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Freedom of Market Navigation Versus Duty of Economic Rescue: The U.S. Department of the Navy's Use of Set-Asides Parity, Discretion, and Simplified Acquisitions to Contract With Hubzone Small Businesses

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Panel 7. Current Issues in Contracting

Wednesday, May 4, 2016	
1:45 p.m. – 3:15 p.m.	**Chair: Elliott Branch,** Deputy Assistant Secretary of the Navy, Acquisition & Procurement ***Mining for Gold: Developing and Implementing a Strategic Sourcing Prioritization Model for the United States Air Force*** Maj Karen Landale, USAF, Assistant Professor, NPS Roger Westermeyer, Col, USAF (Ret.) Maj John Sharkey Rick Keller Carl Parson MSgt Michael Rankin SSgt Justin Keeney ***An Economic Analysis of the Truth in Negotiations Act (TINA)*** Chong Wang, Associate Professor, NPS Rene Rendon, Associate Professor, NPS 1st Lt Crystal Champion, USAF Capt Meredith Ellen, USAF Capt Jenny Walk, USAF ***Freedom of Market Navigation Versus Duty of Economic Rescue: The U.S. Department of the Navy's Use of Set-Asides Parity, Discretion, and Simplified Acquisitions to Contract With Hubzone Small Businesses*** Max Kidalov, Assistant Professor, NPS

Freedom of Market Navigation Versus Duty of Economic Rescue: The U.S. Department of the Navy's Use of Set-Asides Parity, Discretion, and Simplified Acquisitions to Contract With Hubzone Small Businesses

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Abstract

Since March 1999, the Department of the Navy (DoN) has had an important shore duty: to exercise its purchasing freedoms and powers in ways that will channel government contracts to small business concerns (SBCs) locating and hiring in Historically Underutilized Business Zones (HUBZones). Under the Small Business Act, the HUBZone Program provides these firms with contracting assistance, notably, competitive and sole sources set-asides. In 2005, this assistance was expanded to FAR Part 13 Simplified Acquisition Procedures. The federal government must also spend at least 3% of its prime contract dollars with HUBZone SBCs. During fiscal years 2006–2015, DoN's HUBZone goal achievements experienced a brief dramatic growth followed by a full-circle decline to the decade-old spending and percentile levels. Academic and legal policy literature offers many possible reasons for this unfortunate U-turn. The HUBZone Program's design was often criticized on the grounds that it impedes creating and finding capable and eligible firms; that it may reward already-successful or overly-costly contractors; that it hurts the government's ability to meet its duties to other socioeconomic programs, such as the 8(a) Program; that it is not strong enough to match the 8(a) Program; and that it introduces undue complexity into federal procurement. Beginning in 2011–2012, the federal HUBZone Program lost about 30% of its participants to decertification. Finally, during the first half of the last decade, the HUBZone Program triggered a constitutional stand-off between legislative, executive, and judicial branches on the Program's discretionary parity or mandatory precedence over the 8(a) SDB, WOSB, and SDVOSB programs. The DoN initially scored a judicial victory over the Small Business Administration (SBA) in favor of precedence, but changed its stance three years later with the rest of the executive branch in favor of discretion and parity. This study examines possible root causes and solutions to DoN's HUBZone contracting woes through the use of the generally accepted Cohen-Eimicke Contract Management Performance Model.

Introduction

Since 1999,[1] the Small Business Act and the Small Business Administration (SBA) imposed on the U.S. Department of the Navy (DoN; the parent agency of the U.S. Navy and the U.S. Marine Corps) a shore duty to render economic development assistance to small business concerns located in so-called Historically Underutilized Business Zones (HUBZones) by means of government contracts. This rescue duty[2] was imposed as a condition on the pre-existing customary legal freedom enjoyed by Navy and Marine buyers to navigate the market and the industrial base looking for the best bargain.[3] Similar to the seafarers' rescue duty, this new economic development duty is based on the rationale that the Navy and the Marines must use their superior power (in this case, buying power) to assist struggling-area firms and not merely wait on some development assistance agencies and experts to come help later (Dilger, 2013). This rescue-on-shore framework contemplates that, as condition of assistance, the DoN will necessarily receive substantial benefits from the HUBZone firms in the form of goods and services to meet the DoN's requirements. Indeed, HUBZone industrial base benefits may well be mission-critical for the DoN.

The Small Business Act and implementing regulations require the DoN to follow certain designated paths to support the federal HUBZone policy. For example, the DoN is required to meet its HUBZone contracting goal, negotiated so as to contribute to the DoD's and government-wide goal of spending not less than 3% of total procurement spending with HUBZone small business concerns.[4] Further, the HUBZone statute and regulations provide several tools, including competitive (currently including reserves) set-asides, sole source set-asides (up to certain dollar thresholds), a price evaluation preference in full and open competitions applicable against other than small business concerns, and a certified HUBZone small firms' database.[5] In addition, as part of rulemaking on veterans contracting, the Federal Acquisition Regulation (FAR) Council on its own made "improving opportunities" for HUBZone firms one of the stated purposes of FAR Part 13, Simplified Acquisition Procedures (Federal Acquisition Regulation [FAR] Council, 2005).

This paper contains the preliminary results of a study conducted at the request of the director, Secretary of the Navy's Office of Small Business Programs, on improving DoN HUBZone contracting.[6] As such, it is necessary to explore DoN's HUBZone goaling

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[1] The HUBZone Program was created by the Small Business Reauthorization Act of 1997, Public Law 105-135, Title VI, codified at 15 U.S.C. §657a (1997); it went into effect in March 1999 once the SBA established certified its first HUBZone firm. See Dilger (2013).

[2] The reference to rescue duty is an attempt at analogy to the seafarers' rescue duty. Historically, when at sea, admiralty and international maritime law gives the U.S. Navy and the U.S. Marine Corps the freedom of navigation but also imposed on them the duty of rescue those in distress (also known as the duty to render assistance). The policy rationale for this duty is the recognition that seafarers must use their powers for good without merely waiting for some other rescue ships to arrive. See generally, Maltzman and Ehrenreich (2015); *Commander's Handbook* (2007), Ch. 3, "Protection of Persons and Property at Sea and Maritime Law Enforcement"; Peltz (2014).

[3] See generally, FAR Parts 5 and 6 (2015).

[4] See 15 U.S.C. § 644 (2007).

[5] See 15 U.S.C. §657a (2015); FAR Subpart 19.13; 13 C.F.R. Part 126 (2015).

[6] This study extensively relies on the analytical framework and conceptual analysis from a prior SECNAV OSBP-sponsored study: Kidalov and Lee (2015)

performance and the HUBZone Program's background to place the study in its proper context. Data in Figure 1, Figure 2, and Table 1 show that the DoN's goaling performance needs a turnaround.

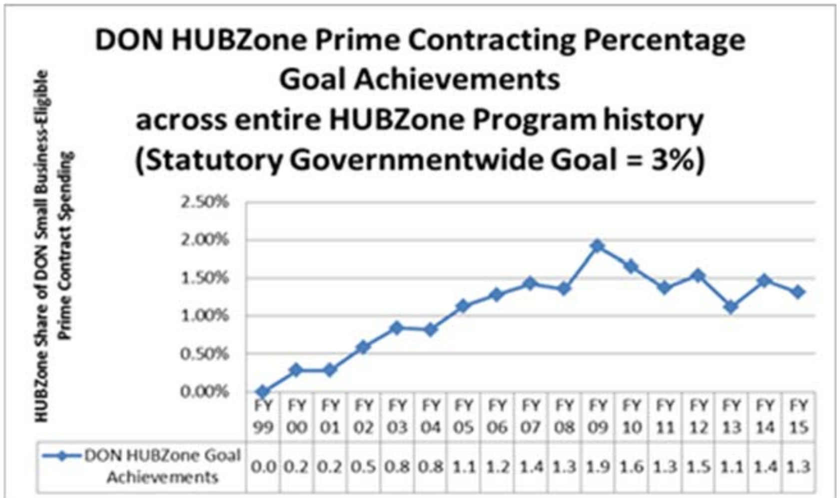

Figure 1. DoN HUBZone Goal Achievements Across HUBZone Program's History

Figure 2. DoN HUBZone Goaling Spending Across HUBZone Program's History

Table 1. DoN HUBZone Historic Goaling Results; Identification of the Period Under Study

DON HUBZone Goaling Results across HUBZone Program history		
Fiscal Year	DON HUBZone Goal Achievements	DON HUBZone Goaling Report Spending
FY 99	0.00%	$124,871.00
FY 00	0.28%	$108,072,889.00
FY 01	0.28%	$111,603,579.00
FY 02	0.59%	$267,233,044.00
FY 03	0.84%	$457,836,297.28
FY 04	0.82%	$472,357,985.95
FY 05	1.13%	$689,181,165.85
FY 06	1.28%	$897,613,942.79
FY 07	1.43%	$1,104,217,860.49
FY 08	1.36%	$1,237,321,102.72
FY 09	1.91%	$1,750,105,357.60
FY 10	1.65%	$1,359,237,241.73
FY 11	1.37%	$1,287,878,332.19
FY 12	1.54%	$1,367,580,177.22
FY 13	1.12%	$898,154,878.94
FY 14	1.47%	$1,109,412,329.02
FY 15	1.31%	$893,143,410.97

At the time of the HUBZone Program's design and since, its design has been the subject of intense criticisms. U.S. Senate Small Business and Entrepreneurship Committee Chairman Senator Kit Bond intended for the HUBZone to replace the 8(a) Business Development Program for Small and Disadvantaged Businesses, while President Clinton and others in Congress did not (e.g., see Dilger, 2013). Others criticized the HUBZone program as interfering with efficiency, or as favoring "close swap" of non-HUBZone firms for HUBZone firms that were close to winning contracts even without HUBZone assistance (e.g., see Dilger, 2013; Reece, 2011).

As noted in the author's prior research (Kidalov & Lee, 2015), Section 8(a) of the Small Business Act authorizes and directs SBA to provide business development assistance to small disadvantaged businesses (SDBs), typically, members of groups victimized by past racial discrimination. Included in this assistance are tailored business development plans, pool of contract requirements "accepted into" the program for not more than seven years for sole source and competitive set-asides, management and technical advice, agency goals, training, and other assistance. In addition, 8(a) sole source contract awards can be made based on such business development plan even if there is another willing, but more successful 8(a). SBA's assistance mix would change as the firms established past performance and progressed towards program graduation. The SBA reports to Congress annually on assistance metrics, including number of firms assisted and agencies' spending goal achievement.[7] Federal and DoD contracting officers make non-competitive 8(a) awards

[7] See generally 15 U.S.C. § 637(a) (2014); 13 CFR Part 124 (2014); SBA Office of Business Development (2008); SBA (2014).

with SBA direction or concurrence, and may not rededicate 8(a) Program contracts for other businesses without SBA approval. This assures the 8(a) Program a "floor" in terms of program spending and breadth of industries. Further, the 8(a) Program increases the outcome of business development of disadvantaged entrepreneurs through a firm-focused process there the SBA assumes much of the responsibility for picking firms in need of contract awards, leaving contracting officers to focus on better requirements definition and contract administration. In contrast, the SBA emphatically stated that no business development assistance will be provided to individual HUBZone firms, but that assistance will be indirect to HUBZone communities at large.[8] In essence, DoN contracting officers bear some moral or public interest responsibility for HUBZone economic development, but well-defined responsibility for performance risk and no specific guidance on how to tailor contracts to HUBZone firms' needs.

Since the creation of the HUBZone Program, the legal force of this economic assistance duty has been the subject of an intense debate. Between 1999 and 2005, this duty was legally mandatory and took precedence over assistance duties to other types of small businesses. In August 2005, however, the U.S. Small Business Administration decided that the duty to the HUBZone firms must be subject to parity with other so-called socioeconomic small business categories.[9] In the January 11, 2006, case of *Contract Management Industries, Inc. v. Rumsfeld*,[10] which concerned HUBZone set-aside at Naval Base Pearl Harbor, the DoN took a very firm stand against the SBA's position and in favor of the original mandatory design of the HUBZone Program set-asides and the precedence of HUBZone set-asides over the 8(a) Program. The U.S. Court of Appeals for the 9th Circuit, and at the time, the U.S. Department of Justice sided with the DoN against the SBA. In *International Program Group, Inc*.,[11] a September 19, 2008, case involving pre-deployment training contracts at Marine Corps Camp Pendleton, the DoN doubled down on that victory. The DoN obtained a GAO opinion reinforcing the 9th Circuit and the precedence of HUBZone set-asides over set-asides for service-disabled veteran-owned small businesses (SDVOSBs). However, the debate did not stop. The U.S. Government Accountability Office, the U.S. Court of Federal Claims, the DoJ Office of Legal Counsel, the Executive Office of the President, Congress, and various DoD components all added to the debate (Branch, 2009). On August 4, 2009, the DoN acceded to the view of the SBA, DoD Defense Procurement and Acquisition Policy, and DoJ OLC that HUBZone contracting set-asides must have parity with other Small Business Act socioeconomic categories and be subject to the discretion of the contracting officer (Branch, 2009). The debate, which lasted through 2010–2011, has triggered a constitutional stand-off over congressional, judicial, and executive powers over financial assistance to distressed areas by means of government procurement contracts. The crisis was resolved when Congress acceded to the Executive Branch requests and legislated parity between socio-economic category set-asides in the Small Business Jobs Act of 2010.[12]

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[8] See U.S. Small Business Administration, HUBZone Empowerment Contracting Program, Final Rule, 63 Fed. Reg. 31896-31916 (June 11, 1996).
[9] See *International Program Group, Inc.,* B-400278; 4-00308 (GAO) (Sept. 19, 2008).
[10] See *Contract Management Industries, Inc. v. Rumsfeld*, 434 F.3rd 1145 (9th Cir. 2006).
[11] See *International Program Group, Inc.,* B-400278; 4-00308 (GAO Sept. 19, 2008).
[12] Public Law 111-240 (Sept. 24, 2010).

As noted in the author's prior research (Kidalov & Lee, 2015), the SBA and FAR Council amended their respective regulations in 2011 and 2012. The SBA amended its regulations on February 4, 2011 and made market research for purposes of considering HUBZone set-asides mandatory:

> After conducting market research, the contracting officer shall first consider a set-aside or sole source award (if the sole source award is permitted by statute or regulation) under the 8(a) BD, HUBZone, SDVO SBC or WOSB programs before setting aside the requirement as a small business set-aside. There is no order of precedence among the 8(a) BD, HUBZone, SDVO SBC or WOSB programs. The contracting officer must document the contract file with the rationale used to support the specific set-aside, including the type and extent of market research conducted. (13 C.F.R. § 125.19(b)(2)(i), 2011).

The FAR amendments provided for parity and also expressly mandated consideration of the HUBZone Program and other socio-economic programs before proceeding with regular small business set-asides above the Simplified Acquisition Threshold (SAT). The FAR Council (2012) states, "FAR 19.203(d) was added to include language consistent with 13 CFR 125.2(f)(2)(ii) regarding the minimum elements a contracting officer should examine when choosing a socioeconomic program: The results of market research and progress in fulfilling agency small business goals." Moreover, the SBA and FAR regulations provide for discretionary ("may") rather than "shall" mandatory language. Based on the Small Business Jobs Act of 2010, Public Law 111-240 (Sept. 24, 2010), FAR § 19.203 outlines three general rules of precedence for open market procurements. First, "[s]mall business set-asides have priority over acquisitions using full and open competition" (FAR 19.203). Second, "there is no order of precedence" among the four small business socioeconomic programs: the 8(a) Program, the HUBZone Program, the Service–Disabled Veteran–Owned Small Business (SDVOSB) Procurement Program, or the Women–Owned Small Business (WOSB) Program. The choice among the socioeconomic programs is discretionary, in that "the contracting officer should consider, at a minimum—(1) results of market research that was done to determine if there are socioeconomic firms capable of satisfying the agency's requirement; and (2) agency progress in fulfilling its small business goals" (FAR 19.203). The third rule concerns the choice between small business set-asides and small business socio-economic set-asides. However, the parity between those programs is still subject to the 8(a) claw-back priority: "However, if a requirement has been accepted by the SBA under the 8(a) Program, it must remain in the 8(a) Program unless the SBA agrees to its release in accordance with 13 CFR parts 124, 125, and 126" (FAR 19.203). The 8(a) Program also retained the so-called non-advertisement rule in Part 124, which obligates contracting officers not to advertise 8(a) requirements through non-8(a) programs.

Since 2011–2012, the federal HUBZone Program also suffered a decertification crisis due to U.S. Census redesignations of HUBZone areas. As many as 30% of HUBZone firms were decertified (Lee, 2012).

Based on the HUBZone Program's background, this study addresses the following three research questions:

1. Can DoN HUBZone Program's struggles be better explained in terms of the generally accepted Cohen-Eimicke Contract Management Performance Model (inputs, process, outputs, and outcome)?
2. Are measures such as broad and unguided individual-level contracting officer discretion on set-asides, parity with the 8(a) and other socioeconomic

program set-asides, and Simplified Acquisitions effective to support HUBZone participation in Navy and Marine Corps contracting?

3. What should DoN do to turn around its HUBZone Program?

This study's research hypothesis is that the DoN HUBZone Program's design is misaligned from critical performance management criteria that do not include goaling spending. Ironically, this misalignment operates to impede HUBZone goaling achievements over the long run. The study uses the Cohen-Eimicke model to define effective program management of a socioeconomic contracting program, and then examines Federal Procurement Data System data corresponding to the Cohen-Eimicke criteria. Finally, the study makes recommendations for DoN and SBA action.

Theoretical Foundations of Effective Program Design: Applying the Cohen-Eimicke Contract Management Performance Model to Hubzone Socioeconomic Contracting

The description of the Cohen-Eimicke model generally follows the description contained in the author's prior research on the SDVOSB Program based on similar methodology (Kidalov & Lee, 2015). Cohen and Eimicke's 2008 modern classic *The Responsible Contract Manager*, sorts contracting programs' performance measurements according to four types of measures: input(s), process(es), output(s), and outcome(s).[13] Inputs are a measurement of program resources, such as "dollars appropriated and allocated, … length of time committed to the problem," involvement of other organizations, and so forth (Cohen & Eimicke, 2008).

> Input measures are frequently criticized because they tell you only how hard you are trying to do something about a problem or the extent of your commitment to reach a particular goal. … Input measures tell you very little about how well you are doing in reaching the objective—they measure effort much better than they assess results. But input measures should not be ignored. They provide an important barometer of the scope of activity and of the present and future demand on overall resources, serve as surrogates of the organization's priorities, and often reflect the organization's customer preferences as well. (Cohen & Eimicke, 2008, p. 152)

In the HUBZone Program, performance (inputs) is generally measured by means of the statutory 3% prime contracting goal under the Small Business Act (or goals as may be negotiated by the SBAs) which provides the "floor" spending share of agency contracts that should go to HUBZone small businesses (Cohen & Eimicke, 2008, p. 153).

Process is the second performance measurement (i.e., step or steps involved in generating outputs, such as production of items); it is described by Cohen and Eimicke as a function of total quality management (TQM). "Measurement of those activities facilitates organizational learning and improvement. Process measures include the delineation and definition of specific work steps, measures of the amount of time it takes to perform specific

[13] As noted in the author's prior research, this book's reception is discussed in Girth (2014), Joaquin (2010), and Filipovitch (2010). This book is also used in the Naval Postgraduate School contract management curricula.

tasks, error rates, and similar indicators. Requiring organizational units to report process measures can signal government's concern for the quality and efficiency of an organization's internal operations and can compel attention to these fundamental management issues" (Cohen & Eimicke, 2008, p. 153). In the HUBZone Program, HUBZone set-asides as well as related publicity and market research to meet the set-aside Rule of Two[14] or to find a HUBZone sole source contractor constitutes Program process. On the other hand, non-HUBZone set-asides or unrestricted contracts awarded without the benefit of the price evaluation preference constitutes process outside of the HUBZone Program.

Output is the third performance measurement category, which

> seek[s] to quantify the amount of work accomplished with the inputs or resources provided. Output measures can seek to measure quantity, quality, or both. Typical output measures include customers or clients served, facility condition and cleanliness, miles of road paved, … or number of products sold. … Utilizing a select number of indicators that have a direct impact on performance (particularly for customers and funding agencies) leads to a successful performance measurement system. (Cohen & Eimicke, 2008, p. 153–154)

A typical output measure for the HUBZone Program would be the number of HUBZone small businesses that benefitted from the HUBZone program, or a number of contracts awarded through the HUBZone Program (Cohen & Eimicke, 2008).

Outcome- or impact-based measures are the fourth and final category. They assess whether the desired objective or state is being achieved. As Cohen and Eimicke acknowledged, outcomes are difficult to define and measure. In general, "the function of performance management remains the same: What are we trying to do, and are we succeeding in doing it?" (Cohen & Eimicke, 2008, p. 155). For the HUBZone Program, Section 606 of Public Law "increased employment opportunities and an increased level of investment in HUBZones" and further defines those terms by reference to Section 602 to mean "Federal contracting assistance" provided in accordance with the HUBZone Program. The former part of this convoluted definition could include, for example, factors such as the diversity of industries in which HUBZone firms participate or the diversity of goods or services requirements which they provide. The latter part of the definition appears to duplicate inputs-based measures.

Understanding the Hubzone Program Operations Through the Cohen-Eimicke Contract Management Performance Model

As stated above, this study generally follows the methodology of the Kidalov-Lee (2015) study on SDVOSB contracting. Thus, the methodological explanations and data comparisons in this section follow or closely parallel the Kidalov-Lee study.

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[14] The *Rule of Two* refers to a contracting officer's determination, prior to a set-aside, that two or more capable HUBZone firms are willing to submit offers at fair market prices. See 15 U.S.C. § 657a (2015).

HUBZone Program Taxonomy: Inputs—Overall Trends on DoN Spending With HUBZone SBCs

To understand the full investment value of DoN HUBZone contracting, it is necessary to examine the spending data attributable not only to HUBZone goals but also to net spending (through new awards and modifications) as well as through new awards alone. Because the HUBZone Program's legal and management authorities concern New Awards and not contract modifications, this study's primary focus is on New Awards. References in this study to "New Awards" or "Awards" will be interchangeable.

The FPDS Goaling Report spending data typically contain New Awards and various accretive modifications such as options; this data does not cover deductive modifications (such as terminations) and is subject to goaling exclusions (such as overseas contracts) (U.S. General Services Administration [GSA], 2015; SBA, 2003; Kidalov & Snider, 2013). This accounts for varying levels between goaled, net, and New Awards data. The New Awards data show the value of all DoN contracts with HUBZone firms (not to be limited to "HUBZone contracts" through Program mechanisms) identified with "Modification 0." The Net Total Spending data show the net sum of all DoN HUBZone contract spending with all modifications and regardless of goaling exclusions. HUBZone Program contracts are set-aside contracts, which provides for a more direct comparison to other programs that lack tools as the price evaluation preference (PEP). PEPs are not addressed in this study due to data quality concerns.[15] In recognition of the SBA's 2005 position favoring parity of socioeconomic programs, references below to Parity Programs mean the 8(a), Women-Owned Small Business, and Service-Disabled-Veteran Owned Small Business programs as appropriate for the particular year at issue.

DoN HUBZone Spending Trends

Data in Figure 2, Figure 3, and Table 2 below help understand the DoN's overall investment in HUBZone firms over time, as well as the component contributions to that investment from the HUBZone Program, parity programs and other non-program award mechanisms. That relationship between overall and component inputs contributions is important for the Cohen-Eimicke evaluation framework.

Evaluated spending categories include Goaling, Net, New Awards, HUBZone Program (Set-Asides), Non-HUBZone Set-Asides (covering Parity Programs and regular Small Business Set-Asides), as well as separate data for 8(a) and combined Parity Programs. DoN HUBZone spending across goaled and all other program and non-program categories discussed in the following figure and table below has peaked in FY2009. While the decline of spending was particularly pronounced in FY2013 sequestration year, Net Losses appear to be peaking post-sequestration.

[15] For example, in FY2011 FPDS data, HUBZone price evaluation preferences as high as 60% were recorded. In contrast, 15 U.S.C. 657a statutory price evaluation preference is generally set at no more than 10%.

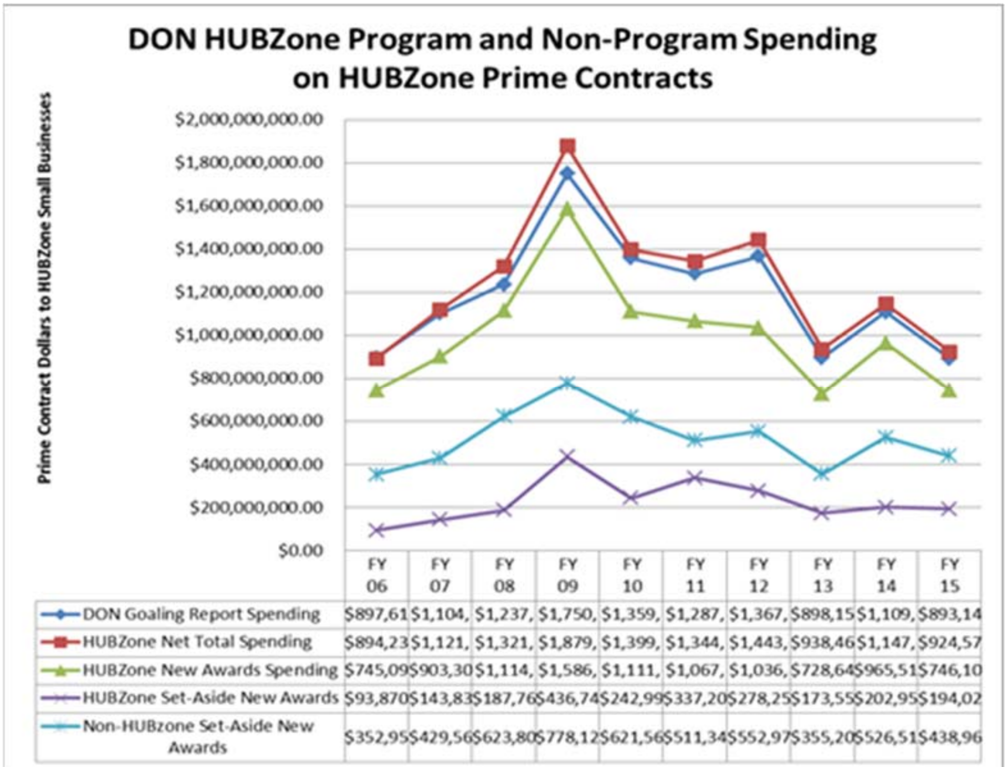


Figure 3. DoN Program and Non-Program Spending by Reference to Goaling Report

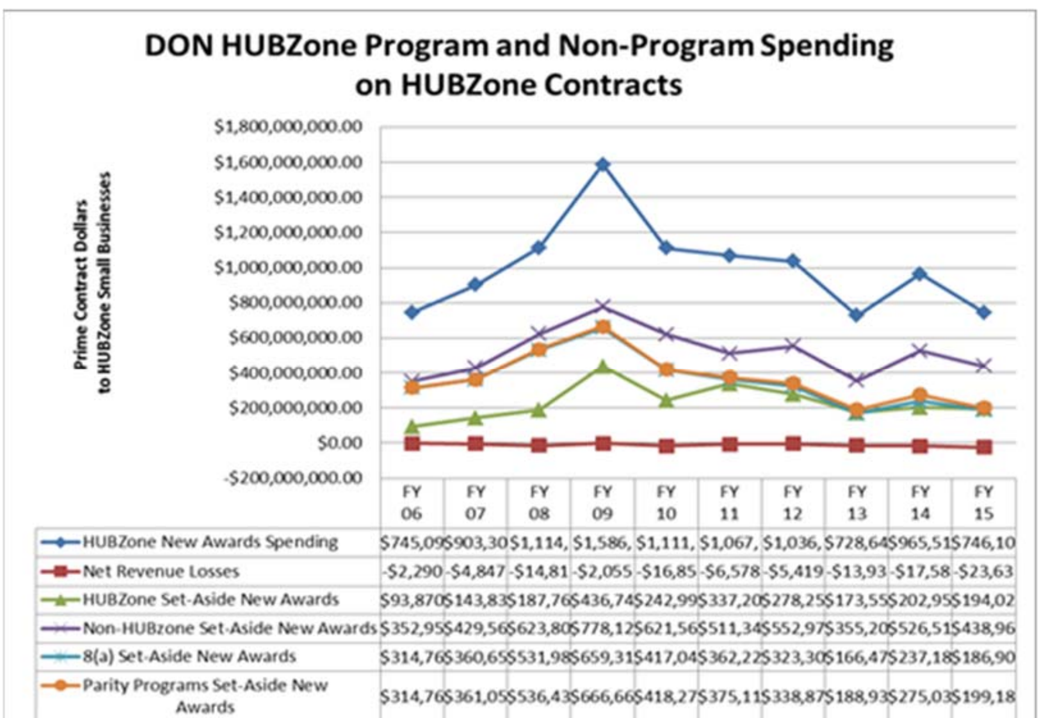


Figure 4. DoN HUBZone Spending Through HUBZone Program and Non-Program Contracting

Table 2. DoN HUBZone Spending Through HUBZone Program and Non-Program Contracting

DON HUBZone Spending through HUBZone Program and Non-Program Contracts								
Fiscal Year	DON Goaling Report Spending	HUBZone Net Total Spending	HUBZone New Awards Spending	Net Revenue Losses	HUBZone Set-Aside New Awards	Non-HUBzone Set-Aside New Awards	8(a) Set-Aside New Awards	Parity Programs Set-Aside New Awards
FY 06	$897,613,942.79	$894,237,693.72	$745,099,286.84	-$2,290,366.01	$93,870,834.93	$352,955,351.17	$314,766,915.43	$314,766,915.43
FY 07	$1,104,217,860.49	$1,121,659,908.51	$903,305,189.82	-$4,847,858.24	$143,833,407.38	$429,562,620.08	$360,659,193.46	$361,053,467.85
FY 08	$1,237,321,102.72	$1,321,626,117.21	$1,114,875,420.30	-$14,817,345.81	$187,766,690.03	$623,800,796.80	$531,981,815.52	$536,432,769.52
FY 09	$1,750,105,357.60	$1,879,156,604.79	$1,586,369,272.12	-$2,055,011.95	$436,741,575.96	$778,120,360.33	$659,313,495.91	$666,664,337.37
FY 10	$1,359,237,241.73	$1,399,351,064.32	$1,111,422,998.18	-$16,854,775.20	$242,992,572.04	$621,566,383.14	$417,046,206.09	$418,271,395.75
FY 11	$1,287,878,332.19	$1,344,456,791.81	$1,067,764,655.34	-$6,578,145.87	$337,209,463.35	$511,340,844.81	$362,223,313.69	$375,117,886.76
FY 12	$1,367,580,177.22	$1,443,154,134.37	$1,036,448,725.20	-$5,419,728.18	$278,255,334.11	$552,976,979.76	$323,304,399.27	$338,873,246.68
FY 13	$898,154,878.94	$938,467,793.27	$728,642,269.44	-$13,936,754.28	$173,556,354.24	$355,202,443.64	$166,479,050.57	$188,938,423.46
FY 14	$1,109,412,329.02	$1,147,564,892.62	$965,510,745.11	-$17,586,917.27	$202,952,051.85	$526,513,511.55	$237,188,933.60	$275,037,092.11
FY 15	$893,143,410.97	$924,579,303.17	$746,106,227.18	-$23,630,985.73	$194,024,167.30	$438,968,123.20	$186,907,138.30	$199,187,751.35

Findings: HUBZone Program spending has never been a dominant contributor to DoN HUBZone contracting investment overall. Following the 2009 DoJ- and DoD-mandated reversal of the DoN position on mandatory precedence of HUBZone contracts in favor of contracting officer's discretion, DoN contracting officers chose not to use the tools they previously used to deliver peak spending results. In particular, the declines in HUBZone Program as well as 8(a) and other Parity Programs set-asides appear to correlate with the general decrease in HUBZone spending levels. In their exercise of discretion to meet spending goals, contracting officers appeared to prefer Non-HUBZone set-asides, particularly regular Small Business Set-asides, instead of HUBZone set-asides. The continued increase in Net Losses shows reluctance of contracting officers to keep work with HUBZone firms.

DoN HUBZone Program Spending Trends

In addition to overall HUBZone spending and Program spending, it is important to examine Program spending in more detail by type of set-aside tool. Data in Figure 5 and Table 3 show HUBZone Program spending over the years by competitive, sole source, and SAP. Just as the data above, the data below show that Program spending peaked in FY2009. Trends below suggest that HUBZone Program spending is unstable, going up and down from year to year. This is driven primarily by volatility in competitive set-asides spending. HUBZone sole source set-asides spending is no longer a serious contributor to Program spending. In fact, HUBZone SAP set-aside spending now more than doubles HUBZone sole source set-asides spending.

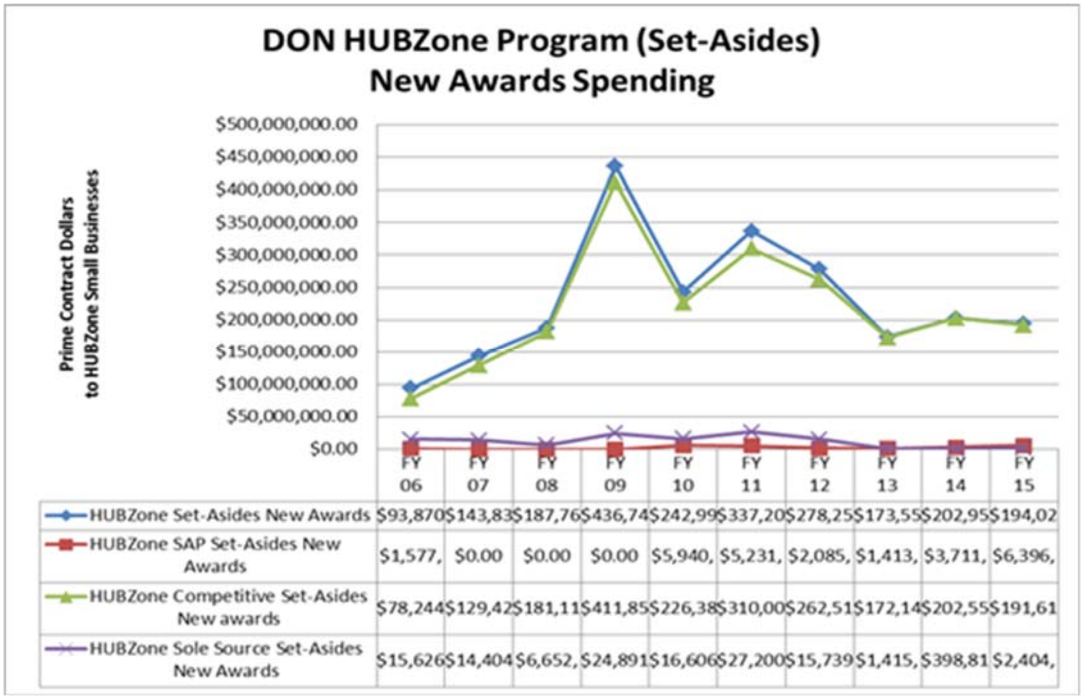


Figure 5. DoN HUBZone Program (Set-Asides) New Awards Spending

Table 3. DoN HUBZone Program (Set-Asides) New Awards Spending

DON HUBZone Program Spending				
Fiscal Year	HUBZone Set-Asides New Awards	HUBZone SAP Set-Asides New Awards	HUBZone Competitive Set-Asides New awards	HUBZone Sole Source Set-Asides New Awards
FY 06	$93,870,834.93	$1,577,755.00	$78,244,003.93	$15,626,831.00
FY 07	$143,833,407.38	$0.00	$129,428,689.71	$14,404,717.67
FY 08	$187,766,690.03	$0.00	$181,113,854.78	$6,652,835.25
FY 09	$436,741,575.96	$0.00	$411,850,286.32	$24,891,289.64
FY 10	$242,992,572.04	$5,940,175.07	$226,386,262.40	$16,606,309.64
FY 11	$337,209,463.35	$5,231,539.77	$310,009,272.52	$27,200,190.83
FY 12	$278,255,334.11	$2,085,736.53	$262,516,058.87	$15,739,275.24
FY 13	$173,556,354.24	$1,413,996.22	$172,140,860.66	$1,415,493.58
FY 14	$202,952,051.85	$3,711,114.10	$202,553,233.69	$398,818.16
FY 15	$194,024,167.30	$6,396,524.48	$191,619,719.08	$2,404,448.22

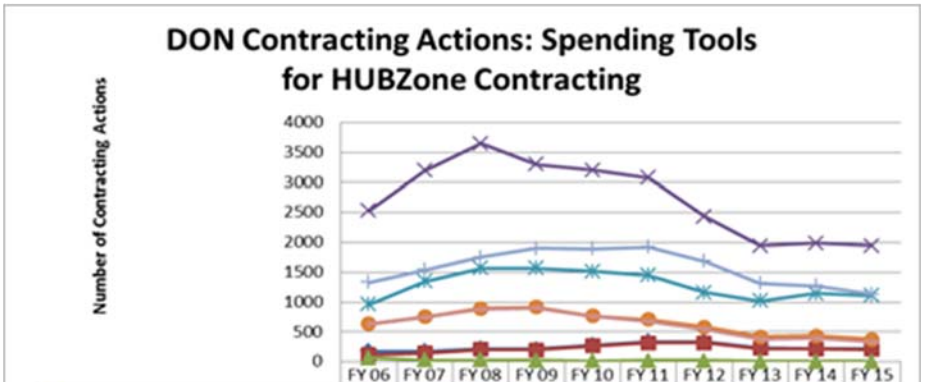
<u>Findings</u>: After a three-year 2007–2009 hiatus, DoN contracting officers rallied to HUBZone SAP set-asides in FY2010 and fully restored the FY2012–2013 slump in FY2015. HUBZone sole source set-asides peaked two years after the DoN parity reversal, but took a substantial drop since. DoN spending on HUBZone competitive set-asides is now barely half it was in FY2009. It appears that DoN buyers may treat HUBZone set-asides as a risky proposition for discretionary spending, except for low-dollar SAPs.

HUBZone Program Taxonomy: Process—Trends on Contracting Officers' Discretion to Use HUBZone Set-Asides and Other Contracting Mechanisms

In the Cohen-Eimicke framework, spending input trends do not necessarily explain the contracting officers' use of the contracting process. To understand process, it is necessary to examine the trends in the HUBZone Program set-aside actions and put them in context of other non–set-aside contract actions.

DoN Contracting Actions With HUBZone SBCs

Data in Figure 6 show that the DoN began a long decline in New Awards to HUBZone firms as early as 2009, after peaking in FY2008. This decline appears to have stabilized over the last three fiscal years. Accretive Modifications (i.e., actions to direct funding to incumbent HUBZone contractors) held relatively steady through FY2011, but then slumped off. Competitive HUBZone set-aside actions peaked in FY2011, while the sole source set-asides have been dropping over the entire decade and reached anecdotal asterisk levels. Non-HUBZone, Parity Programs-only, and 8(a) set-asides peaked in FY2009.



	FY 06	FY 07	FY 08	FY 09	FY 10	FY 11	FY 12	FY 13	FY 14	FY 15
HUBZone Set-Aside Awards	175	174	224	216	282	342	337	227	222	216
HUBZone Competitive Set-Aside Awards	114	146	203	196	266	320	318	220	217	208
HUBZone Sole Source Awards	62	30	29	20	16	22	19	7	5	8
All New HUBZone Awards	2527	3193	3645	3300	3200	3081	2434	1946	1992	1945
Non-HUBZone Set-Aside New Awards	959	1346	1567	1568	1516	1451	1162	1021	1144	1109
Parity Programs Set-Aside New Awards	638	756	893	920	771	709	582	419	439	377
All HUBZone Accretive Modifications	1329	1540	1750	1899	1897	1920	1683	1314	1272	1132
8(a) Set-Aside New Awards	638	748	881	905	764	673	543	379	391	335

Figure 6. DoN Contracting Actions: Spending Tools for HUBZone Contracting

<u>Findings</u>: When given the freedom to exercise discretion in terms of set-aside program choice, DoN contracting officers prefer meeting HUBZone goals through the use of contracting set-aside tools authorized for small businesses or Parity categories under other Small Business Act programs. This cannot be simply attributed to the loss of HUBZone firms through decertification, since all HUBZone awardees under other set-aside authorities could have received HUBZone sole sources, at the least. Rather, these trends appear to suggest greater comfort with contracting tools under other programs.

DoN HUBZone Sole Source Set-Aside Awards and Their Impact

Data in Table 4 show DoN buyers' use of HUBZone sole source set-asides. FY2006 was peak year for such actions and beneficiaries of such awards. The spending volume of such awards peaked in FY2011, as did their contributions to DoN HUBZone investment metrics. However, in FY2014, the contributions of those awards hit the bottom across actions, beneficiaries, and spending.

Table 4. DoD New HUBZone Sole Source Set-Aside Award Trends; Impact on Market Entry and HUBZone Spending

DON New HUBZone Sole-Source Awards: Impact on Market Entry and Spending								
Fiscal Year	HUBZone Sole Source Awards	Share of All New HUBZone Awards	HUBZone Sole Source Awardees	Share of New HUBZone Awardees under All Methods	HUBZone Sole Source Set-Asides New Awards	Share of All New HUBZone Awards Spending	Share of Net Total HUBZone Spending	Comparative Share of Goaling Report HUBZone Spending
FY 06	62	2.45%	52	5.87%	$15,626,831.00	2.10%	1.75%	1.74%
FY 07	30	0.94%	28	3.41%	$14,404,717.67	1.59%	1.28%	1.30%
FY 08	29	0.80%	25	3.00%	$6,652,835.25	0.60%	0.50%	0.54%
FY 09	20	0.61%	18	2.34%	$24,891,289.64	1.57%	1.32%	1.42%
FY 10	16	0.50%	10	1.35%	$16,606,309.64	1.49%	1.19%	1.22%
FY 11	22	0.71%	12	1.65%	$27,200,190.83	2.55%	2.02%	2.11%
FY 12	19	0.78%	10	1.67%	$15,739,275.24	1.52%	1.09%	1.15%
FY 13	7	0.36%	5	1.04%	$1,415,493.58	0.19%	0.15%	0.16%
FY 14	5	0.25%	5	1.01%	$398,818.16	0.04%	0.03%	0.04%
FY 15	8	0.41%	8	1.68%	$2,404,448.22	0.32%	0.26%	0.27%

Findings: DoN contracting officers clearly disfavor HUBZone sole source awards, even in the face of declining HUBZone goaling spending and declining base of HUBZone certified firms. The contribution of this contracting method to HUBZone investment or market entry is marginal. Businesses or economic development authorities relying on its availability are at risk of disillusionment, while the DoN potentially misses many opportunities for increasing its HUBZone spending numbers.

DoN HUBZone Competitive Set-Aside Awards and Their Impact

Data in Table 5 illustrate the use and role of DoN competitive HUBZone set-asides. By spending volume, these awards peaked in FY2009. By market entry contribution, they peaked in FY2015, but not because of a peak in HUBZone market share growth.

Table 5. DoN New HUBZone Competitive Set-Aside Award Trends; Impact on Market Entry and HUBZone Spending

DON New HUBZone Competitive Set-Aside Awards: Impact on Market Entry and Spending								
Fiscal Year	HUBZone Competitive Set-Aside Awards	Share of All New HUBZone Awards	HUBZone Competitive Set-Aside Awardees	Share of New HUBZone Awardees under All Methods	HUBZone Competitive Set-Asides New awards	Share of All New HUBZone Awards Spending	Share of Net Total HUBZone Spending	Comparative Share of Goaling Report HUBZone Spending
FY 06	114	4.51%	65	7.34%	$78,244,003.93	10.50%	8.75%	8.72%
FY 07	146	4.57%	93	11.34%	$129,428,689.71	14.33%	11.54%	11.72%
FY 08	203	5.57%	77	9.23%	$181,113,854.78	16.25%	13.70%	14.64%
FY 09	196	5.94%	105	13.64%	$411,850,286.32	25.96%	21.92%	23.53%
FY 10	266	8.31%	121	16.33%	$226,386,262.40	20.37%	16.18%	16.66%
FY 11	320	10.39%	132	18.16%	$310,009,272.52	29.03%	23.06%	24.07%
FY 12	318	13.06%	106	17.73%	$262,516,058.87	25.33%	18.19%	19.20%
FY 13	220	11.31%	85	17.63%	$172,140,860.66	23.62%	18.34%	19.17%
FY 14	217	10.89%	92	18.62%	$202,553,233.69	20.98%	17.65%	18.26%
FY 15	208	10.69%	91	19.08%	$191,619,719.08	25.68%	20.73%	21.45%

Findings: DoN contracting officers favor HUBZone competitive set-aside awards much more than they do the sole source set-asides.

DoN Combined HUBZone Set-Aside Awards and Their Impact

Data in Table 6 show the use and impact of combined HUBZone set-asides.

Table 6. DoN New HUBZone Set-Aside Award Trends; Impact on Market Entry and HUBZone Spending

DON New Combined HUBZone Set-Aside Awards: Impact on Market Entry and Spending								
Fiscal Year	HUBZone Set-Aside Awards	Share of All New HUBZone Awards	HUBZone Set-Aside Awardees	Share of New HUBZone Awardees under All Methods	HUBZone Set-Asides New Awards	Share of All New HUBZone Awards Spending	Share of Net Total HUBZone Spending	Comparative Share of Goaling Report HUBZone Spending
FY 06	175	6.93%	108	12.19%	$93,870,834.93	12.60%	10.50%	10.46%
FY 07	174	5.45%	117	14.27%	$143,833,407.38	15.92%	12.82%	13.03%
FY 08	224	6.15%	100	11.99%	$187,766,690.03	16.84%	14.21%	15.18%
FY 09	216	6.55%	121	15.71%	$436,741,575.96	27.53%	23.24%	24.96%
FY 10	282	8.81%	128	17.27%	$242,992,572.04	21.86%	17.36%	17.88%
FY 11	342	11.10%	142	19.53%	$337,209,463.35	31.58%	25.08%	26.18%
FY 12	337	13.85%	115	19.23%	$278,255,334.11	26.85%	19.28%	20.35%
FY 13	227	11.66%	90	18.67%	$173,556,354.24	23.82%	18.49%	19.32%
FY 14	222	11.14%	97	19.64%	$202,952,051.85	21.02%	17.69%	18.29%
FY 15	216	11.11%	99	20.75%	$194,024,167.30	26.00%	20.99%	21.72%

<u>Findings</u>: DoN HUBZone set-asides' utilization, and impact, are fluctuating and limited.

DoN HUBZone Simplified Acquisition (SAP) Awards and Their Impact

Data in Tables 7 and 8 suggest that FAR Part 13 Simplified Acquisitions are having a positive market entry impact. However, SAP HUBZone set-asides appear to have limited impact.

Table 7. DoN SAP HUBZone Awards and Their Impact on HUBZone Market Entry and Contract Spending

DON SAP HUBZone Awards: Impact on Market Entry and Spending								
Fiscal Year	HUBZone SAP Awards	Share of All New HUBZone Awards	HUBZone SAP Awardees	Share of New HUBZone Awardees under All Methods	HUBZone SAP New Awards	Share of All New HUBZone Awards Spending	Share of Net Total HUBZone Spending	Comparative Share of Goaling Report HUBZone Spending
FY 06	1106	43.77%	426	48.08%	$33,601,890.00	4.51%	3.76%	3.74%
FY 07	21	0.66%	9	1.10%	$8,158,943.97	0.90%	0.73%	0.74%
FY 08	16	0.44%	7	0.84%	$26,707,423.71	2.40%	2.02%	2.16%
FY 09	7	0.21%	5	0.65%	$21,028,348.23	1.33%	1.12%	1.20%
FY 10	660	20.63%	202	27.26%	$49,395,163.62	4.44%	3.53%	3.63%
FY 11	1153	37.42%	298	40.99%	$65,100,133.57	6.10%	4.84%	5.05%
FY 12	634	26.05%	225	37.63%	$32,081,480.52	3.10%	2.22%	2.35%
FY 13	544	27.95%	182	37.76%	$21,011,097.89	2.88%	2.24%	2.34%
FY 14	748	37.55%	219	44.33%	$44,259,672.95	4.58%	3.86%	3.99%
FY 15	797	40.98%	231	48.43%	$43,697,377.56	5.86%	4.73%	4.89%

Table 8. DoN SAP HUBZone Set-Aside Awards and Their Impact on HUBZone Market Entry and Contract Spending

DON SAP HUBZone Set-Aside Awards: Impact on Market Entry and Spending								
Fiscal Year	HUBZone SAP Set-Aside Awards	Share of All New HUBZone Awards	HUBZone SAP Set-Aside Awardees	Share of New HUBZone Awardees under All Methods	HUBZone SAP Set-Asides New Awards	Share of All New HUBZone Awards Spending	Share of Net Total HUBZone Spending	Comparative Share of Goaling Report HUBZone Spending
FY 06	33	1.31%	30	3.39%	$1,577,755.00	0.21%	0.18%	0.18%
FY 07	0	0.00%	0	0.00%	$0.00	0.00%	0.00%	0.00%
FY 08	0	0.00%	0	0.00%	$0.00	0.00%	0.00%	0.00%
FY 09	0	0.00%	0	0.00%	$0.00	0.00%	0.00%	0.00%
FY 10	29	0.91%	28	3.78%	$5,940,175.07	0.53%	0.42%	0.44%
FY 11	56	1.82%	46	6.33%	$5,231,539.77	0.49%	0.39%	0.41%
FY 12	31	1.27%	24	4.01%	$2,085,736.53	0.20%	0.14%	0.15%
FY 13	15	0.77%	14	2.90%	$1,413,996.22	0.19%	0.15%	0.16%
FY 14	22	1.10%	21	4.25%	$3,711,114.10	0.38%	0.32%	0.33%
FY 15	34	1.75%	26	5.45%	$6,396,524.48	0.86%	0.69%	0.72%

<u>Findings</u>: DoN is missing the opportunity to convert HUBZone SAP awards into HUBZone set-asides.

DoN 8(a) and Other Non-HUBZone Set-Asides Awards and Their Impact

Table 9 and Table 10 indicate the substantial and dominating impact of non-HUBZone set-asides on DoN HUBZone contracting.

Table 9. DoN 8(a) Set-Aside Awards to HUBZone SBCs and Their Impact on HUBZone SBCs Market Entry and Contract Spending

DON 8(a) HUBZone Set-Aside Awards: Impact on Market Entry and Spending								
Fiscal Year	8(a) Set-Aside New Awards	Share of All New HUBZone Awards	8(a) Set-Aside New HUBZone Awardees	Share of New HUBZone Awardees under All Methods	8(a) Set-Aside New Awards	Share of All New HUBZone Awards Spending	Share of Net Total HUBZone Spending	Comparative Share of Goaling Report HUBZone Spending
FY 06	638	25.25%	218	24.60%	$314,766,915.43	42.24%	35.20%	35.07%
FY 07	748	23.43%	232	28.29%	$360,659,193.46	39.93%	32.15%	32.66%
FY 08	881	24.17%	241	28.90%	$531,981,815.52	47.72%	40.25%	42.99%
FY 09	905	27.42%	216	28.05%	$659,313,495.91	41.56%	35.09%	37.67%
FY 10	764	23.88%	210	28.34%	$417,046,206.09	37.52%	29.80%	30.68%
FY 11	673	21.84%	181	24.90%	$362,223,313.69	33.92%	26.94%	28.13%
FY 12	543	22.31%	157	26.25%	$323,304,399.27	31.19%	22.40%	23.64%
FY 13	379	19.48%	132	27.39%	$166,479,050.57	22.85%	17.74%	18.54%
FY 14	391	19.63%	121	24.49%	$237,188,933.60	24.57%	20.67%	21.38%
FY 15	335	17.22%	119	24.95%	$186,907,138.30	25.05%	20.22%	20.93%

Table 10. DoN Non-HUBZone Set-Aside Awards to HUBZone SBCs and Their Impact on HUBZone SBCs Market Entry and Contract Spending

DON Non-HUBZone Set-Aside Awards: Impact on Market Entry and Spending								
Fiscal Year	Non-HUBZone Set-Aside New Awards	Share of All New HUBZone Awards	Non-HUBZone Set-Aside New HUBZone Awardees	Share of New HUBZone Awardees under All Methods	Non-HUBzone Set-Aside New Awards	Share of All New HUBZone Awards Spending	Share of Net Total HUBZone Spending	Comparative Share of Goaling Report HUBZone Spending
FY 06	959	37.95%	423	47.74%	$352,955,351.17	47.37%	39.47%	39.32%
FY 07	1346	42.15%	473	57.68%	$429,562,620.08	47.55%	38.30%	38.90%
FY 08	1567	42.99%	494	59.23%	$623,800,796.80	55.95%	47.20%	50.42%
FY 09	1568	47.52%	464	60.26%	$778,120,360.33	49.05%	41.41%	44.46%
FY 10	1516	47.38%	441	59.51%	$621,566,383.14	55.93%	44.42%	45.73%
FY 11	1451	47.10%	422	58.05%	$511,340,844.81	47.89%	38.03%	39.70%
FY 12	1162	47.74%	360	60.20%	$552,976,979.76	53.35%	38.32%	40.43%
FY 13	1021	52.47%	316	65.56%	$355,202,443.64	48.75%	37.85%	39.55%
FY 14	1144	57.43%	319	64.57%	$526,513,511.55	54.53%	45.88%	47.46%
FY 15	1109	57.02%	313	65.62%	$438,968,123.20	58.83%	47.48%	49.15%

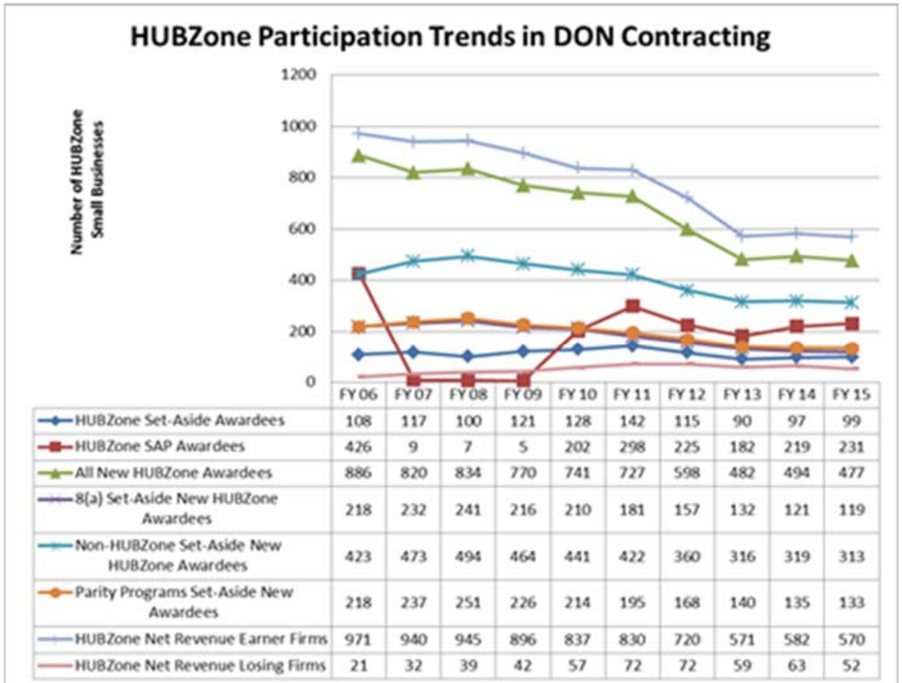
Findings: DoN HUBZone program has a substantial dependency on non-HUBZone set-asides.

HUBZone Program Taxonomy: Outputs—Trends on HUBZone Participation in DoN Contracting

To appreciate the breadth or shallowness of DoN's HUBZone contractors' bench, it is important to examine HUBZone participation in both Program and non-Program DoN contracting.

HUBZone Participation in DoN Contracting Overall

Data in Figure 7 show HUBZone participation in DoN Contracting and across various contracting mechanisms. Data show that more HUBZone firms participate in 8(a) set-asides and non-HUBZone set-asides than in HUBZone set-asides.



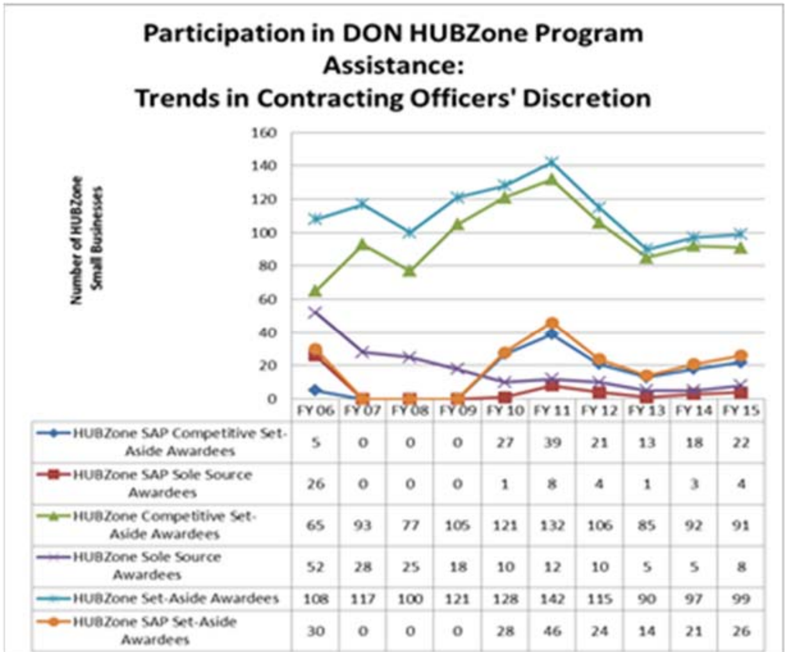
	FY06	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15
HUBZone Set-Aside Awardees	108	117	100	121	128	142	115	90	97	99
HUBZone SAP Awardees	426	9	7	5	202	298	225	182	219	231
All New HUBZone Awardees	886	820	834	770	741	727	598	482	494	477
8(a) Set-Aside New HUBZone Awardees	218	232	241	216	210	181	157	132	121	119
Non-HUBZone Set-Aside New HUBZone Awardees	423	473	494	464	441	422	360	316	319	313
Parity Programs Set-Aside New Awardees	218	237	251	226	214	195	168	140	135	133
HUBZone Net Revenue Earner Firms	971	940	945	896	837	830	720	571	582	570
HUBZone Net Revenue Losing Firms	21	32	39	42	57	72	72	59	63	52

Figure 7. HUBZone Participation Trends in DoN Contracting Overall

<u>Findings</u>: The DoN is experiencing a crisis of HUBZone contractor participation in DoN contracting. However, the DoN is not using HUBZone set-asides to reverse this crisis.

HUBZone Program Participation at DoN.

Data in Figure 8 illustrate the HUBZone Program participation trends as a consequence of contracting officer's discretion to set aside or not set aside work for HUBZone SBCs on a competitive or sole source basis. Overall, this data show that DoN contracting officers are not exercising discretion to increase the total count of HUBZone firms in the HUBZone Program.



	FY06	FY07	FY08	FY09	FY 10	FY 11	FY 12	FY 13	FY 14	FY 15
HUBZone SAP Competitive Set-Aside Awardees	5	0	0	0	27	39	21	13	18	22
HUBZone SAP Sole Source Awardees	26	0	0	0	1	8	4	1	3	4
HUBZone Competitive Set-Aside Awardees	65	93	77	105	121	132	106	85	92	91
HUBZone Sole Source Awardees	52	28	25	18	10	12	10	5	5	8
HUBZone Set-Aside Awardees	108	117	100	121	128	142	115	90	97	99
HUBZone SAP Set-Aside Awardees	30	0	0	0	28	46	24	14	21	26

Figure 8. DoN HUBZone Program Assistance Participation: Trends in Contracting Officers' Discretion

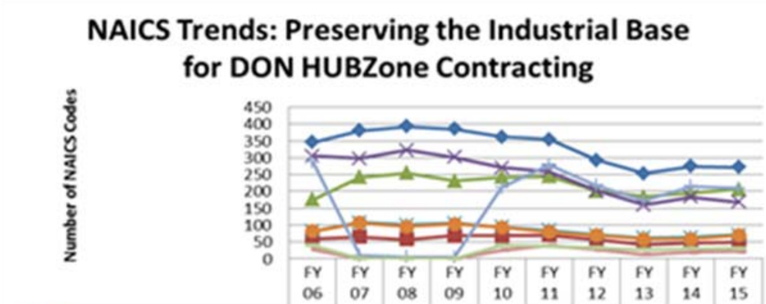
<u>Findings</u>: There is a crisis of participation in DoN HUBZone Program. The HUBZone Program appears to have limited impact as the entryway into the DoN market. The DoN should act to reverse these trends.

HUBZone Program Taxonomy: Outcomes—Trends Related to HUBZone Program's Industrial Base Diversity and DoN Requirements Matching

To evaluate whether HUBZone contracting creates meaningful jobs and a diverse industrial base for the DoN, it is important to evaluate the trends in codes used for identifying industries and requirements. North American Industrial Classification (NAICS) codes are assigned to each contract solicitation for use in market research across industries as well as determinations whether a firm is small by reference to NAICS-based business size standards. Other codes, the Product Service Codes/Federal Supply Codes (PSCs/FSCs), are used to identify what is actually bought (see generally Bunting, 2013).

DoN HUBZone Program's Industrial Base

Figure 9 shows NAICS trends across various contracting mechanisms. The trends show the broadest HUBZone industrial base existed in FY2008.



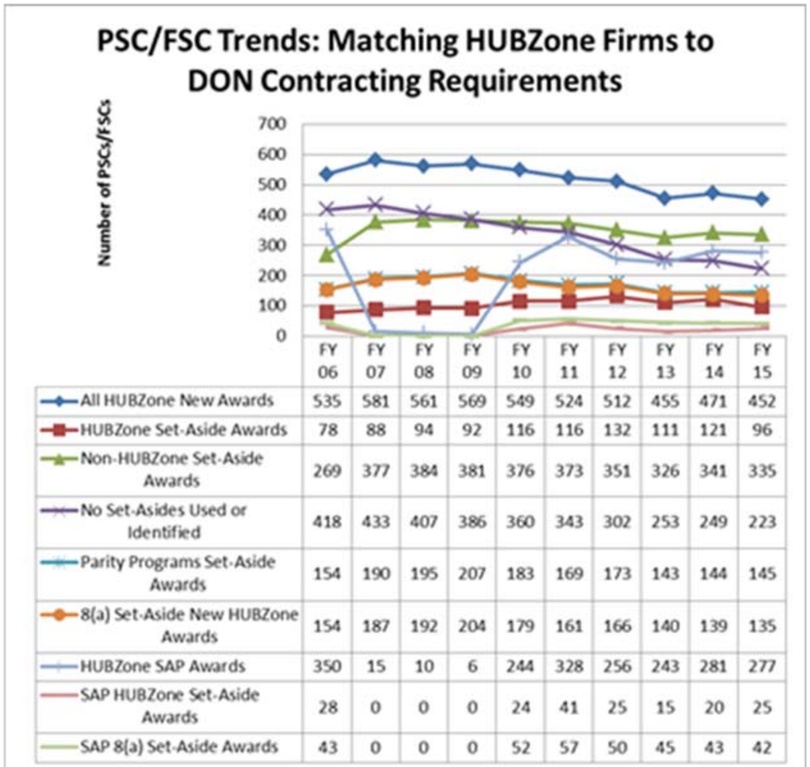
	FY 06	FY 07	FY 08	FY 09	FY 10	FY 11	FY 12	FY 13	FY 14	FY 15
All HUBZone New Awards	346	380	393	385	362	354	293	253	274	272
HUBZone Set-Aside Awards	59	65	57	68	68	70	56	43	47	50
Non-HUBZone Set-Aside Awards	175	242	255	231	242	245	201	184	195	206
No Set-Asides Used or Identified	305	298	322	301	270	260	201	159	183	168
Parity Programs Set-Aside Awards	82	108	100	105	94	85	71	62	63	71
8(a) Set-Aside New HUBZone Awards	82	107	96	103	93	80	69	58	59	70
HUBZone SAP Awards	288	9	5	4	211	279	217	173	215	209
SAP HUBZone Set-Aside Awards	28	0	0	0	25	40	26	13	19	21
SAP 8(a) Set-Aside Awards	40	0	0	0	40	38	33	28	30	31

Figure 9. DoN HUBZone NAICS Trends: Use of HUBZone Program and SAP for Industrial Targeting and Business Development

Findings: The number of industries used for HUBZone and Non-HUBZone set-asides as well as SAP awards have recently declined, while HUBZone industries overall began falling in FY2008.

HUBZone Contractors' Matching to DoN Requirements

Figure 10 shows trends in matching HUBZone firms to DoN requirements as determined by PSCs/FSCs. The matching trends show a progressive decrease in PSCs/FSCs satisfied through contracts to HUBZone firms, with recent increases in Non-HUBZone set-asides and SAP awards.



	FY 06	FY 07	FY 08	FY 09	FY 10	FY 11	FY 12	FY 13	FY 14	FY 15
All HUBZone New Awards	535	581	561	569	549	524	512	455	471	452
HUBZone Set-Aside Awards	78	88	94	92	116	116	132	111	121	96
Non-HUBZone Set-Aside Awards	269	377	384	381	376	373	351	326	341	335
No Set-Asides Used or Identified	418	433	407	386	360	343	302	253	249	223
Parity Programs Set-Aside Awards	154	190	195	207	183	169	173	143	144	145
8(a) Set-Aside New HUBZone Awards	154	187	192	204	179	161	166	140	139	135
HUBZone SAP Awards	350	15	10	6	244	328	256	243	281	277
SAP HUBZone Set-Aside Awards	28	0	0	0	24	41	25	15	20	25
SAP 8(a) Set-Aside Awards	43	0	0	0	52	57	50	45	43	42

Figure 10. DoN HUBZone PSC/FSC Trends: Use of HUBZone Program and SAP to Match HUBZone SBCs to DoN Requirements

<u>Findings</u>: DoN contracting officers consistently prefer to fill more PSCs/FSCs through 8(a) set-asides and other non-HUBZone set-asides.

Answers to Research Questions; Recommendations for Hubzone Program Reforms and Further Research

There is no question that the HUBZone Program has suffered from serious adversities, including mass decertification and the parity crisis, as well as the effects of sequestration. Nonetheless, through the Cohen-Eimicke framework, this study succeeds in asking and answering questions about how the DoN can more effectively manage the HUBZone Program back on track towards success. **Concerning the first question, whether the Cohen-Eimicke Contract Management Performance model can explain DoN HUBZone Program's performance trends, the answer is "yes."** The focus predominantly or only on spending goals treats HUBZone Program spending inputs as outputs. DoN contracting officers then default to choosing other program's contracting tools, whether because of SBA's pronouncements about limited assistance to HUBZone firms, because of 8(a) requirements retention and non-advertising mandates, or because non-HUBZone set-asides offer the best possibility to reconcile the complex contracting preferences. Yet confusing this fundamental distinction between performance criteria prevents aligning HUBZone Program process tools, such as set-asides, to true outputs (number of participating HUBZone firms) and outcomes (growth in HUBZone industries and capabilities). When the DoN begins to make a strategic effort to target HUBZone set-asides towards greater number of HUBZone firms, the HUBZone goaling spending will start increasing, too.

As to the second question, whether HUBZone Program's parity coupled with unguided discretion of contracting officers on when to use this parity to target particular HUBZone firms is an effective approach to HUBZone contracting, the answer is "no." Overall, DoN buyers appear to prefer "close swap" transactions where HUBZone firms get the work because they are already established under other Small Business Act programs. Lacking business development skills and SBA business development support, DoN contracting officers are shying away from HUBZone set-asides even to already-successful HUBZone firms that obtain DoN contracts through other tools. Moreover, true regulatory parity appears to be lacking with the 8(a) Program. It is not surprising that 8(a) firms by and large maintained their share of the DoN HUBZone Program, and why 8(a) firms account for virtually all of combined Parity Programs' metrics in HUBZone contracting. **New SAP Awards appear to be playing an increasingly favorable and critical market entry support role for HUBZone firms seeking DoN contracts. This role should be strengthened.**

With this in mind, the answer to the question as to what DoN should do becomes obvious. Rebuilding HUBZone set-aside participants' bench should be the DoN's first step at increasing the HUBZone Program's stability and then turning the HUBZone Program performance around. To do so, the HUBZone Program should be reformed into a business development program similar to the 8(a) Program which would relieve DoN contracting officers of business development burdens. The program will be focused on SAP and set-asides. Absent SBA initiative in that regards, the DoN should craft such a program for itself by using FAR Part 6 and the Small Business Act's 15 U.S.C. § 644(a) industrial base support authorities. Finally, further research on HUBZone contracting topics is recommended, including a more detailed matching of contracting trends to legal and policy authorities.

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