

Information for our members

Concerning DOE small business contracts!

The Department of Energy is being pressured by the Small Business Administration to assume direct accountability for small business contract awards. As a result, DOE-Hq. is mandating performance goals to DOE field offices to support this initiative.

As an example, the Department of Energy Richland Operations Office has a new Fiscal Year 2012 key performance goal to establish 5% of its annual funding (approximately \$50 million) in direct (prime) small business contracts. The requirement for FY 13 and FY 14 is 10%. For just DOE-RL, this amounts to \$100 million.

While on the surface this sounds like a good thing, TRIDEC has concerns about the impact of this change on our members, and on the local economy.

The following is provided to allow you, our members, to make an informed decision as to whether this new mandate helps, or hinders, our local small businesses.

Situation Today – The Department of Energy nation-wide subcontracts *90 percent of their total budget allocation* to prime contractors. This is the highest percentage of contracting compared to any other federal agency. The Department of Defense subcontracts 50 percent of their total budget allocation, with all other federal agencies well below Energy and Defense.

Some six years ago, TRIDEC pushed very hard on DOE-Hq. staff to include a requirement for each of the new Hanford Prime Contracts to “sub-out” 40% of their work to small businesses.

Recognizing the significance of supporting small business, the DOE Richland field office established very aggressive small business subcontracting goals in all of the current prime contracts. Based on the type and technical complexity of work, each prime contractor has been assigned a percentage of work scope that must be subcontracted to small business. The DOE further aligned targets specific to small business subcontracting goals with performance tied to incentive fee.

Current Hanford prime contract targets range from 49 – 65 percent of subcontracted work scope that must go to small businesses. And, currently all of the Hanford prime contractors are beating these targets!

Additionally, if adequate competition exists with local small businesses, Hanford prime contractors are to consider local small businesses for award first. Currently, nearly 50 percent of the small business dollars are awarded to local businesses operating within 100 miles of the Hanford site.

These targets and incentives are paying off. As reported in recent media releases on small business performance in Fiscal Year 2011, close to \$1 billion in annual contracts/purchases have been awarded by the four principal Hanford contractors. Of this, approximately 75 percent of these dollars went to small businesses. Well over 1,000 contracts have been awarded, with the majority of awards going to small businesses located in the greater Tri-City area thereby driving long-term economic development throughout local region.

Playing the numbers game, that means that some \$500 million of the current Hanford operating budgets are going to Small Business. The SBA mandate requirement for FY2013 is 10% of the operating budgets -- or a \$200 million target; which is some \$300 million less than is currently being awarded by Prime contractors locally!

We ask you to consider:

1. **Although the current dollars going to small business is significant, the Small Business Administration does not give government agencies credit for prime contractor small business awards.** TRIDEC believes that this policy must be reconsidered in order to continue benefits to small businesses and to the government.
2. From TRIDEC's review of the number of local small businesses that have current contracts with DOE's Prime Contractors, very few local small businesses will actually benefit from the new SBA mandate to contract directly with DOE. There is a strong probability that a number of local small businesses will lose existing contracts.

Benefits of Today's Structure



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- Hundreds of small businesses benefit
 - Low cost to bid
 - Short bid cycle
 - Protests are negligible, or not at all
 - Lowest risk to small business in terms of cost and timeline
 - Using primes result in fewer interface/ integration issues amongst site primes
 - Allows niche contractor market entry
 - Supports Mentor-Protégé opportunities
 - Prevents impacts to Hanford primes' ability to perform previously competed contracts
 - Reduces impact on government resources such as procurement, technical, and safety professionals
 - Most cost effective for the government
 - Does not duplicate roles/responsibilities between government and prime contractors
 - Broadens opportunities to engage more small businesses

Challenge – The new initiative for the Department of Energy to now contract directly with small businesses presents a challenge of not only impacting sustained performance but increasing cost. This will result in an impact to both the agency from an administrative perspective and small businesses competing in an already complex government procurement process.

Due to the complexity of cleanup scope, history has shown that the DOE direct procurement process will be lengthy with as much as a 9 – 18 month window for awarding a contract,

excluding any protests. As available federal funding continues to be reduced, increasing responsibilities for government procurement specialists is not practical. Prime contractors currently perform this small business procurement role. The government should focus on the performance of its few prime contractors and not increase management and administrative demands required to manage and provide oversight to multiple small business contracts.

Total value allocation and the number of small business awards may also be impacted. For example, when the government releases a procurement it is usually fairly large due to the number of required regulations and complexity in scope.

From TRIDEC's viewpoint, this typically results in a single award. The result will be that one or two small businesses win, and many will lose, particularly our local small businesses that cannot compete with national small business that is used to bidding on direct government contracts.

History has also shown that small businesses have a disadvantage when pursuing government contracts. This is a result of increased costs due to complexity in applying excessive FAR-based and agency regulations as well as the lengthy procurement timeline as discussed above. Due to these challenges, small businesses are often limited on the number of procurements they can reasonably pursue.

The Department of Energy, and more importantly local DOE offices, do not have current resources and staffing to procure and administer the number of small business prime contracts that would be needed for a meaningful outcome to reach the percentage or dollar-volume targets.

If the SBA target is to broaden the utilization of small business, the scope will need to be broken down further to allow small business the ability to compete. This will further tax government resources, impact existing site contractors, and potentially impact the safety of the workforce.

Another disadvantage of government directly contracting with small business is the inability to use available programs such as Mentor-Protégé and teaming arrangements that are not readily available through the government contracting process.

Finally, the complexity of cleanup requires the breadth and experience of the prime contractor. Primes are positioned today with resources and subject matter experts to award subcontracts much faster and aligned to the scope and schedule of cleanup priorities.

Impacts of Proposed Structure



- One or two small businesses win, many lose
- Procurement cycle is too costly for small business
- Significantly increases risk for small business
- Cost impacts limit number of procurements a small business can pursue
- Does not support Mentor-Protégé opportunities
- At a minimum, adds additional workload to government procurement, technical, and safety professionals
- Increases interface/integration issues amongst site primes

Recommendation – The Small Business Administration should give small business utilization credit to the Department of Energy for the goals achieved by their prime contracts. It is also recommended to remove the requirements for the Department of Energy to assume direct accountability on small business awards. With declining funding it is in the best interest of the government to eliminate duplicate roles and the resources required to prepare, award and oversee small business acquisitions. Of significance however is that small businesses benefit most from contracts issued by prime contractors.

	DOE Small Business Procurement through Prime Contractors	Direct DOE Small Business Procurement
Procurement Process	1 – 3 Months	9 – 18 Months

# of Companies Benefited	100s of small companies	1 or 2 companies, many companies lose a tremendous amount of money to bid a DOE prime contract
# of Winners	100s	1 or 2
Protests	Negligible	Very Likely
Cost of Entry	Low	Very High
Risk/Reward for Small Business	Low	High
Mentor-Protégé Opportunities	Yes	No
Teaming Arrangement	Small Business – 100%	Small Business – 51% Large Business – 49%

Detailed information re FY2011 prime contractor performance

Data extracted from 2011 Small Business performance media releases and prime contractor Section B, Contract Cost and Contract Fee for each respective contractor.



- \$388M annual contract value for FY11
- \$308M in contracts and purchases for FY11
- \$186M of subcontracts awarded to small businesses in FY11 (or 60%)

Since 2008:

- \$1.7B in contracts and purchases
- \$896M to small businesses (or 51%)
- Over 70% stayed in the Tri-Cities area
- 450 small business contracts

- \$329M annual contract value for FY11
- \$230M in contracts and purchases for FY11
- \$105M of subcontracts awarded to small businesses in FY11
- \$48M in total procurements were made locally
- Over 200 small business contracts
- Since 2009, \$296M awarded to small businesses

- \$195M annual "average" contract value for FY11 (total \$2.3B contract value)
- \$188M in contracts and purchases to 297 companies for FY11
- \$170M of subcontracts awarded to small businesses in FY11 (or 90%)
- \$119M in total procurements were made locally
- Contract goal = 65% of procurements go to small businesses

- \$651M annual contract value for FY11
 - \$155M in contracts and purchases to 327 companies for FY11
 - \$101M of subcontracts awarded to small businesses in FY11 (or 58%)
 - \$39M in total procurements were made locally
- Over the course of ARRA:**
- WRPS issued 850 subcontracts
 - Totaling more than \$152M
 - With 76% going to small businesses

Our TRIDEC offices would appreciate hearing directly from you concerning potential impacts on you and your business. Depending on responses, we may ask that you send a letter to our Congressional Offices.

Please send a quick e-mail to one of the following: kpratt@tridec.org; gwhite@tridec.org; gpetersen@tridec.org; or cadrian@tridec.org