

TESTIMONY OF JAMES C. HUDSON
before
**THE HOUSE SMALL BUSINESS SUBCOMMITTEE ON WORKFORCE,
EMPOWERMENT, AND GOVERNMENT PROGRAMS OF
THE COMMITTEE ON SMALL BUSINESS**
and
**THE SUBCOMMITTEE ON BENEFITS OF
THE COMMITTEE ON VETERANS AFFAIRS OF
THE UNITED STATES HOUSE OF REPRESENTATIVES**
July 15, 2004

Good afternoon Chairman Akin, Chairman Brown, other distinguished members of the Subcommittees, dedicated members of your respective staffs, and my colleagues both in and out of government here today.

I am a service disabled Vietnam veteran. My wife, Fran, also a service disabled veteran, and I work together in a corporation which publishes the Veterans Business Newswire, an e-Newsletter disseminated to more than 25,000 service disabled and other veterans in small business. We also publish a directory for small business owners called Purchasing Contacts in Major U.S. Corporations. And we own a video and audio conferencing company whose customers include federal agencies. I have worked in the field of veterans affairs and disability rights since my discharge from the Army in 1970.

My testimony is largely based on my own experience, as well as that of our Newswire readers, conveyed to us via hundreds of e-mail messages and phone calls, as well as users of a free brochure Joseph Forney, my wife and I created to promote awareness of P.L. 108-183 among disabled veterans and government buyers. More than 500 PDF and Microsoft Publisher versions of the brochure have been downloaded from our QuickBizTools.com website since February. This is an encouraging sign. It suggests that there a significant number of service disabled veteran-owned companies are still pursuing federal opportunities. But, I am concerned about the response these veterans are receiving from federal officials these veterans are receiving.

Our company, and disabled veteran-owned companies in which Fran and I have owned stock, have attempted to sell products to federal agencies by preparing carefully researched proposals, and by contacting countless program officers, scores of contracting officers, more than 850 prime contractors, and more than 30,000 purchase card holders (each has received multiple offers of name brand audio and videoconferencing products commonly used in government offices at bargain prices). To reach purchase cardholders we used e-mail addresses available at Internet FOIA sites of government agencies.

We have also attended many federal small business conferences in Colorado, New Mexico and Washington, DC. At the urging of OSDBU officials we have traveled to other states to meet with federal buyers. Despite our efforts over three years, our federal sales have totaled less than \$10,000.

We have corresponded and spoken with hundreds of service disabled and other veterans, but personally know few who describe themselves as successful in the federal procurement arena.

To learn how many new service disabled veterans are finding success in federal procurement I recommend that the Subcommittees request that the FPDC provide company names of new service disabled veteran-owned firms brought into the federal procurement arena by each agency annually subsequent to enactment of P.L. 106-50. In fiscal year 2002, for example, the number of new SDVOSB-owned companies awarded contracts by the VA in a typical month could be counted on one hand. And the FPDC data show you'd have one or two fingers to spare.

Service disabled veterans' companies would have earned well over 7.5 billion dollars in gross procurement revenue had the federal government attained the 3 percent goal Congress intended it to in fiscal year 2003. Instead, though the federal government spent more than \$260 billion dollars for procurement that year, it spent an embarrassingly small fraction of the 3 percent goal, just \$549 million, or two tenths of a percent of the procurement budget, with their companies. And that total is \$5 million less than the \$554 million spent with disabled veterans small business concerns in fiscal year 2001.

It is especially hurtful to our nation's service disabled veterans and their family members. to know that their government, even as it undertook wars in Afghanistan, in Iraq, and a broader worldwide war against terrorism, fell so profoundly short of its goal, and that a majority of 60 federal agencies literally spent nothing with disabled veteran business owners in fiscal years 2001, 2002 and again in 2003. Nor is this outcome supportive of our efforts to uplift troop morale and promote confidence in those considering military service.

Former Federal Procurement Policy Director Angela Styles testified in the Spring of 2003 that the federal government was doing an "abysmal job" in veterans procurement. As you know, her testimony helped spur the House Committee on Veterans Affairs' to action on legislation creating sole source and restricted competition contracting opportunities for this population. And your focus today is to learn what progress disabled veterans are experiencing, especially in the area of outreach concerning P.L. 108-183.

We know that federal agencies have had an obligation to perform contract-related outreach to this population before.

For example, for many years, federal agencies have had an obligation to seek service disabled veterans using the SBA PRO-Net database to encourage them to compete with other firms for small business set-aside and other contract opportunities. But in a study commissioned by Congress in 1997 and conducted in 2000 by the University of Massachusetts, service disabled veteran-owned firms profiled in PRO-Net reported federal agencies and prime contractors rarely if ever contacted their companies regarding contract opportunities.

And PRO-Net administrators admitted they had no mechanism for determining the extent to which companies listed in the database were notified of such contract opportunities, the fundamental purpose of the database. PRO-Net is now incorporated into the CCR database. But there is still no effort to determine the extent to which the Dynamic Small Business Search function of CCR (as it is now called) is used for that purpose.

Some federal agencies and prime contractors claim the number of readily identifiable, qualified service disabled veteran-owned companies available for contracting is limited. But that number has actually grown since fiscal year 2001. Agencies that may doubt this can examine PRO-Net registration data, Central Contractor Registration figures, the Veterans Corporation database, and the VA's new VIP database. Moreover, a recent SBA-funded study has identified databases containing thousands of additional service disabled veteran-owned companies, many of which have an interest in federal procurement opportunities.

However, and we should make no mistake about this, many service disabled veteran business owners have abandoned the federal procurement system over the past decade. PRO-Net data support this conclusion. And a 2000 focus group study of Service Disabled Veterans in Small Business revealed that many service disabled veterans hold extremely negative attitudes toward the federal procurement system as well as the federal business assistance system because of their experiences with that system from the 1970s through the 1990s.

The disabled veteran focus group participants correctly predicted the utter failure of the 3 percent goal program absent a sole source and/or restricted competition contracting program and *strong enforcement* measures. A one sentence SBA summary of the findings of that study submitted to Congress more than two years after it was completed redacted those predictions as well as any other criticisms of the federal business assistance system and recommendations for reform the University of Massachusetts study contained. The 26-city focus group study relied on the voluntary participation of 189 service disabled veterans in small business or who were planning to start a business, and more than 1,000 hours of their uncompensated effort. Had Congress had the focus group study findings and recommendations in 2000, perhaps it could have acted sooner to create a statute like P.L. 108-183. And perhaps we would have witnessed fewer service disabled veteran business owners walk away from a federal procurement system they view as presenting insurmountable barriers.

Disabled veterans also drop out of the federal procurement system after hearing empty promises from government officials like SBA Administrator Hector Barreto, who met with the Taskforce for Veterans Entrepreneurship in 2003. In that meeting he claimed he and his agency would not be satisfied until the SBA not only met, but exceeded the 3 percent goal. But at the end of fiscal year 2003, the FPDC reported the SBA for the third straight year had spent nothing with service disabled veterans companies. When Administrator Barreto came to Denver this Spring to have lunch with a few hundred small business owners, he bragged about his agencies accomplishments and plans for women and Hispanics, but said nothing about service disabled and other veterans, though

9 American soldiers and died that day in Iraq. A month earlier, the SBA's public information office had issued a news release bragging that the government had achieved a "significant jump" in procurement spending for service disabled veterans from 2002 to 2003. Slickly, the release omitted any reference to the goal for this group, the spending plunge the group experienced from 2001 to 2002, the fact that the top federal procurement official had characterized a higher spending total as an "abysmal failure," and the SBA's own spending record with disabled veteran-owned businesses: three straight years at zero percent. Veterans disdain such dishonesty by an agency so clearly associated with the willful neglect of procurement spending for service disabled veterans.

It is also important to recognize that there is no empirically-based evaluation of the costly government business assistance system. Until there is, your Committees and taxpayers won't know if the business advice and counseling service disabled veteran and other small business owners receive from the SBA, the VA, DOD small business representatives, the Small Business Development Centers and other government-funded resources is more or less useful than reading a few brochures, surfing the Internet for a few hours, or talking to a friend. All of these options, of course, are far less expensive (virtually free) than the current taxpayer-funded business assistance system.

Have I seen any significant change since P.L. 108-183 was enacted in November and the rules were promulgated this Spring?

Of course, no systemic data is yet available. There has been anecdotal evidence, principally from companies owned by veterans in the beltway area, of contracts being discussed and sometimes consummated.

Information about P.L. 108-183, especially policy letters and regulations, are reaching most contracting officials with whom I have spoken in recent months. But I have heard, as have most disabled veterans I have talked with recently, the typical reasons, rationalizations, and excuses when a decision to is made not to purchase a product or service.

Companies in the CCR and VIP databases that I have contacted are simply not reporting much success.

It's important to note that in FY 2002 just over 200 HUBZone sole source contracts (exclusive of 8(a) HUBZone firms) were consummated federalwide (an average of little more than 3 per agency) according to one FPDC report. And the HUBZone program was enacted in 1997. The HUBZone restricted competition program performed somewhat better. And the FY 2002 HUBZone pool was a larger pool of companies than the disabled veteran universe of companies will likely be for some time.

During the same year, nearly 30,000 sole source contracts were awarded to 8(a) companies.

I do believe P.L. 108-183 will prove helpful in raising the overall procurement spending of some agencies. But it will likely prove most beneficial to service disabled veterans already in the federal procurement system. I don't believe this was the main purpose of Congress in enacting either P.L. 106-50 or P.L. 108-183. I believe many members of Congress and veterans advocates were and continue to be especially concerned about those veterans returning from current wars with serious wounds and disabilities and a need to rehabilitate and support themselves and their families following their separation from the service.

I also believe that severely disabled veterans need a highly unique business assistance approach. They need an intensive, case managed business development program, with highly successful business professionals and government contracting professionals serving as part of their Chapter 31 case management team.

They will rarely benefit from the typical referral (without follow-up) to unevaluated SCORE, SBDC, SBA, VA or Veterans Corporation staff members who, despite good intentions, may or may very well not have the skills and actual successful business background to provide meaningful assistance to the severely disabled veteran rehabilitation client. The zeroes in the FPDC reports in the SDV column over the past three fiscal years attest to this.

Many service disabled veterans reject being folded into the 8(a) program. This is understandable, since the SBA has historically rejected severely disabled veterans and nonveterans alike who have applied for entry in the 8(a) program when they have not met other presumptive criteria. But to finally meet the nation's most deserving veterans small business needs, and to ensure the success of P.L. 108-183, and P.L. 108-183, Congress should immediately consider legislation creating a program specially designed to provide an individualized, case managed approach to assisting service disabled veteran-owned firms seeking to break into the federal procurement (including prime contracting) arena. This would be business development assistance in the true meaning of the word.

This program would follow the disabled veterans firm along for several years, provide specialized rehabilitation services (though not be tied to Chapter 31 delimiting date requirements), and require a 30 percent service-connected disability rating.

Each federal agency would at its contracting officers' discretion, identify contracts to be awarded on a sole source basis to the U.S. Department of Veterans Affairs, just as certain contracts are currently awarded by such agencies to the U.S. Small Business Administration under the 8(a) program. The Department of Veterans Affairs would select the severely disabled veteran-owned firms that will fulfill the work, or (just as the SBA now may delegate the selection of a contractor back to a originating agency's contract official), such selection of the contractor could be made by the originating agency contracting officer.

I strongly urge your two subcommittees to work together to create a solution that targets disabled veterans that have never benefited from the federal procurement system, that

have the capacity to do so, and that have substantial impairments stemming from their military service. Above all, let's not wait another five years to make necessary changes to America's business assistance and rehabilitation programs for service disabled veterans.