STATEMENT OF
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THE AMERICAN LEGION
BEFORE THE
SUBCOMMITTEE ON ECONOMIC OPPORTUNITY
COMMITTEE OF VETERANS' AFFAIRS
UNITED STATES HOUSE OF REPRESENTATIVES
ON
STATUS OF VETERAN SMALL BUSINESSES

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Chair Herseth Sandlin, Ranking Member Boozman and Members of the Subcommittee:

Thank you for the opportunity to present The American Legion's views on the Status of Veteran Small Businesses.

The American Legion views small business as the backbone of the American economy. It is the mobilizing force behind America's past economic growth and will continue to be a major factor as we move well into the 21st Century. Reports show that businesses with fewer than 20 employees account for 90 percent of all U.S. firms and are responsible for more than 75 percent of all new jobs, generated $993 billion in income in 2006, and employ 58.6 million people. There are 27 million small businesses in the U.S. and 99.7 percent of all firms are small businesses.

In FY 2007, the Small Business Administration's (SBA's) Office of Government Contracting reported that of more than $378.5 billion in Federal contracts identified as small business eligible, small businesses only received a total of $83 billion in prime contract awards and about $64 billion in subcontracts. Service-disabled Veteran-Owned Businesses (SDVOBs) were recipients of $3.81 billion, or 1.01 percent of those available contract dollars.

According to opening remarks made by Chair Nydia M Velazquez during a Small Business Hearing in March of this year, in FY 2009 "Federal agencies missed their small business contracting goals by 2 percent. Procurement officers will tell you that number is negligible, and no big deal. But while a 2 percent shortfall may not sound like a lot, it ultimately cost entrepreneurs $10 billion in missed opportunity. Or to put it another way, it cost Americans $10 billion in lost job creation. Small contractors, like all other small firms, create roughly 70 percent of new jobs. So when their ability to win contracts is compromised, employment numbers are too".

America has benefited immeasurably from the service of its 23.4 million living veterans, who have made great sacrifices in the defense of freedom, preservation of democracy, and the protection of the free enterprise system. Due to the experience veterans gain in the military the success rate of veteran-owned businesses is higher than other non-veteran owned businesses. The current War on Terror has had a devastating impact on the armed forces and has contributed

to exacerbating this country's veteran unemployment problem, especially within the Guard and Reserve components of the military. According to the Department of Labor the present unemployment rate for recently discharged veterans is an alarming 20 percent, and for veterans between the ages of 18 to 24 there is a 30.2 percent unemployment rate. Furthermore, presently one out of every four veterans who do find employment earns less than $25,000 per year. Unfortunately, many of the thousands of service members who are currently leaving the service are from the combat arms and non-skilled professions that are not readily transferable to the civilian labor market.

As reported earlier in this statement the best way of combating unemployment is through the creation of new jobs. Small business creates an estimated 65 percent to 75 percent of net new jobs, therefore providing a central element for strong economic growth. Government should assist in the creation of new jobs by encouraging qualified entrepreneurs to start and expand their small businesses. The American Legion believes no group is better qualified or deserving of this type of assistance than veterans.

Increasingly, the growth and stability of this nation's economy is dependent on the long-term success of the small business networks across the country. However, during a time of war there is much to be accomplished. Ironically, for too many years, the very men and women who served in uniform, stood ready to fight, and if necessary die in order to protect and preserve America's free enterprise system, are summarily ignored by the Federal agencies responsible for meeting their small business needs.

The Small Business Administration has the responsibility of supporting business owners who are military veterans, yet the office empowered to oversee these programs remains critically understaffed, underfunded, and still marginalized despite laws championed by the Small Business Committee to further empower veterans' entrepreneurship programs.

The Department of Defense (DOD), who will have the responsibility of directing more than $6.5 billion of stimulus infrastructure, continues to be satisfied with an embarrassing, less than 1 percent achievement of the Federally-mandated 3 percent SDVOB contracting goal. Especially important to note is that all of the stimulus money has been dedicated to construction and infrastructure improvement, and these are two of the strongest areas of SDVOB ownership according to the Federal Central Contractors Registry.

Additionally, the Army Corps of Engineers combined appropriations to improve and construct VA hospital and medical facilities adds up to nearly $6 billion. All totaled, there will be more than $12 billion spent just out of the stimulus package alone. The omnibus FY2009 Appropriations Act (P.L. 111-8) increased that amount by more than $4.3 billion for the Army Corps in Construction and Maintenance, and additional billions in DOD spending.

With the more than $20 billion being spent on veteran and military related projects, The American Legion finds it unconscionable that businesses owned by veterans remain at the back of the line when competing for Federal contracts according to the Federal Acquisition Regulation.

Veteran Small Business Training Centers

Last year, The American Legion pointed out that although the stimulus package included a number of economic development and small business outreach programs, not a dime was specifically targeted toward the development of veteran-owned businesses. Veterans deserve the finest assistance available. Year after year this nation struggles to maintain the operation of 3 Veterans Business Resource Centers originally funded through the National Veterans Business Development Corporation, nor has Congress increased the assistance to the 5 other Centers supported by the SBA's Office of Veterans Business Development in more than 5 years.

However, on March 31, 2010, SBA announced the award of grants to 10 local SBA Small Business Development Centers (SBDCs) to increase entrepreneurial assistance to veterans. The grants will provide approximately $1 million to fund programs for veterans who promote business ownership and provide services to small businesses dealing with the deployment of key personnel overseas. Each SBDC receiving funds will promote increased coordination of services to veterans, and will use multimedia tools to connect veterans through distance learning and customized online businesses counseling by providing services to reach the local veteran business community. The American Legions applauds $1 million in additional funding for grants to be given out on the behalf of veterans; nevertheless, SBA was given $10 million in additional discretionary spending. The American Legion believes a portion of that money needs to be directed towards the Office of Veterans Business Development for veteran's entrepreneurial endeavors.

Currently, too many military families are suffering financial hardship while their loved ones are recuperating in military hospitals around the country. Spouses are leaving their jobs to be with that disabled service member only to watch their family finances deteriorate. In many cases, seamless transition is just a wishful thought; however if business development training was offered to military members, a small home-based business could be the answer in guaranteeing a constant source of revenue for the family. Again, these Centers can be a vital link toward fulfilling this need.

The American Legion strongly supports the mandates of the "Veterans Entrepreneurship and Small Business Development Act of 1999" (P.L. 106-50) that were designed to assist all veterans wishing to start, expand, or protect their business. If there is a true desire to assist veterans returning from Iraq and Afghanistan in developing small businesses, we must work together to enforce and expand upon the mandates of P.L. 106-50.

The Office of Veterans Business Development within the SBA remains crippled and ineffective due to inadequate funding, and $750,000 in FY 07 and $742,000 in FY 08 is a woefully short to realistically support veteran entrepreneurship. These amounts, which are less than the office supply budget for the SBA, are expected to support the nation's entire population of veteran entrepreneurs. The American Legion feels that this is insufficient and disappointing to America's veteran business owners and clearly undermines the spirit and intent of P.L. 106-50. The American Legion strongly supports increased funding for SBA's Office of Veterans Business Development so it can provide enhanced outreach and community-based assistance to veterans and self-employed eligible members of the Reserves and National Guard. The American Legion recommends this office receive an additional $13 million, up from its current

level of $2 million in FY 2010, to $15 million in FY 2011 in order to implement a nationwide community-based assistance program to veterans and self-employed members of the Reserve and National Guard.

Small Business and the Credit Crunch

Small businesses are another casualty of the credit crunch caused by the ongoing financial crisis. By the end of 2008, more than half of the nation's small businesses looking for credit were unable to obtain a loan. This credit freeze will force many businesses to shut their doors, while others will be unable to expand. In either case, it means a loss of American jobs. Congress should implement current efforts to thaw the credit market for small businesses by establishing a direct lending program within the SBA. This program could provide loans to small businesses that cannot otherwise find credit, thereby potentially saving or creating tens of thousands of AmericanjJobs.

During the fourth quarter of 2008, 70 percent of banks reported tightening their lending standards for small firms. As a consequence, fewer than half of the small businesses that tried to get a loan in the fourth quarter of 2008 were able to get one. Of the small businesses that tried to obtain a new line of credit, only three in ten succeeded. The credit crisis is hitting small businesses across the board, including those that have been current in their payments and have no ties to high-risk sectors of the economy such as housing.

From November 2007 to November 2008, more than one quarter of small businesses reported a decline in the number of jobs at their companies. In December 2008, only one in eight small businesses said they planned to hire new employees in the next twelve months, a 48 percent drop since August 2008. In addition, the number of small businesses filing for bankruptcy rose 54 percent from 2007 to 2008.

The 7(a) loan program is the SBA's largest and most used lending program. Under this program, SBA provides a guaranty of up to 85 percent for loans provided by private-sector to small businesses. But because 7(a) loans are offered through private-sector banks, which are reeling from the current crisis, small businesses may not be able to get the relief they need. From the first quarter of 2008 to the first quarter of 2009, the number of loans approved by the 7(a) program dropped 57 percent. Moreover, the SBA is expected to guarantee only about $10 billion in loans this year, down from its historic norm of $20 billion per year.

To help ease the credit crisis for small businesses, The American Legion urges Congress to establish a direct lending program through the SBA. This effort would offer low-interest loans to otherwise healthy veteran-owned and service-disabled veteran-owned business that are having trouble obtaining the credit they need for necessary operating expenses or expansion.

Legislation and Veterans Federal Procurement Opportunity

The American Legion seeks and supports legislation to require a 5 percent goal, with set-asides and sole source authority for Federal procurements and contracts for businesses owned and operated by service-disabled veterans and businesses owned and controlled by veterans. This includes those small businesses owned by Reserve component members who have been or may

be called to active duty, or may be affected by base closings and reductions in the military forces.

The American Legion has encouraged Congress to require reasonable "set-asides" of Federal procurements and contracts for businesses owned and operated by veterans. We have supported legislation in the past that sought to add service-connected disabled veterans to the list of specified small business categories receiving 3 percent set-asides. The American Legion continues to support this Subcommittee's effort to raise the priority level of Service Disabled Veteran Business owners in the Federal Acquisition Regulation by changing "may" to "shall" and further by eliminating the "Rule of 2."

Noncompetitive Contracts

The American Legion concurs with National Veteran Owned Business Association's assessment in their statement submitted for this hearing regarding the 2009 White House announcement that executive agencies shall not engage in noncompetitive contracts. The American Legion is concerned though that the announcement made no distinction between the thousands of sole source awards to productive and efficient small businesses under the SDVOSB, HUBZone or 8(a) programs and the billions of dollars awarded sole source to large businesses, such as KBR and Halliburton. Specific guidance needs to be provided to contracting officers as to whether the administration is restricting the use of legitimate contracting mechanisms to support the nation's small businesses, or to restrict multi-billion dollar non-competitive awards to large prime contractors.

The American Legion also agrees that pressures being exerted on the Federal contracting community will probably result in greater use of the General Services Administration's (GSA's) Federal Supply Schedule Program. While this program holds a higher contracting preference compared to the small business programs, it unfortunately does not allow set-asides for any small business group. The American Legion agrees that expanded use of this program will further diminish opportunities for small businesses, especially small businesses owned by veterans.

Therefore, The American Legion recommends:

- Service-disabled, veteran-owned small businesses set-asides should be allowed under the Federal Supply Schedule Program. Currently, GSA schedules are exempt from Federal Acquisition Regulations part 19. Without this change, SDVOSB will be limited in their quest for small business opportunities to compete for Federal contracts.

- Implementation of a coordinated standardize training program for procurement staff that focuses on SDVOSB procurement strategies in their respective agency.

- President Obama should reissue Executive Order 13-360 "Providing Opportunities for Service-Disabled Veteran Businesses" to increase Federal contracting and subcontracting opportunities for veterans, and require that its tenets be incorporated into SBA Regulations and Standard Operating Procedures.

- The SBA needs to emphasize Executive Order 13-360 and establish it as a procurement priority across the Federal sector. Federal agencies need to be held accountable by the SBA for implementing the Executive Order. The SBA needs to establish a means to monitor agencies progress and where appropriate, establish a report to identify those that are not in compliance, and pursue ongoing follow-up.

- In order to achieve the mandates of Executive Order 13-360, the SBA must assist Federal agencies to develop a strategic plan that is quantifiable, and will assist them in establishing realistic reporting criteria.

- The American Legion also recommends that the House Small Business Committee embrace and promote development of stronger policy and legislative language that champions the utilization of Veteran-Owned Small Business (VOSB) Joint-Venturing (JV) as a ready solution to the Small Business Spending requirements of the Stimulus Spending initiative.

- Hold the agency leadership responsible for meeting the 3 percent congressionally mandated goal. The American Legion Small Business Task Force has proactively developed an initiative to challenge the leadership of DOD service components that are not meeting the 3 percent goal. We identified the Defense Logistics Agency (DLA) as among the worst performing organizations in terms of award percentage to SDVOBs. According to the Federal Procurement Data System-Next Generation (FPDS-NG) dated January 21, 2010, each major supply center fell well short of the three percent goal; and overall, DLA awarded only 0.70 or less than three quarters of one percent of contracted dollars to SDVOBs. More disconcerting is that the percentages of DLA awards to SDVOBs actually decreased from 0.73 in FY 08 to 0.70 in FY 09. The American Legion Small Business Task Force communicated their concerns to Vice Admiral Alan S. Thompson, Director of DLA, back in January 2010, in regards to our concerns associated with his agency's dismal record of contracting with SDVOBs. We also requested a meeting with him and his staff to offer our assistance in developing a plan for increasing participation within his agency. It took his office more than two months to respond and agree to a meeting. As of April 27, 2010, the meeting still has not been scheduled. Vice Admiral Thompson is a flag officer serving as a director of a DOD agency supporting America's warfighters; however, his organization continue to fail at meeting a congressionally mandated goal aimed at assisting the very community that has sacrificed so much. We recommend this Subcommittee schedule a hearing with all Federal agencies, like DLA, who consistently do not meet their Federal procurement goals with SDVOBs.

CONCLUSION

The American Legion believes that the majority of funding allocated to veteran and military projects through this stimulus bill, as well as future spending bills, should be spent exclusively with veteran-owned firms. It was the veteran who volunteered to defend this nation, the veteran who continues to keep our democracy intact, and the veteran who deserves the right to participate in rebuilding America's infrastructure and other necessary projects. In this capacity,

veterans will continue to serve the people of the United States by building and growing strong, reliable, dependable businesses.

The mission of The American Legion's National Economic Commission is to take actions that affect the economic well being of veterans, including issues relating to veterans' employment, home loans, vocational rehabilitation, homelessness, and small business. Small business continues to be a primary job generator and a major trainer for American employees. The small firm workforce includes more young and entry-level workers than colleges and large businesses combined. It is vital that Veteran-Owned and Service-Disabled Veteran-Owned Businesses receive a fair and proportionate amount of Federal contracts so these veterans can build and maintain successful businesses. The American Legion reiterates that the Small Business Administration's Office of Veterans Business Development should be the lead agency to ensure that veterans returning from Iraq and Afghanistan are provided with Entrepreneurial Development Assistance.

We look forward to continuing to work with the committee to enhance entrepreneurship among America's veterans. Again, thank you Chair Herseth Sandlin and Ranking Member Boozman for allowing The American Legion to present our views on this very important issue.