to do that. Yes.

Mr. FITZPATRICK. I yield back, Mr. Chairman.

Chairman CHABOT. Thank you. The gentleman yields back.

And I will now recognize myself for just a couple minutes to kind of wrap up here.

Two questions. First, for you, Mr. Meléndez, since I did not get around to you the first time. Obviously, Puerto Rico and, you know,

some of our Southern States, Florida in particular, Georgia to some extent, Louisiana, and especially Texas, have been hit with major hurricanes of late. Could you tell us as a practical matter, my understanding is Puerto Rico, most of it, although not all of it, I think is a HUBZone, what positive or practical impact of being a HUBZone should it have in the rebuilding effort down in Puerto Rico, for example?

Mr. MELENDEZ. I think it is a great opportunity. I think a lot of the relief work, a lot of the reconstruction of these areas, I think HUBZone companies as a whole should be used and should be given priority for this. It will definitely help the underlying communities because I believe a lot, at least in the case of Puerto Rico and the Virgin Islands, it will not only impact the work on the destruction that happened, but those were already economically depressed areas. So helping, having companies from the same HUBZone areas being able to do the work, to reinvigorate and to reconstruct the destructed area I think will have a great impact. So if there is some way that the reconstruction contracts can be given, some kind of HUBZone, or at least priority to HUBZone companies, it will, again, it will definitely help.

Chairman CHABOT. Thank you very much.

And my final question, Ms. Bailey, is kind of a follow-up to Mr. Norman's question. He was, and I think appropriately so, talking about making sure that we have as little as possible fraud and abuse in the program where the government, let us face it, we are never going to eliminate this kind of stuff as much as we want to try, but we need to reduce it as much as possible and hopefully eliminate it. And it is my understanding that in this legislation and in the original legislation there are some safeguards in that, some additional things like reporting requirements and things that the SBA should be able to oversee.

So on the one hand, we want to do those things. On the other hand, the SBA sort of has a reputation of being a very paperwork-intensive organization that can make it difficult for people to take advantage of the loan programs that are available out there. So there needs to be a balance between making sure that we are eliminating that fraud and abuse, while at the same time we are not just hitting people over the head with paperwork all the time.

So would you want to maybe just touch on that balance and let me know what you think about what I just said?

Ms. BAILEY. I think the balance is definitely required. But I think that by looking at this and automating a lot of these types of requirements where it does not take a considerable amount of time for us to go in as we are doing our recertification, to fill in key data points and performance metric information, and that SBA then begins accumulating and using that information and targeting high-risk types of areas so that if you have contractors and you are measuring awards that are coming out and you evaluate those contractors as these awards are happening, then you can start mitigating any fraud, waste, and abuse at the point in time that this is actually occurring. So by having us report, you know, maybe as part of the system the performance metrics here as if you are proposing on HUBZone set-asides or you are awarded a HUBZone set-aside, you know, requirement to report that automatically. I mean,

you know, electronically, not by paper and all of that, in a mechanism where they can measure the risk and assessment of these awards.

Chairman CHABOT. Thank you very much.

And in closing, I would just note that I think our panel here has been very helpful in all the Committee's members understanding the HUBZone Program better, and realizing that it can be an effective program in combating poverty and increasing economic independence and job creation, although we will continue to monitor it and try to make improvements where we can in a bipartisan manner. And I want to again thank Ms. Velázquez for her hard work and staffs on both sides for this.

I would ask unanimous consent that members have 5 legislative days to submit statements and supporting materials for the record.

Without objection, so ordered.

And if there is no further business to come before the Committee, we are adjourned. Thank you very much.

[Whereupon, at 12:15 p.m., the Committee was adjourned.]

APPENDIX



Written Testimony of

Shirley Bailey

On behalf of

The HUBZone Contractors National Council

Before the

House Committee on Small Business

"Serving Small Businesses: Examining the Effectiveness of HUBZone Reforms"

September 13, 2017

Good morning Chair Chabot, Ranking Member Velazquez and Members of the Committee. My name is Shirley Bailey, President and Board Chair of the HUBZone Contractors National Council. I appreciate the opportunity to testify before you today.

The HUBZone Contractors National Council (Council) is a non-profit trade association providing information and support for companies and professionals interested in the Small Business Administration's (SBA) HUBZone program. First, we would like to thank the Committee for working with the Council on this important legislation and its commitment to the advancement of small businesses in the federal marketplace.

The HUBZone Council has existed since January 2000, and strives to contribute to the economic development of disadvantaged communities by reducing unemployment and homelessness by strengthening, improving, and promoting the HUBZone Program and by helping HUBZone-certified companies maximize their success in earning federal contracts.

The Council's membership includes HUBZone-certified small businesses, other small businesses, prime contractors, and other organizations interested in the HUBZone Program. In addition, the HUBZone Council is an advocate as it relates to procurement and entrepreneurial policy, and continues to seek needed modernization of the program. To that end, the Council fully supports, H.R. 3294, "The HUBZone Uniformity and Business Stability Act of 2017."

The underlying principle behind the HUBZone program, established 20 years ago, remains relevant today—to decrease unemployment, and revitalize low-income communities by encouraging businesses to locate in these HUBZone areas. Congress, in its creation of the program stated that the creation of new jobs in economically distressed areas presented a challenge to all levels of government. The HUBZone program was designed to incentivize businesses to locate in these areas, creating much needed jobs through wealth creation.

In our testimony provided in March 2017, we addressed several issues and concerns facing the HUBZone Program. It is evident that the Committee put a great deal of thought and consideration in drafting this bill to address these concerns. Ranking Member Velazquez stated, "After carefully studying and listening to small businesses on the ground, I'm confident the reforms we are proposing will strengthen the HUBZone initiative and, ultimately, mean greater economic opportunity for those living in economically distressed regions." The HUBZone Council, fully agrees with Ranking Member Velazquez's assessment of the proposed reforms and believe that the reforms included in H.R. 3294 are crucial to the continued ability of the program to fulfill its mandate of creating jobs and providing economic development in emerging communities.

An overarching concern raised in the March 2017 hearing revolved around the lack of business certainty, constantly changing area designations and lack of performance metrics. To determine HUBZone designations, SBA currently uses data from several sources including the decennial Census and the American Community Survey (ACS). While Census data is updated every 10 years, ACS data is updated annually. Consequently, minor changes in economic data

can lead a community's eligibility for the HUBZone program to change annually. As I stated in my March testimony, our members make significant capital investments to locate their principal office and hire personnel in a HUBZone, only to face substantial losses when the HUBZone is re-designated. The uncertainty resulting from the annual designation updates not only impacts HUBZone companies, it negatively impacts the economic stability of the communities in which the company and employees reside. I am pleased to see that the Committee has taken steps to address this issue and others in H.R. 3294.

The first important reform is the transition from the annual designation updates to a 5-year cycle beginning in 2020. Freezing designation changes, with the exception of disaster area and BRAC declarations, H.R. 3294 will provide businesses operating in HUBZones the stability and certainty they need to make the necessary investments in their communities without worrying that they will lose their HUBZone designation the following year.

The second major reform included in Section 3 of the bill, eliminates the qualifier "nonmetropolitan" from state median income when determining area eligibility. Currently, a nonmetropolitan county must have a median income below 80% of the state's nonmetropolitan median income to qualify for HUBZone designation. Only 207 (10.4%) of our nation's nonmetropolitan counties currently qualify for HUBZone designation under this income formula. However, 89% of the 1984 nonmetropolitan counties in the US have median incomes less than 80% of their respective state median incomes. This change, and the use of five (5) year average of available data instead of the most recent data available has a significant impact on the rural/nonmetropolitan areas of our nation. It will provide parity for rural counties with smaller populations that are more susceptible to income fluctuations that do not accurately reflect the economic activities in these counties.

For example, Virginia's state nonmetropolitan median income is 61% of the state median income. This significant income gap impedes our nation's nonmetropolitan counties' abilities to sustain and grow our nation's rural communities. Under the current formula, a nonmetropolitan county in Virginia, has to have a median income below \$32,134 (48.5%) of the state median income to qualify for HUBZone designation. H.R. 3294, a nonmetropolitan county's median income would need to be below 80% of the total state's median income to qualify for HUBZone designation. We believe that this change will go a long way in creating jobs in rural America, and assist in bridging the income gaps by providing opportunities and economic development in our nation's most distressed areas. As detailed in the attached spreadsheet, H.R. 3294 will enable more than a thousand (1000) additional nonmetropolitan areas nationwide to qualify for the program enabling more small businesses to participate in the HUBZone Program.

Summarized below are a few state examples of the number of additional nonmetropolitan areas qualified as HUBZone areas as a result of the calculation reform included in this bill. The numbers below do not include nonmetropolitan counties otherwise qualified by income or unemployment.

- 39 counties in Missouri, including Montgomery County in Missouri's 3<sup>rd</sup> Congressional District
- 34 counties in Illinois
- 24 counties in Virginia
- 18 counties in North Carolina
- 20 counties in Kentucky, including Crittenden, Logan, Metcalfe, Taylor, Adair, Russell, Casey, Monroe, and Cumberland Counties in Kentucky's 1<sup>st</sup> Congressional District
- 28 counties in Kansas, including Chase, Cheyenne, Cloud, Lyon, Osborne, Pawnee, Republic, Rush, Russell, Sherman, Smith, Stanton, and Washington Counties in Kansas' 1<sup>st</sup> Congressional District
- 20 counties in Nebraska
- 6 counties in Mississippi, including Calhoun, Choctaw, and Oktibbeha, in Mississippi's 1<sup>st</sup> Congressional District
- 21 counties in Florida, including Putnam County in Florida's 7<sup>th</sup> Congressional District
- 16 counties in Pennsylvania
- 5 counties in South Carolina, including Cherokee County in South Carolina's 5<sup>th</sup> Congressional District
- 13 counties in New York
- 5 counties in California
- 11 counties in Iowa, including Floyd, Monona, Webster and Wright Counties in Iowa's 4<sup>th</sup> Congressional District
- 6 counties in Ohio
- 4 counties in Maryland

Another critical reform pertains to qualified disaster areas. In light of recent Hurricanes Harvey and Irma, H.R. 3294 includes a timely provision that empowers the SBA Administrator to extend the HUBZone designation of a qualified disaster area that has not fully recovered. As we know from past natural disasters, recovery takes months and sometimes even years before

communities are made whole again. Our hearts go out to the victims of these historic storms, and it will take all of us to help these areas truly recover. We believe the extended HUBZone designation can play an important role in recovery efforts.

I also want to bring up an issue that has been problematic for HUBZones in BRAC areas. Since BRAC areas can take a number of years before redevelopment can begin for a variety of reasons including but not limited to environmental remediation, we have concerns that HUBZone designations for BRAC areas are expiring prior to areas being fully placed in service. We are not sure that the current bill adequately addresses this issue and hope that the Committee will reconsider this issue and possibly provide the Administrator the same latitude for extension of BRAC areas as provided for disaster areas.

This reform bill also includes new performance metrics that requires the Administrator to publish performance metrics measuring the success of the HUBZone program in meeting its objective of promoting economic development in distressed areas within one (1) year after enactment of this Act. It also requires the Administrator to develop processes incentivizing SBA field offices to collect and report on HUBZone data within their respective regions. Chairman Chabot stated that "By collecting data, the SBA and Congress will better be able to determine how well the program is working and what needs to be changed."

In summary, we support the changes made to the program contained in this bill and Ranking Member Velazquez's assertion that "Ultimately, we are helping bring greater transparency and stability to the HUBZone Program," and that "When HUBZone operates as intended, it can be a powerful tool for stimulating commerce in parts of the country afflicted with economic hardship....". However, we want to stress the importance of expeditious action.

As I stated above, many areas are going to lose their HUBZone status by the beginning of 2018. Our members need Congress to act this year to avoid a major disruption in the program. As this bill suggests, the HUBZone program cannot succeed with eligibility constantly in flux. Any delay will result in substantial loss of HUBZone firms. Not only is this difficult for small HUBZone companies, it is a setback for HUBZone qualified areas that need the business income and job generation this program encourages.

Thank you for allowing the Council to testify at this very important hearing. I look forward to answering any questions.

Attachments:

Copy of spreadsheet detailing impact of formula change  
Support letters from Garrett County Chamber of Commerce and Mayors



Garrett County Municipalities,  
Inc.

C/O Garrett County Community Action  
104 East Center St.  
Oakland, MD 21550

Representative Velazquez  
Representative Chabot  
2361 RHOB  
Washington, DC 20515-6315

RE: HR 3294 – the HUBZONE Unification and Business Stability Act

Dear Representatives Velazquez and Chabot,

As President of Garrett County Municipalities, Inc. I am writing to you to express the support of all eight Mayors of the incorporated towns of Garrett County, Maryland. Garrett County is the westernmost county in the state of Maryland with a population just under 30,000. Although small in population, the county currently has seven HUBZones that are home to nearly 12 local businesses that employ close to 500 persons. While those businesses may not all be located in our municipalities, it is a very good possibility that some of the employees of those HUBZones businesses are our residents.

The HUBZone program was designed to provide economic opportunity to rural counties, such as ours, that have low-income household, higher unemployment and often suffer from a lack of business investment. If HR 3294 is not passed, Garrett County will lose six of our seven zones at the end of January 2018 and the seventh on March 31, 2019. The potential loss of 500 jobs and twelve businesses is very significant for our communities.

Garrett County Municipalities, Inc. represents all eight incorporated towns in the county and the Board of Directors is comprised of all eight Mayors and the President of Garrett County Community Action, Inc. which serves as the fiscal agent for the group. Our organization works together to assist each other with projects, funding and general issues of town governance.

We appreciate your bi-partisan efforts with HR 3294 to change the income formula from the state non-metropolitan median income to the state median income and wholly support the passage of HR 3294.

Sincerely,

Peggy Jamison  
Mayor of Oakland  
President of GCM, Inc.

CC: Representative Delaney  
Congressman Cardin  
Congressman VanHollen



July 25, 2017

The Honorable Steve Chabot  
The Honorable Nydia Velázquez  
U.S. House of Representatives Committee on Small Business  
2361 Rayburn House Office Building  
Washington, D.C. 20515-6315

Dear Representatives Chabot and Velázquez:

On behalf of the Garrett County Chamber of Commerce, representing 600 members in western Maryland, thank you for your sponsorship of H.R. 3294 - the HUBZONE Unification and Business Stability Act (HUBS). The Garrett County Chamber supports H.R. 3294 in its entirety.

Absent congressional action, Garrett County will lose six of its seven HUBZones at the end of January 2018 and the seventh HUBZone on March 31, 2019. This will impact nearly a dozen local businesses employing close to 500 people as these businesses may have to leave Garrett County and relocate to maintain their certified HUBZone status. Garrett County, MD is located in Appalachia and losing our HUBZones will be a dagger to our already economically-fragile rural region.

The HUBZone program was designed to provide economic opportunity to rural counties, like Garrett, that have low-household incomes, high unemployment, and whose communities have suffered from a lack of investment. Due to a shift in how these criteria are evaluated, Garrett County will no longer qualify for HUBZones after 2018 unless H.R. 3294 is passed. H.R. 3294 will save Garrett County's HUBZones by implementing a change from using the state non-metropolitan median income to the state median income for the income formula.

15 Visitors Center Drive  
McHenry, MD 21541  
Phone 301-387-4386



visitdeepcreek.com  
info@garrettchamber.com  
Fax 301-334-6073



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To avert the imminent loss of jobs and a crippling effect on the economy of rural America, we request that the House Committee on Small Business act quickly to pass H.R. 3294 as is and send it to the full House of Representatives.

Thank you for your consideration.

Sincerely,

Nicole Christian, IOM, CCE  
President & CEO



15 Visitors Center Drive  
McHenry, MD 21541  
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Written Testimony of  
Robert A. Schuerger, II

Principal and Attorney at Law  
Law Offices of Robert A. Schuerger Co., LPA  
Columbus, OH

Before the  
House Committee on Small Business

“Serving Small Businesses: Examining the Effectiveness of  
HUBZone Reforms”

September 13, 2017

Good morning Chairman Chabot, Ranking Member Velazquez, and Members of the Committee. My name is Robert Schuerger and I am the founder and lead attorney for the Law Offices of Robert A. Schuerger Co., LPA. Founded in 2008, we have been a HUBZone-certified law firm since August 2016. I am also a member of the HUBZone Council. Thank you for giving me the opportunity to testify today. Chair Chabot, it gives me great pride to know that the Committee is led by a fellow Buckeye.

Schuerger Law's principal office is based in a HUBZone area that is in urban downtown Columbus, Ohio. We also maintain an office and 11 employees, in Wilmington, in rural Clinton County, Ohio. Since our founding in 2008, Schuerger Law has grown to 52 employees, growth we attribute directly to our success in the HUBZone program. Our clients include public sector entities such as local governments, hospitals and universities. As a result of our HUBZone certification, we have hired 23 employees and are a sub-contractor for the Department of Education. We were recently awarded a prime contract with the Department of Justice.

We learned about the HUBZone program when we were looking at federal contract opportunities. We had just purchased a building in 2014 in downtown Columbus that was in the HUBZone area. We then went through the certification process which at times was challenging due to long wait periods, analysts changing on the file and an understaffed HUBZone office. Director Pardo was instrumental in rectifying those delays and a year later we were HUBZone certified and eager to begin pursuing the new opportunities the certification afforded the business.

Since certification we have grown from a firm of 29 employees to 52 employees. This job increase is directly attributable to our HUBZone status as it allowed us to become a federal subcontractor to the Department of Education and a prime contractor to the Department of Justice. The Clinton County office was uniquely qualified to be our satellite office as DHL had just moved out of the Regional Airport leaving thousands without jobs. We have stepped in and taken over a space in the airport with the target to grow the business through our federal procurement to at least 40 jobs.

I am please the Committee has undertaken the task of changing a program badly in need of change. In my view, H.R. 3294, "The HUBZone Uniformity and Business Stability Act of 2017" provides much needed stability to companies like mine. Clinton County, home of Washington, will lose its HUBZone designation in 2018. I certainly favor the approach in H.R. 3294 which freezes the current HUBZone eligibility maps until 2020. It would provide us with the transition time our firm needs while we decide how to keep our valued employees and finding a new office. Transitioning from the annual ACS to a 5-year process, will enable our firm to find that location and make the capital investments necessary to continue bringing economic development to the hard-working people of Ohio.

The HUBZone online tool, that requires the SBA to "clearly and conspicuously provide access to the data used by the Administrator to determine whether or not an area is a qualified area in the year

in which the online tool was prepared” is also a significant requirement.

It will assist HUBZone firms that maintain offices in multiple locations, like Schuerger Law. This tool, updated every 5 years, would ensure HUBZone firms have the latest information on HUBZone eligible areas. This bill also ensures that the SBA Administrator removes redesignated areas that are no longer qualified, which has been a problem in the past with many companies who have undergone the extensive certification process only to find the HUBZone qualified area lost its designation.

Another provision of the bill, including Subsection 31(d)(6) provides a firm who loses certification, 30 days to submit documentation to the SBA to reestablish eligibility. Since the certification process is time consuming, this is a common-sense approach to the process. We believe it will incentivize HUBZone participation. Firms that may be hesitant to become HUBZone-certified have clear recourse should they feel that their certification was unjustly revoked.

I would note that the federal government has never met its goal of contracting 3% of its contracts to HUBZone companies. I would urge the Committee to keep up its oversight of federal agencies and encourage them to contract with HUBZone firms. It is certainly important to Clinton County, Ohio and many other areas in this country. Adoption of this legislation is critical to the success of the program and time is of the essence. We really need action this year to ensure that firms like mine can continue work in the program.

In closing, I want to emphasize that the HUBZone program is an important economic development program. Incentivizing companies to locate in depressed areas is a good policy approach. However, change must be made to the program, such as those in H.R. 3294.

Thank you for the attention you have brought to this critical issue, and for all of your work supporting our nation's small businesses and those in Ohio. I look forward to answering any questions.



Testimony of

**R. Dennis DuFour**

**President**

Before the

**United State House of Representatives Committee on Small Business**

On the Subject of

**Serving Small Businesses: Examining the Effectiveness of  
HUBZone Reforms**

**September 13, 2017**

Chairman Chabot, Ranking Member Velazquez and members of the United States House of Representatives Committee on Small Business:

My name is Dennis DuFour and I am the President of The Data Entry Company (TDEC). I appreciate the opportunity to testify at today's hearing titled "Serving Small Businesses: Examining the Effectiveness of HUBZone Reforms."

I want to discuss three things with you today. First, I am going to give you a brief history of our business and what we do. Then I am going to discuss how we leveraged the valuable HUBZone certification to create jobs in underserved parts of the U.S. And, finally, I am going to explain why the HUBZone program reform must happen now and in particular the need for area stability. This is an urgent matter.

**About TDEC:** TDEC was started in 1958 by Ray DuFour, my grandfather, who was an insurance agent. His first customer was the National Active and Retired Federal Employee Association (NARFE) who had purchased a group hospitalization policy and Ray needed a way to process each member's insurance application. So he started TDEC to receive and open mail, enter applicant data onto keypunch cards and prepare checks for bank deposit. There weren't computers in the late '50s and '60s like we see today. Data was entered on a keypunch card and the cards were fed into machines to create data tapes.

A couple of years later my father, Mo DuFour, went to work for the company and rapidly expanded our customer base. He added customers like the National Geographic Society, Citibank Credit Cards and the Republican National Committee (RNC) to name a few. I vaguely remember in the early '70s my father racing back from our summer vacation because someone broke into the Democratic National Committee Headquarters at the Watergate Hotel and the FBI wanted to see the data we had collected for the RNC. This investigation led to the first resignation of a sitting United States President.

Today, in our 59th business year, my brother John and I lead TDEC and we focus on serving Federal, State and commercial customers with their labor intensive functions including, as our name states, data entry services. We have 300 employees that provide services at our location in Maryland, Ohio and Virginia as well as at government offices from Alaska to Florida and in 21 others states in between. My brother and I don't take lightly the fact that we operate this business. Statistically only 12% of businesses survive into the 3rd generation.

**Leveraging the HUBZone Program:** In March of 2002, I applied to the Small Business Administration (SBA) for HUBZone certification for TDEC. The program analyst at the SBA assigned to our application was Mariana Pardo, who I note is now the Director of the HUBZone Program. After a thorough examination of our application including our ownership, our business size and the percentage of then 51 employees we have that live in HUBZones—we were welcomed into the program in November 2002.

We immediately began to leverage this valuable certification by marketing our new status to the Federal Government and to large prime contractors. That led to winning two sub-contracts to large prime contractors and to our first HUBZone set-aside prime contract with the National Oceanic and Atmospheric Administration in 2007. On that contract we provided Administrative Support Services to the Northwest and Alaska Fisheries Science Centers in the State of Washington and the State of Alaska. We were re-awarded a competitive contract to provide similar services to NOAA in 2012 and continue to serve this important customer today.

For 15 years we have continuously maintained our HUBZone certification through scheduled and un-scheduled program examinations, re-certifications and HUBZone protests. We are proud to report that 47% of our now 300 employees live in HUBZones—well above the 35% program requirement. We achieve this high percentage of HUBZone employees because we continually seek to attract, retain and train well qualified employees in under-served areas and it is working!

**Urgent HUBZone Re-designation Reform:** In January 2018, just 4 months from now, Garrett County, Maryland, where TDEC's principle office is, will no longer be a HUBZone. There are another 11 businesses in Garrett County that are faced with this same re-designation problem. In late 2016, I wondered if this was isolated to Garrett County so my team and I researched which other counties in the United States had a similar imminent issue. We found that there are 15 other non-metropolitan counties that will be re-designated in January 2018 and then 71 more similar counties in July 2018. This is a total of 86 counties in 2018 spanning 25 States.

The more we dug into the data we found it gets more-dire. Our research found that 4,700 jobs are at risk at 245 companies in these under-served economically disadvantaged communities.

Knowing that TDEC was not alone in this timely matter, I began a campaign to reach out to fellow HUBZone firms to solicit their support and feedback. This campaign called "Save Our HUBZone" reaches over 4,000 HUBZone firms across the United States. And this group is not shy to raise their voices. Here are a few of the hundreds of responses I received to a simple question: "How will re-designation affect your business?"

*This is a critical issue to our remaining in this town and county in Pennsylvania. Without it, we will be forced to lay people off locally and relocate to another town and probably another state to continue to do business.*

*Lake County, California is a poor rural northern California County with many small businesses, many whom are HUBZone businesses. This gives our small company and other small businesses an opportunity to obtain Federal work.*

*HUBZone communities need the support of HUBZone companies. No one better understands the community than those who are there in it. Take away the lifeline of the community and the community itself will wither. Maintaining HUBZone designation maintains life*

*within the community. Save a community by keeping HUBZone designation as is. - Detroit, Michigan*

*Our small business is a HUBZone qualified small business and this status helps us get federal projects as a small business. Without this status we will not qualify as a small business set-aside anymore and therefore will lose out on some of the contracts geared for small businesses. This will put us back in the running with all the large competition and will directly impact our company and employees. Matanuska-Susitna Borough/Alaska*

*I support H.R. 3294 because the reforms proposed will continue to provide needed opportunity in economically-struggling areas of our country. I am looking to hire students from Atlanta Tech College. These students come from a community of public assistance and various other ailments because of their socio-economical situations. We are providing jobs, because of the HUBZone certification. It's an honor and a privileged and I support H.R. 3294!! - Atlanta, Georgia*

*HUBZone Small Businesses are vital to the need of creating jobs and employment opportunities for the Citizens who reside in the HUBZone areas. Most are not high skilled individuals but are hard working, dedicated and apt to learning new skills. Loss of HUBZone status can totally shut the doors of the HUBZone Small Business and put thousand/millions of people out of work. - Hamilton County, Ohio*

So my message to you echoes what we have heard from my fellow HUBZone firms. We need you to give HUBZone firms stability by extending the re-designation period as you have in HR 3294. This bill, which was introduced by both the Ranking Member and the Chairman, if enacted now, will freeze the HUBZone map until 2020 and then only be changed every 5 years. This will give communities and their businesses time to build resources to compete in a post HUBZone environment. Remember it took us 5 years of marketing our services in order to get a prime contract.

While I am excited and encouraged by all the enhancements to the HUBZone Program made in HR 3294 I am most interested in the urgent need to save HUBZone communities by freezing the HUBZone map until 2020.

Just like you face tough decisions in your job so do I. I need to decide in the next month whether to lose our HUBZone status and stay in our current location or to move our business to another HUBZone. This decision has been weighing on me for some time because we have loyal long term employees that will be affected. If we move, our people may lose their jobs and there really aren't any other viable jobs for them in Garrett County. Coupled with that is the fact that we have been in business in Garrett at the very same location for over 50 years. It is difficult and costly to move a business and is a distraction to the businesses purpose. We also have a ton of history in our Oakland, MD office. I remember as a little boy trying to use the key punch card machines to punch holes in keypunch cards. Let's just say that I was terrible at it.

So I ask you to act immediately on HR 3294 and give HUBZone communities certainty. I speak for the thousands of HUBZone workers whose jobs are at stake. There is no more important economic development issue impacting rural communities in America! I am available to answer any questions you have and again, I appreciate the opportunity to speak with you today.



wovenware

Testimony of

**Carlos M. Meléndez**

*Chief Operating Officer and Co-Founder, Wovenware, Inc.*

before the

**U.S. House of Representatives  
Committee on Small Business**

**“Serving Small Businesses: Examining the Effectiveness of  
HUBZone Reform”**

**Wednesday, September 13, 2017**

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wovenware

Chairman Chabot, Ranking Member Velázquez, my representative from Puerto Rico Congresswoman Jennifer González-Colón, Members of the House Small Business Committee, thank you for the opportunity to speak today as the Committee examines the effectiveness of HUBZone reform.

My name is Carlos M. Meléndez and I am the Co-Founder and Chief Operating Officer of Wovenware, an 8(a) and HUBZone-certified business located in San Juan, Puerto Rico.

As you all know, Puerto Rico was seriously affected by Hurricane Irma one week ago today. Most of the Island has been without power and water at different points, but as you can attest from my presence here today we are resilient and do not let these types of set-backs stand in our way of achieving economic development for our US Territory.

Since 2003, my company, Wovenware, has been developing custom software solutions for enterprises in industries, such as telecommunications, healthcare, and distribution.

It took us 3-months to organize and fill the application for the HUBZone Program and 3 additional months to get certified. We are grateful for the help provided by our local Procurement Technical Assistance Center (PTAC), the Puerto Rico Federal Contracting Center, before and during the process.

Here at Wovenware, we have recently been highly focused on developing smart and predictive software solutions that use Artificial Intelligence, predominantly Deep Learning, to help companies derive greater insights from their data and

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automate key functions. This deep expertise has allowed Wovenware to enter the federal market and conduct AI related projects for the National Geospatial-Intelligence Agency (NGA). Today, Wovenware employs more than 90 people, most of whom are software engineers, computer and data scientists.

Despite the fact that Wovenware has been part of the Inc. 5000 list of the fastest-growing U.S. companies for three years, and that 60 percent of our revenue comes from customers outside our physical Island boundaries, it is only recently that we were given the opportunity to work with the Federal government as a subcontractor on a DigitalGlobe NGA contract. We need more out-of-the-box thinkers like DigitalGlobe's executives Rob Torres and Tony Frazier who gave us the opportunity to win this first federal contract.

*"Lead with quality, not certification"*, was the recommendations Mr. Robb N. Wong, Associate Administrator of the SBA gave companies like ours during a previous hearing of this committee. A fair recommendation, but one in my opinion that underestimates the difficulty of getting your first federal contract despite years of high-quality, referenceable private business experience, especially in an economically depressed area like Puerto Rico.

It has taken Wovenware almost four years and significant investments to get our first federal contracts. I hope the proposed new performance metrics outlined in the HUBS Act put a spotlight on this problem and help SBA develop initiatives to stimulate the opportunities that originally inspire hope for HUBZone companies.

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As an example of these difficulties, HUBZone set-aside solicitations by agencies are scarce specially in our area of information technology (IT). A search in FBO.gov, the Federal Government Business Opportunities portal, reveals that since 2009, only 8 opportunities have been awarded in select NAICS codes related to IT. This statistic highlights one of the reasons why most federal agencies do not meet with the statutory 3-percent HUBZone contracting goal. If IT and other related services are not considered by procurement officers for sole source and competitive opportunities, not only are the goals of the program not met, but companies like ours, providing state of the art technology are at a much bigger disadvantage.

Wovenware is a perfect example of a company that would greatly benefit from revisions to the current HUBZone program. Not only do we have the expertise, experience and drive to provide needed technology services that rival or exceed the capabilities of other U.S. companies, but securing more federal contracts would enable us to organically grow our business, employ more local workers and contribute to the revitalization of the economy in Puerto Rico.

As a corporation, Wovenware has always been committed to giving back to the community. We contribute to non-profit organizations that foster entrepreneurship and technology in Puerto Rico, like Grupo Guayacan or ConPRmetidos, as well as Hogar de Niños que Quieren Sonreir (Home for Children who Want to Smile), which offers temporary shelter and free services to childhood cancer patients and their caregivers. We are proud of our employee-giving campaign and look forward

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to continuing to support our community to not only foster entrepreneurship, but also to improve people's lives.

Strong local businesses that are given the opportunity to succeed almost always give back.

While we are pleased to have received HUBZone certification late last year, there is much more that can be done to ensure that it accomplishes its original goal; to give small businesses in under-served areas a chance to succeed. It is our hope that a reformed HUBZone program lowers the barriers of entry for federal contracts for companies like ours.

Currently, almost all of Puerto Rico qualifies as a HUBZone, but according to the United States Government Accountability Office (GAO), in March of 2017 only 40 companies were HUBZone certified.

The U.S. government is the world's largest buyer of services and goods, spending billions of dollars each year with both large and small businesses, yet it still struggles to ensure compliance by federal agencies to meet the requirement that 3 percent of contracts be negotiated with HUBZone-certified companies.

I believe the proposed changes to the HUBZone program included in H.R. 3294, The HUBZone Uniformity and Business Stability Act of 2017, have the potential to change this situation.

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The new model to recalculate HUBZone areas in five-year increments will encourage private investment, as well as stability and predictability to contracting officers.

Agencies can rest assured that for at least five years all their HUBZone companies will remain eligible, allowing for more competitive set-asides and sole-source HUBZone opportunities.

Similarly, the proposed “grace period” for firms that drop below the 35-percent threshold of employees from a HUBZone area will encourage private investment commitments, and empower small businesses with more confidence to succeed.

Since 2006, more than 94 percent of the small businesses located in Puerto Rico that received contract awards got them for work performed in Puerto Rico. An increased use of contract bundling or consolidation, difficulty in meeting contract procurement requirements, and a lack of knowledge about the federal procurement process inhibited them from expanding beyond Puerto Rico.

Puerto Rican companies that become HUBZone certified are not only being given the spark to ignite their own growth even beyond their borders, but they are also greatly benefiting the Federal government and contributing to U.S business growth overall.

While currently one-third of federal contracts are filled right here in Washington D.C. and the remainder elsewhere in U.S. states, Wovenware’s success serves to prove, that there is

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enormous untapped potential for making Puerto Rico and other HUBZone areas the next frontier for outsourced federal projects.

As previously discussed, three key amendments on the HUBZone reform bill have the potential to generate this environment. These amendments are: the new performance metrics, new 5-year time model, and “grace period”.

The new performance metrics requires the SBA to submit a report that I hope will at least highlight the following metrics:

- Existing businesses in the program
- Existing businesses in the program by State and Territory
- Existing businesses in the program by State and Territory, and NAICS
- Number of new businesses that enter the program
- Number of new businesses that enter the program by State and Territory
- Number of new businesses that enter the program by NAICS
- Number of new businesses that enter the program by State and Territory, and NAICS
- Available and awarded sole source HUBZone contracts by NAICS and the percentage of this contracts in relation to other programs and all contracts
- Available and awarded competitive HUBZone contracts by NAICS and the percentage of this contracts in relation to other programs and all contracts
- Contracts awarded to HUBZone businesses, specifying the NAICS and type of contract (sole source, competitive)

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HUBZone, or open competition), also the percentage of these contracts in relation to other programs

These metrics will highlight the use (and not use) of the program by federal agencies and how effective (or ineffective) the program is in helping businesses sell to the Federal government.

The 5-year time model that will allow the SBA to recalculate HUBZone areas in 5-year increments and the “grace period” for firms dropping below the 35-percent threshold for employees from a HUBZone will provide federal agencies certainty into the number of HUBZone companies available for their contracting opportunities. It is my hope that this certainty will translate into additional HUBZone only opportunities and will thus, increase the use of the HUBZone program to the point where the 3-percent contracting mandate be achieved.

Revising the provisions of the HUBZone program so that it remains true to its original intentions: to jumpstart opportunities for small business to succeed, would empower small businesses not only in Puerto Rico but across the country, with a path to revitalized growth.

The spirit of innovation, entrepreneurship and inspiration, combined with a steadfast perseverance (that Hurricane Irma proved so well) is alive and well in Puerto Rico. A reinvigorated HUBZone program would be just the right spark, not only for Puerto Rico, but for small businesses everywhere, to ignite hope, confidence, and ultimately growth that will stimulate healthy economies across the country.

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The non-profit trade association providing information and support for companies and professionals interested in the Historically Underutilized Business Zone (HUBZone) Contracting Program.

September 28, 2017

**VIA E-MAIL**

The Honorable Aumua Amata Coleman Radewagen  
1339 Longworth House Office Building  
Washington, DC 20515

Dear Representative Radewagen,

I appreciate the opportunity to respond to your question submitted as a follow-up to the hearing titled, "Serving Small Business: Examining the Effectiveness of the HUBZone Reforms," held on September 13, 2017.

Question: "According to the HUBZone Map, the entire island of American Samoa is considered a HUBZone area however there are only a few, if any, HUBZone-certified small businesses operating on the island. Ms. Bailey, as Board Chair of the HUBZone Contractors National Council, do you have any suggestions on how to improve HUBZone participation on the island, and do you think H.R. 3294 will encourage investment on the island by small businesses?"

Answer: The island of American Samoa is a HUBZone designated area, however, a major factor impacting the number of HUBZone certified small businesses is that American Samoan born citizens, unlike Puerto Rico, US Virgin Islands, Northern Mariana Islands and Guam, are not US citizens. According to the HUBZone statute, HUBZone certified firms must be owned and controlled by US citizens. Therefore, companies owned by American Samoa citizens cannot qualify for HUBZone status. H.R. 3294 does not address this issue but could be amended to include citizens of US territories for eligibility.

Currently, there are thirty (30) small businesses registered in SBA's Dynamic Small Business Search (DSBS) database located in American Samoa of which only one (1) has been previously certified as a HUBZone certified small business. Of the thirty (30) registered companies, twelve (12) companies have received contracts in the last three years. Since we can only speculate on the reason only one firm has been HUBZone certified, we suspect that awareness of the program could be a factor. We suggest a coordinated education effort with SBA to increase HUBZone participation.

Thank you in advance for your interest in enhancing the HUBZone Program. If you have any questions regarding this response to your question, please feel free to contact the undersigned at [sbailey@gcctechllc.com](mailto:sbailey@gcctechllc.com).

Sincerely,

A handwritten signature in cursive script, appearing to read "Shirley Bailey".

Shirley Bailey  
President & Chair, Board of Directors

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Congresswoman Radewagen thank you for the opportunity to provide my feedback and suggestions.

We see great opportunities for growth as a HUBZone certified business, yet one of the biggest challenges to date has been securing federal contracts. It took my company, approximately three-months to prepare and submit the HUBZone program application, and three-months after the submittal to become officially approved and certified as a HUBZone. Although six-months may seem like a long time, it's a minimal amount of time compared to the more than four-years it has taken us to get our first federal contract.

Therefore, the first challenge for HUBZone companies located outside of the continental U.S. is getting that first federal contract. This is a tremendous challenge because currently one-third of federal contracts are filled in the Washington, D.C. area, and the remainder elsewhere in the U.S., but mostly in non-HUBZone areas. In our experience, procurement officers have been wary of taking a "gamble" on companies that do not have previous federal experience especially if they are not located near the office of the agency and worse if you are located outside the continental U.S.

The reason they cite for their reluctance is usually security, but as Wovenware has proven with our work for the National Geospatial-Intelligence Agency (NGA), this risk can be adequately mitigated and controlled.

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The HUBZone program was meant to give small businesses in under-served areas a chance to succeed, but without available contract opportunities the program cannot achieve its purpose.

In light of the recent natural disasters, now more than ever, HUBZone is needed in Puerto Rico and other affected regions. The devastation Puerto Rico has received being hit by two different hurricanes is incredible. Whatever horrible images you might have seen or heard about, I can assure you things are dire. We have ALL lost something and our daily life will be severely impacted for a long time. Now more than ever we need the opportunity to keep working and provide the much-needed economic certainty to employees and their families, and consequently our community.

The HUBZone program is already in place and a perfect vehicle to help economically depressed areas, affected by these recent natural disasters. It's important that Congress, the Small Business Administration (SBA), and procurement officers do all they can to make sure the HUBZone provisions are used to contract HUBZone companies in these areas as soon as possible.

My recommendation for other companies seeking the certification is to complete the process and become certified. That is the first step and a crucial one to enlarge the pool of resources and demonstrate to procurement officers that a large and steady pool of HUBZone companies exist.

Only with large numbers of certification and a strong commitment to HUBZone on the part of legislators can U.S.

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regions like Puerto Rico, grow and thrive despite natural disasters like Hurricane Maria.

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