

**THE U.S. DEPARTMENT OF THE NAVY'S
USE OF SET-ASIDES PARITY, DISCRETION, AND
SIMPLIFIED ACQUISITIONS
TO CONTRACT WITH
HUBZONE SMALL BUSINESSES**



**PRESENTATION
AT
THE 2016 ACQUISITION RESEARCH
SYMPOSIUM**

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Research Problem Identified

Research Problem:

The Paradox: DOD/DON have not been achieving HUBZone small business contract spending statutory (or negotiated) goals, despite “parity” among small business categories and buyer “discretion” to set contracts aside for any category as needed to meet the spending goals.

“We have one category, HUBZones, in which I think we've got to stretch a little bit, but I think we can get there, and we're committed to doing that.”

- USD AT&L Frank Kendall, June 26, 2015.



Research Questions

1. Can the Cohen-Eimicke Contract Management Performance Model (inputs, process, outputs, and outcome) explain DON's HUBZone Program performance trends?
2. Are HUBZone Program "parity" + unguided individual-level Contracting Officer discretion the right mechanisms to support DON HUBZone Program goals?
3. What should DON do to turn its HUBZone Program around?



Methodology

- **Review of Prior Academic Research**
 - Follow Theoretical Foundation of Effective Program Design applying the Cohen & Eimicke Contract Management Performance Model (CMPM) to HUBZone Contracting
 - Follow the Framework of the Kidalov-Lee SDVOSB Contracting Study
- **Understanding the performance taxonomy of SDVOSB Program designs**
 - Laws, Regulations, Precedents
- **FPDS data analysis by CMPM Performance Taxonomy**
 - Mostly focused on FY06-FY15
- **Discussion, Conclusions, Recommendations**

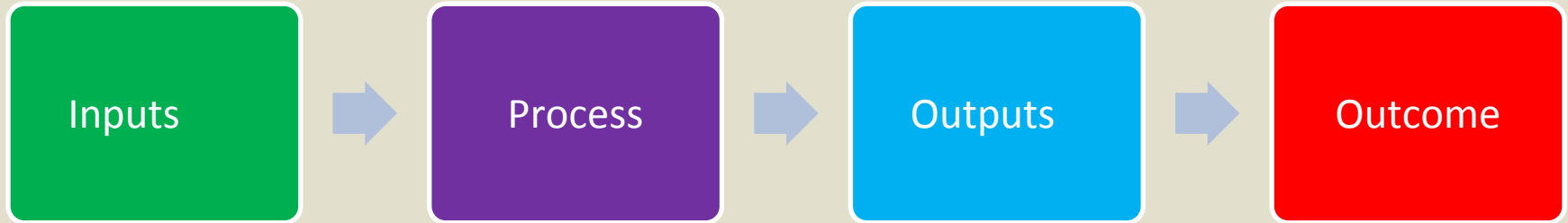


Roots of the Paradox: The Great Parity Debate

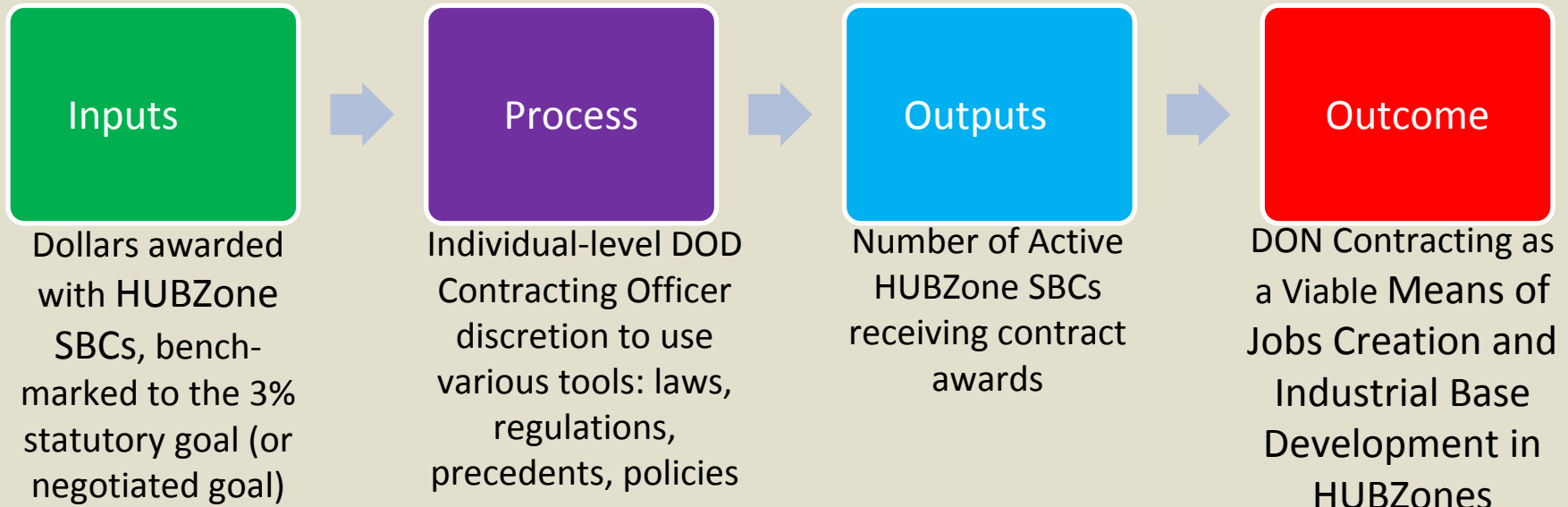
- December 1997: HUBZone Program created by the SBA Reauthorization Act
- June 1996: SBA issues HUBZone regulations, granting it set-aside priority over other small business programs. SBA said set-asides were to assist buyers and areas, not firms. **No guidance on when a HUBZone firm needs business development via set-aside.**
- March 1999: SBA certifies first HUBZone SBC and the HUBZone Program begins operating.
- March 23, 2005: As part of SDVOSB reforms, SBA and FAR Council make HUBZone contracting opportunities part of stated purpose for FAR Part 13, Simplified Acquisitions
- August 2005: SBA reverses its view of its own regulations, requiring HUBZone parity
- January 11, 2006: DON (with DOJ help) wins over SBA in *Contract Management Inc. v. Rumsfeld* in the 9th Circuit Court of Appeals, establishing HUBZone priority.
- September 19, 2008: DON wins *International Program Group, Inc.* at the GAO, reinforcing its 9th Circuit win.
- August 4, 2009: DASN A&P Elliott Branch informs DON of DOD direction to accede to SBA's view and DOJ's new position favoring "parity" in Memorandum, "Recent Government Accountability Office Decisions Concerning Small Business Programs."
- September 27, 2010: Small Business Jobs Act became law, imposing "parity."
- February 4, 2011: SBA Regulations implement the SBJA.
- March 2, 2013: FAR Council implements the SBJA.

Contract Management Performance Model

Cohen & Eimicke, *The Responsible Contract Manager* (2008)



Applied to the HUBZone Program

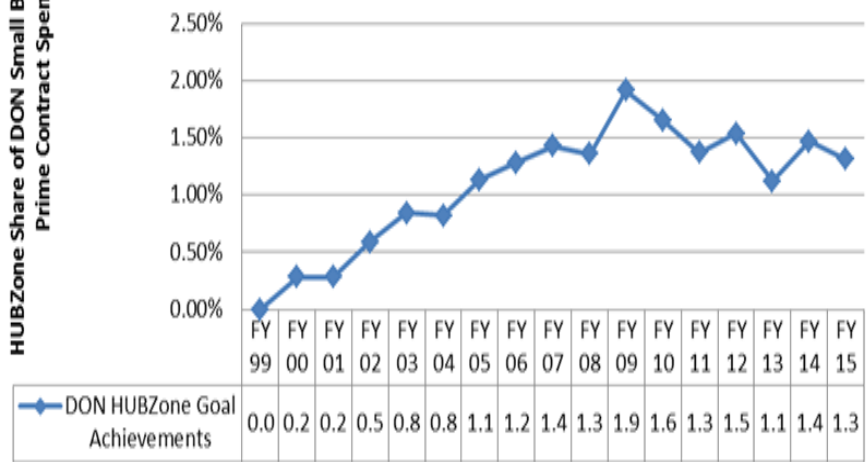




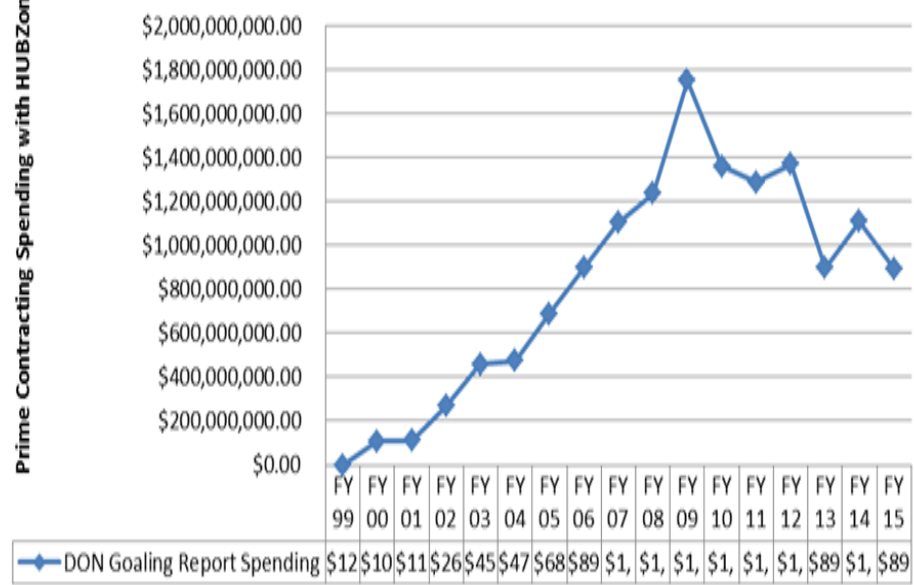
HUBZone Program Taxonomy: Inputs

HUBZone Goal Achievement Spending as Share of DON Prime Contract Spending

DON HUBZone Prime Contracting Percentage Goal Achievements
across entire HUBZone Program history
(Statutory Governmentwide Goal = 3%)



DON HUBZone Goaling Report Spending across entire HUBZone Program history



- HUBZone input: spending from DON towards the negotiated/3% HUBZone goal.
- Overall HUBZone spending share of DON spending peaked in FY09; now, full circle to FY06.
- DON HUBZone spending/spending share show volatility and instability. The Small Business Act encourages stable and growing spending levels for goal achievement purposes.



HUBZone Program Taxonomy: Inputs

HUBZone Goal Achievement Spending as Share of DON Prime Contract Spending

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

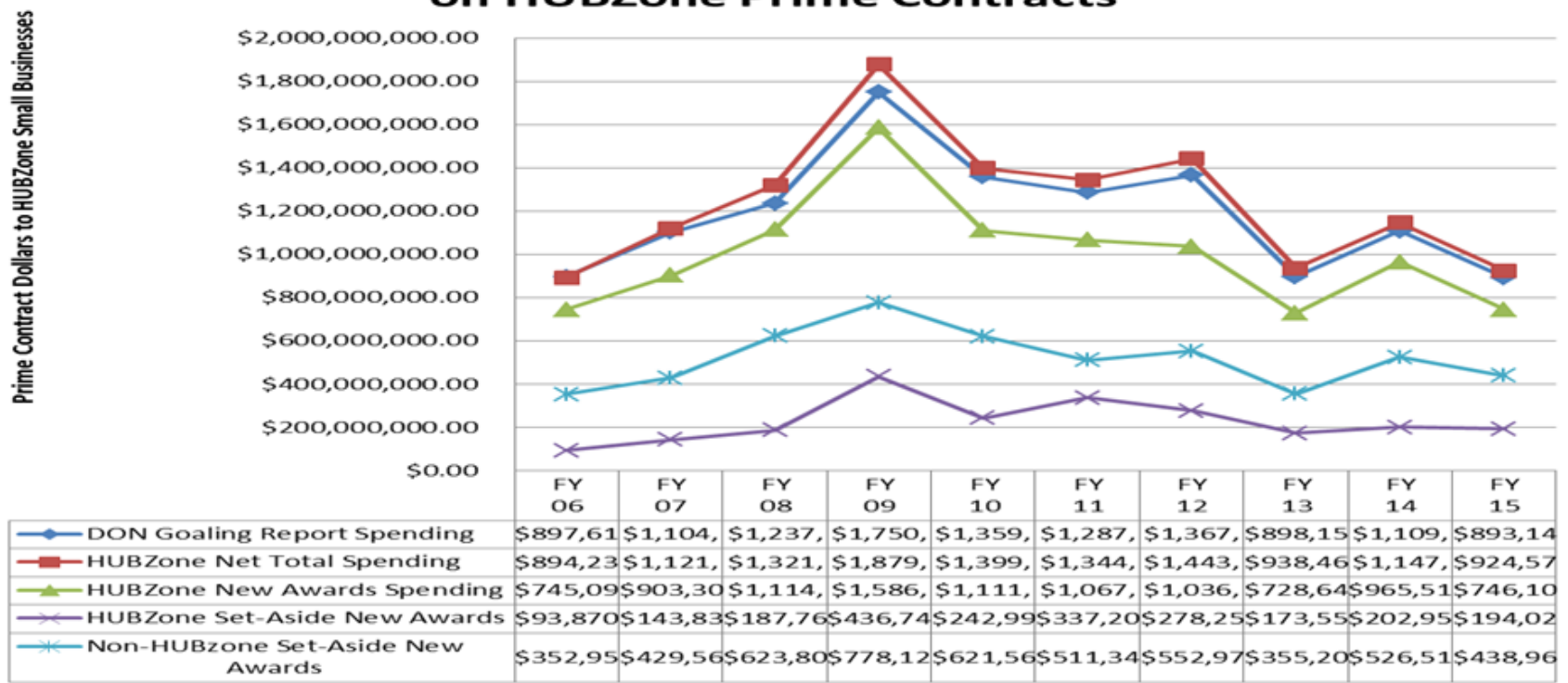
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HUBZone Program Taxonomy: Inputs

Overall Trends on DON Spending with HUBZone SBCs

DON HUBZone Program and Non-Program Spending on HUBZone Prime Contracts



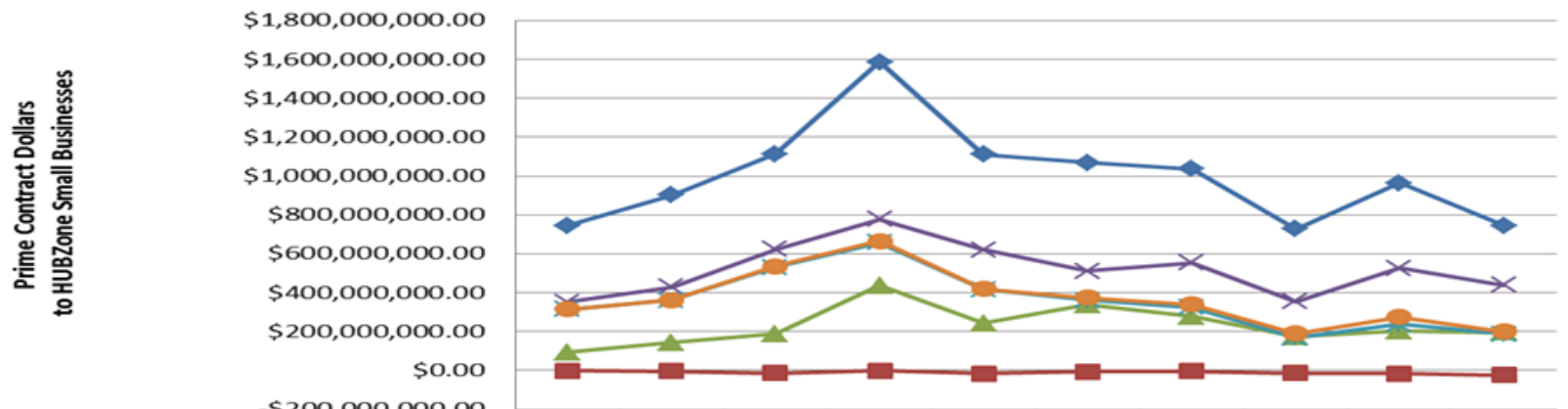
- HUBZone input: spending from DON towards the negotiated/3% HUBZone goal.
- HUBZone Program (set-aside) spending is relatively flat, with a growth peak in FY09.
- New Awards and Net Total revenues in long-term decline from FY09, now returned to FY06 levels: large non-HUBZone set-asides spend: Accretive Modifications spend seems insignificant.



HUBZone Program Taxonomy: Inputs

New Awards Spending to HUBZone SBCs, Matched to Contracting Tools (Process)

DON HUBZone Program and Non-Program Spending on HUBZone Contracts



	FY 06	FY 07	FY 08	FY 09	FY 10	FY 11	FY 12	FY 13	FY 14	FY 15
HUBZone New Awards Spending	\$745,09	\$903,30	\$1,114,	\$1,586,	\$1,111,	\$1,067,	\$1,036,	\$728,64	\$965,51	\$746,10
Net Revenue Losses	-\$2,290	-\$4,847	-\$14,81	-\$2,055	-\$16,85	-\$6,578	-\$5,419	-\$13,93	-\$17,58	-\$23,63
HUBZone Set-Aside New Awards	\$93,870	\$143,83	\$187,76	\$436,74	\$242,99	\$337,20	\$278,25	\$173,55	\$202,95	\$194,02
Non-HUBZone Set-Aside New Awards	\$352,95	\$429,56	\$623,80	\$778,12	\$621,56	\$511,34	\$552,97	\$355,20	\$526,51	\$438,96
8(a) Set-Aside New Awards	\$314,76	\$360,65	\$531,98	\$659,31	\$417,04	\$362,22	\$323,30	\$166,47	\$237,18	\$186,90
Parity Programs Set-Aside New Awards	\$314,76	\$361,05	\$536,43	\$666,66	\$418,27	\$375,11	\$338,87	\$188,93	\$275,03	\$199,18

- HUBZone Program (set-asides) were never a dominant contributor to DON HUBZone spending.
- Following FY09, DON Contracting Officers chose to decrease spending through both HUBZone and "parity categories" set-asides. Contracting Officers prefer to direct new funding to HUBZones through regular Small Business set-asides and non-set-aside awards. Also, Net Losses grow.



HUBZone Program Taxonomy: Inputs

New Awards Spending to HUBZone SBCs, Matched to Contracting Tools (Process)

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

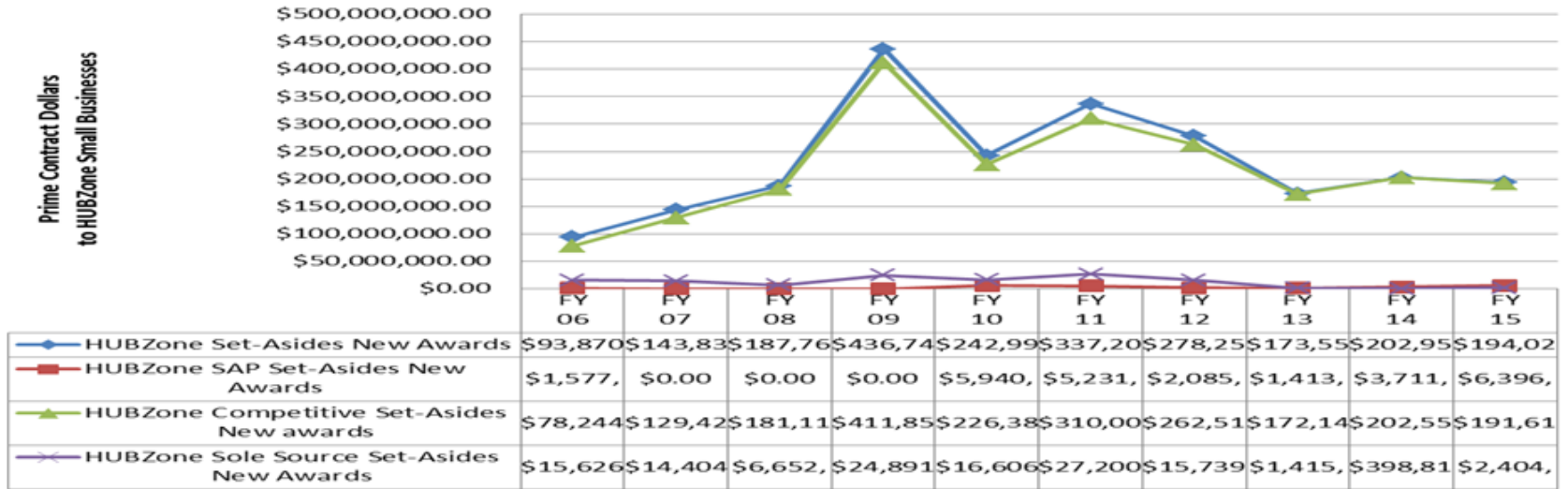
- FY09 was peak positive year for DON HUBZone Program spending.
- While the “parity” reforms allow DON Contracting Officers to tailor set-asides to the gaps in goal achievement spending, this feature has not protected DON from decline in HUBZone spending.¹



HUBZone Program Taxonomy: Inputs

New Awards HUBZone Program Spending Matched to Contracting Tools (Process)

**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

- HUBZone competitive set-asides New Awards spending took immediate dive after FY09.
- HUBZone sole source set-asides are a non-factor in HUBZone new spending.
- SAP set-asides overtook HUBZone sole source set-asides as source of new spending



HUBZone Program Taxonomy: Process Contracting Officers' Discretion

Federal Acquisition Regulations (FAR) Part 19

19.203 -- Relationship Among Small Business Programs.

(a) There is **no order** of precedence among the 8(a) Program (subpart [19.8](#)), HUBZone Program (subpart [19.13](#)), Service-Disabled Veteran-Owned Small Business (SDVOSB) Procurement Program (subpart [19.14](#)), or the Women-Owned Small Business (WOSB) Program (subpart [19.15](#)).

(b) **At or below the simplified acquisition threshold...** (1) of the simplified acquisition threshold definition at 2.101), the requirement at [19.502-2\(a\)](#) to **exclusively reserve acquisitions for small business concerns does not preclude the contracting officer** from awarding a contract to a small business under the 8(a) Program, HUBZone Program, SDVOSB Program, or WOSB Program.

(c) **Above the simplified acquisition threshold... the contracting officer shall first consider an acquisition for the small business socioeconomic contracting programs (i.e., 8(a), HUBZone, SDVOSB, or WOSB programs) before considering a small business set-aside** (see [19.502-2\(b\)](#)). However, if a **requirement has been accepted by the SBA under the 8(a) Program, it must remain in the 8(a) Program** unless SBA agrees to its release in accordance with 13 CFR parts 124, 125 and 126.



HUBZone Program Taxonomy: Process Contracting Officers' Discretion per 15 U.S.C. §657a

15 U.S.C. §657a (2010)

The original 1997 set-aside authority (with thresholds since adjusted in the FAR for inflation to \$7 million for manufacturing NAICS buys and \$4 million for other buys), as amended by the Small Business Jobs Act of 2010:

(2) Authority of contracting officer

(A) Sole source contracts. ~~Notwithstanding any other provision of law~~— A contracting officer may award sole source contracts under this section to any qualified HUBZone small business concern, if—

- (i) the qualified HUBZone small business concern is determined to be a responsible contractor with respect to performance of such contract opportunity, and the contracting officer does not have a reasonable expectation that 2 or more qualified HUBZone small business concerns will submit offers for the contracting opportunity;
- (ii) the anticipated award price of the contract (including options) will not exceed— (I) \$5,000,000, in the case of a contract opportunity assigned a standard industrial classification code for manufacturing; or (II) \$3,000,000, in the case of all other contract opportunities; and
- (iii) in the estimation of the contracting officer, the contract award can be made at a fair and reasonable price.

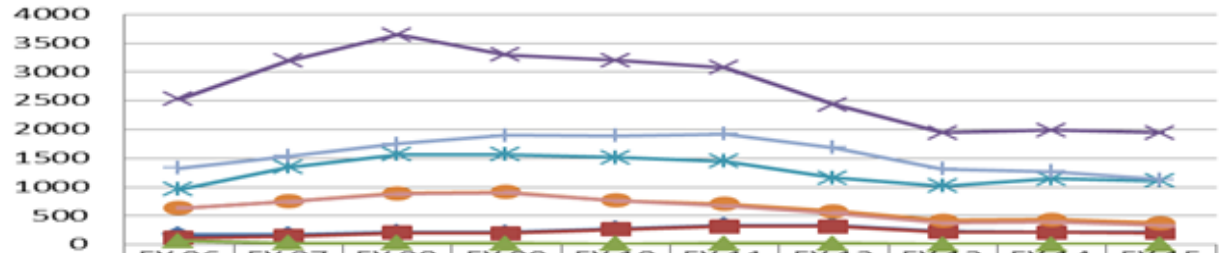
(B) Restricted competition. A contract opportunity ~~shall~~ may be awarded pursuant to this section on the basis of competition restricted to qualified HUBZone small business concerns if the contracting officer has a reasonable expectation that not less than 2 qualified HUBZone small business concerns will submit offers and that the award can be made at a fair market price.



HUBZone Program Taxonomy: Process Trends on Contracting Officers' Discretion

DON Contracting Actions: Spending Tools for HUBZone Contracting

Number of Contracting Actions



- HUBZone New Awards are on long-term decline since FY08, stabilized as of FY13. The FY12 recertification crisis merely pushed the decline further.
- Accretive Modifications were rather flat through FY11, then declined. Work is added less and less often to existing HUBZone contracts even when new source selection is not needed.
- HUBZone sole source set-aside awards are so rare, they are near anecdotal.
- DON Contracting Officers still disfavor the discretion to set aside exclusively for HUBZone firms; they prefer other “parity” programs such as 8(a) and regular small business set-asides.



HUBZone Program Taxonomy: Process Impact/Alignment of Set-Asides to Other Metrics

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%

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%

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%

HUBZone (Set-Asides) Program's participation share is growing among DON HUBZone SBC contractors. This is due to shrinking number of HUBZone contractors. The HUBZone set-aside Program itself is attracting less and less firms in absolute terms.



HUBZone Taxonomy: Process

Contracting Officers' Alternative Discretion

Awards Using Other Program's Tools: the 8(a) and Non-HUBZone Set-Asides

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%

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%

- DON is substantially dependent on non-HUBZone set-asides for HUBZone spending and participation.
- DON buyers like using non-HUBZone program set-asides even when they need to meet HUBZone goals.



HUBZone Taxonomy: Process

Contracting Officers' Alternative Discretion

Low-dollar awards via Simplified Acquisition Procedures (SAP) FAR 13

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%

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%

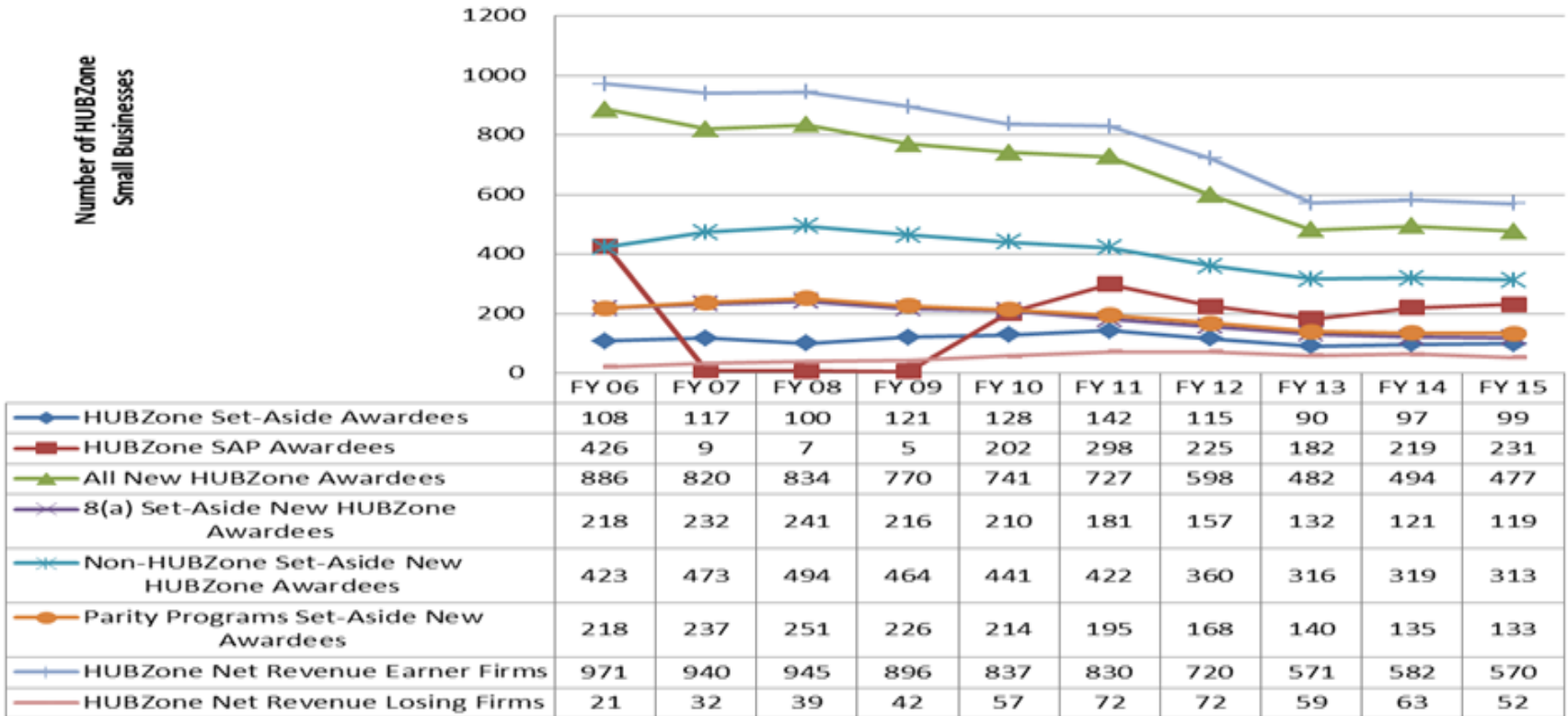
- DON buyers like using SAP, and HUBZone firms like participating in SAP.
- Despite new spending growth, DON buyers shy from SAP HUBZone set-asides.



HUBZone Program Taxonomy: Outputs

HUBZone Participation in DON Contracting: Strategic Direction Trends

HUBZone Participation Trends in DON Contracting



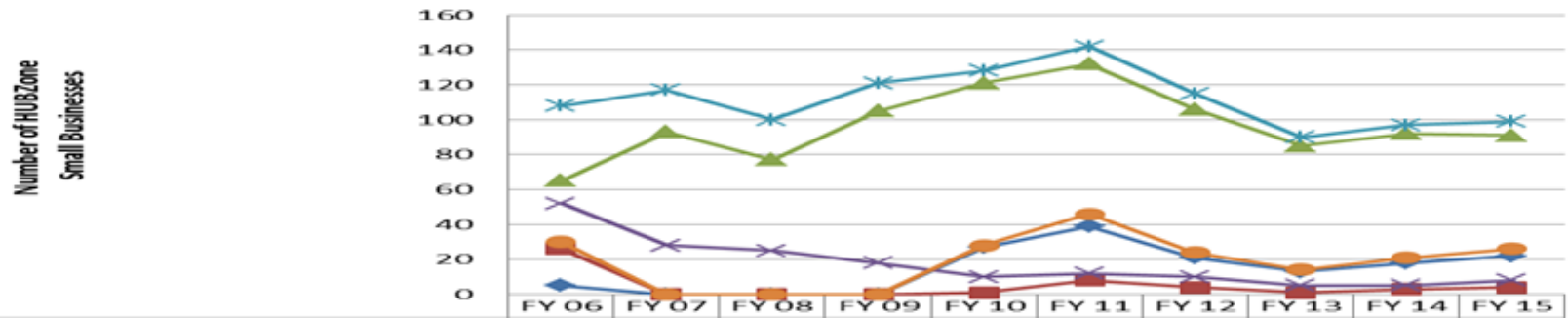
- Strategic future: DON is on a long-term course to run out of HUBZone SBCs contractors.
- The decline began in FY06-08 before the 2012 decertification due to Census results. It was driven by loss of firms receiving unrestricted, 8(a), and non-HUBZone New Awards. HUBZone set-aside New Awardees peaked in FY11, with sustained minor losses thereafter.
- SAP shows some potential to grow HUBZone participation, but SAP alone is insufficient.



HUBZone Program Taxonomy: Outputs

DON Buyers' Discretion: Using the HUBZone Program (Set-Asides) to Assist HUBZone SBCs

**Participation in DON HUBZone Program Assistance:
Trends in Contracting Officers' Discretion**



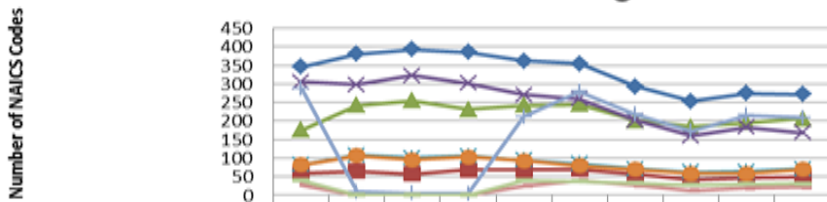
	FY 06	FY 07	FY 08	FY 09	FY 10	FY 11	FY 12	FY 13	FY 14	FY 15
HUBZone SAP Competitive Set-Aside Awardees	5	0	0	0	27	39	21	13	18	22
HUBZone SAP Sole Source Awardees	26	0	0	0	1	8	4	1	3	4
HUBZone Competitive Set-Aside Awardees	65	93	77	105	121	132	106	85	92	91
HUBZone Sole Source Awardees	52	28	25	18	10	12	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

- HUBZone set-aside awardees, competitive, and SAP set-aside new awardees declined since FY11
- HUBZone sole-source new awardees have been continuously declining since FY06; there was peak in SAP sole source awardees in FY11
- The 2012 Census-based recertification apparently decreased participation in competitive set-asides
- If DON was losing some HUBZone SBCs to recertification, why not retain remaining HUBZone SBCs through HUBZone set-asides to the remaining firms or attract new ones?



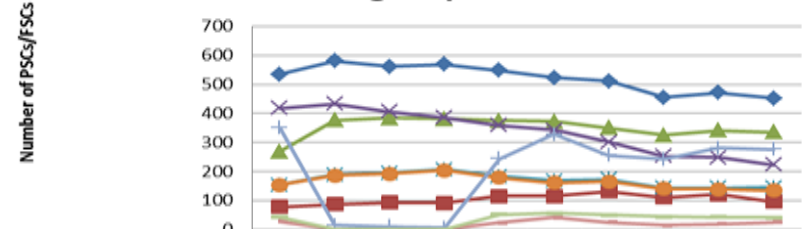
HUBZone Program Taxonomy: Outcomes NAICS and PSC/FSC Trends and Coverage Gaps by Process/Tool

NAICS Trends: Preserving the Industrial Base for DON HUBZone Contracting



	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

PSC/FSC Trends: Matching HUBZone Firms to DON Contracting Requirements



	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

- Each DON HUBZone contract has NAICS and PSC/FSC codes. NAICS codes show industries sought and are used to set small business size standards for HUBZone set-asides (and goal achievement credits for awards to firms that meet them); PSCs/FSCs describe actual DON needs.
- The decline in overall HUBZone industries and requirements began with the decline in unrestricted New Awards (No Set Asides Used or Identified). The overall decline accelerated once industries and requirements declined in Non-HUBZone Set-Asides (including "parity"). SAP alone can't stop the decline. To grow the HUBZone supplier base, DON must strategically fill the gaps between top (overall) and bottom (HUBZone Set-Aside/SAP set-aside) measures.



Answers to Research Questions

1. Can the Cohen-Eimicke Contract Management Performance Model (inputs, process, outputs, and outcome) explain DON's HUBZone Program performance trends?

YES! Lack of CPM-type alignment explains why DON Contracting Officers choose non-HUBZone tools even when DON HUBZone spending is declining.

2. Are HUBZone Program "parity" + unguided individual-level Contracting Officer discretion the right mechanisms to support DON HUBZone Program goals?

NO! DON Contracting Officers are shying away from this discretion. Contracting Officers don't even try to add much money to existing HUBZone contracts. Rather, Contracting Officers prefer other "parity" programs' contracting tools (mostly 8(a)), regular small business set-asides, unrestricted Simplified Acquisitions (SAP), or other unrestricted awards. Without clear business development standards and/or assurance that HUBZone firms are just like other firms, DON buyers have a hard time dedicating work to HUBZone firms.

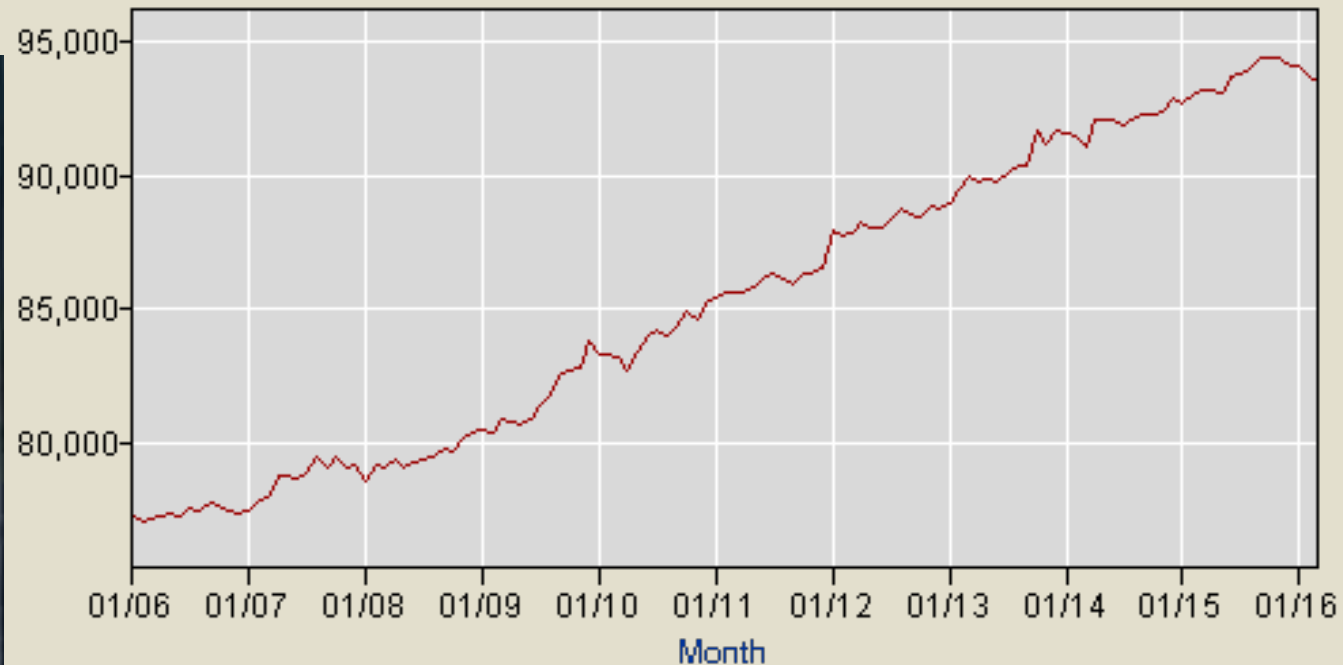
3. What should DON do to turn its HUBZone Program around?

Retain the Requirements and Rebuild the Bench. Use tools such as Blanket Purchase Agreements (BPAs) and SAP Set-Asides to help HUBZone firms get past performance and prequalify, then dedicate work via those BPAs or similar tools like FAR 6.2 set-asides after exclusion of sources or 15 U.S.C. § 644(a) joint set-asides.



The HUBZone Program's Context:

Is the HUBZone Program even needed anymore?



U.S. Department of Labor, Bureau of Labor Statistics
American Population 16+ year old
"Not in the Labor Force"

Measured by: thousands of persons each month of the year



Questions and Comments

"If any particular manufacture was necessary, indeed, for the defense of the society, it might not always be prudent to depend upon our neighbors for the supply. . . "

- *Adam Smith*

"The loss of [American] companies that can make things will end up in the loss of research that can invent them."

- *Suzanne Berger, Massachusetts Institute of Technology, Task Force on Production in the Innovation Economy*

"The best social program is a job."

- *Ronald Reagan*



"No country, however rich, can afford the waste of its human resources. Demoralization caused by vast unemployment is our greatest extravagance. Morally, it is the greatest menace to our social order."

- *Franklin Delano Roosevelt*