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MEMORANDUM

To: Members of the Subcommittee on Government Management, Organization,
and Procurement

From: Majority Staff

Re: Subcommittee Oversight Hearing on "Military Base Realignment: Contracting
Opportunities for Impacted Communities"

Date: February 5, 2008

On Friday, February 8, 2008, at 10:00 a.m., in room 2154, the Subcommittee will hold an oversight hearing entitled, "Military Base Realignment: Contracting Opportunities for Impacted Communities."

The Department of Defense (DOD) is currently implementing its fifth round of the base realignment and closing (BRAC) process. The current BRAC effort is the largest round undertaken by the Department. DOD plans to execute over 800 closures and realignment actions, which is double the number of actions completed in the prior four rounds. As a result, the federal government will spend billions of dollars on construction, service, and product procurement contracts.

However, it is not yet clear whether the benefits of these contract opportunities will be extended to businesses in the affected communities in a systematic manner. This hearing will review whether BRAC opportunities are accruing to small, local, veteran-owned, or minority-owned businesses, and whether state and local governments have input into contracts awarded in their communities.

The hearing will examine DOD efforts in providing information about BRAC contracts and procurements; increasing awareness of the resources that are available to assist firms seeking BRAC-related work; and expanding outreach to connect small, minority-owned, or veteran-owned firms, local officials, military buyers and federal procurement officials.

I. Background

The Department of Defense (DOD) recognizes the need to improve the efficiency and effectiveness of its support activities. A major vehicle for achieving cost savings is the consolidation of defense facilities, which has periodically been done through the base realignment and closure process (BRAC).

DOD is currently implementing recommendations from the 2005 BRAC round, which is the fifth round undertaken by the Department since 1988. The BRAC 2005 effort is the largest and most complex round undertaken by the Department. The 2005 BRAC decisions affect over 800 installations across the nation and include 24 major closures, 24 realignments, and 765 lesser actions. By comparison, the 1988 BRAC round resulted in 43 total actions, the 1991 round 75, the 1993 round 163, and the 1995 round 106, for a total of 387 closures and realignments. The 2005 BRAC actions exceed the number of actions completed in the prior four rounds combined.

There are several differences between the 2005 round and prior BRAC rounds. In addition to the increase in the number of closure and realignment actions, the 2005 BRAC also differs from previous rounds due to the Department's focus on joint operations, rather than just reducing excess infrastructure. This involves integration and realignment of cross-service functions in such areas as industrial, supply and storage facilities, technical, training, headquarters, and support activities (i.e., medical and intelligence). Moreover, prior BRAC rounds did not take place in the face of the planned movement of tens of thousands of troops from abroad back to the United States. The Department has begun the process of realigning or closing a number of large permanent bases overseas in favor of smaller, more scalable installations better suited for rapid deployments.

Therefore, while some communities are faced with a significant base closure and associated economic distress as a result of the current BRAC process, many others will experience an increase in military activity and associated community growth. For most growth communities, in addition to new households and new jobs, federal infrastructure projects related to BRAC will bring a multitude of direct and indirect business and contracting opportunities.

II. BRAC Contracting Opportunities

Federal contracts are currently being awarded for the renovation, expansion, and construction of facilities to accommodate personnel and related services. These contracts will be awarded by the U.S. Army Corps of Engineers and Naval Facilities Engineering command and will utilize multiple acquisition methods. The cost estimates to implement BRAC have increased from \$21 billion to \$31 billion, with nearly two-thirds of the expected cost increase due to increased military construction costs.

The complexities and urgency of BRAC contracting and procurement opportunities present a variety of challenges for small, local, veteran-owned, and minority-owned businesses.

DOD does not have a small business program that specifically addresses BRAC. However, all BRAC-related acquisitions must adhere to the same laws and regulations set forth in the Small Business Act, the Federal Acquisition Regulation (FAR) and the Department of Defense FAR Supplement.

DOD is the government's largest procurer, both in the numbers of contract actions and dollars awarded. The Department accounts for nearly 70 percent of total federal procurement. DOD's procurement increased from \$194.1 billion in 2004 to \$219 billion in 2005. From 2000 to 2005, DOD's contracting dollars rose by nearly 75 percent. DOD's procurement volume has increased so dramatically that in 2005 the Department's contracts nearly exceeded the size of the entire federal marketplace in 2001.

However, according to SBA's FY 2006 Small Business Goaling Report and Small Business Procurement Scorecards, DOD received the lowest rating on SBA's new score cards used for rating agencies' progress on meeting their small-business contracting goals. Also, GAO has documented that DOD has awarded large contracts to Alaska Native Corporations that count toward its small disadvantaged business goal. Because ANC contracts are not subject to dollar caps, a few large ANC contracts can contribute a large percentage in dollar terms toward the goals, making the statistics misleading as to whether contracts are truly being awarded to small businesses.

In response to criticism, DOD has implemented the following initiatives aimed at improving its small business performance:

Minority Contract Enhancement Program – In FY 2007, the Department's Office of Small Business Programs (OSBP) was provided funds by Congress to develop a Minority Contract Enhancement Program. The funds were used to award a contract to a minority-owned 8(a) firm for the development and support of a DOD Minority Contract Enhancement Program (MCEP). The contractor will provide specialized and professional assistance to small, minority-owned businesses, including 8(a) Participants, to help these firms become successful DOD suppliers.

The Small Business Innovation Research (SBIR) and Small Business Technology Transfer (STTR) Programs – The SBIR and STTR programs fund a billion dollars each year in early-stage research and development projects at small technology companies.

The DoD Mentor-Protégé Program (MPP) – The DoD MPP was initiated in late 1990 and was formulated as an incentive to large Defense prime contractors to work with small disadvantaged businesses to enhance their capabilities and their competitiveness within the defense supplier base. Since then, women-owned, veteran-owned, service disabled veteran-owned, and HUBZone small business concerns have also been extended eligibility under amended legislation.

DoD Small Business Community of Practice – Recently, DOD OSBP and Defense Acquisition University collaborated with representatives from the Army, Navy, and the Air Force to develop a Small Business Community of Practice to provide an easy to use, online source of small business program information for the acquisition workforce.

In addition, BRAC projects will also employ Enhanced-Use Leases (EULs), in which federal agencies make awards to developers for mixed-use projects on or adjacent to military installations. Since the agency can issue enhanced use leases only on land that is excess to their needs, the improvements must not be directly tied to any programmatic requirements of the installation. The advantages to the developer include prime secure convenient locations on military installations, and the opportunity to provide sole-source services and products in lieu of rent for the ground lease. Identifying the timing and critical details surrounding this BRAC business activity is difficult and will require significant effort and outreach to small business contractors.

III. Examples of Local and Veteran-Owned Business Issues

There are presently 3 million veteran small business owners. In addition, 22 percent of veterans in the United States are either purchasing or starting a new business or considering purchasing or starting one. Although Congress has enacted a government-wide procurement goal of three percent for service-disabled veteran owned businesses (SDVOBs), every year since that law has been in place the Department of Defense has failed to meet that contracting goal. For FY 2006, the Small Business Administration reported that DOD awarded .67 percent of contracts to service disabled owned firms.

Members of the veteran-owned small business community have expressed concern that DOD is not giving them enough opportunities to compete for defense contracts, specifically relating to contracting opportunities at Arlington National Cemetery and Walter Army Medical Center. As the federal government's largest procurer of goods and services, DOD's failure to meet the 3 percent goal is the major factor in the overall failure of the federal government to meet its SDVOB goal. In order to fully utilize the procurement program for small businesses owned and controlled by service-disabled veterans, the Department must implement a strategy that encourages SDVOB participation, encourages primes to subcontract with SDVOBs, and provides training to agency personnel.

Similarly, state and local government officials are developing strategies to ensure that the economic benefits resulting from BRAC driven growth will extend to local, small, and minority-owned businesses. For example, Maryland leads the country as the State with the greatest per capita number of minority-owned firms. According to the U.S. Department of Commerce, of the nearly half million small firms in Maryland, 140,000 are women-owned, African-American firms represent 70,000, Hispanic firms number 15,000, and Asian-owned firms stand at 26,000. Due to Maryland's close proximity to Washington, DC, a majority of its small and minority firms do

business with the federal government. As such, these firms are better prepared for the work involved in BRAC-related business than their counterparts in other states.

The State has a plan in place to maximize small and minority-owned business participation in state infrastructure projects. However, a federal plan must also be in place to fully extend business opportunities to the State's small and minority business contractors.

IV. Conclusion

The 2005 BRAC round presents the federal government with the opportunity to change and redefine the way it deals with small and minority business contractors. Federal agencies often become overly reliant on a handful of companies that command the lion's share of work, and this dependence can worsen if the government does not take necessary and fair steps to increase the size and diversity of its vendor pool. Large projects concentrated in specific communities, such as the BRAC process, provide an opportunity to help small or emerging businesses learn about government contracting opportunities, and gain access to capital and technical assistance to position them to effectively compete. It is important that federal officials continue to work with state and local governments to ensure that maximum opportunity for small business continues to be a primary consideration in any acquisition strategy that has been developed to fulfill BRAC requirements.

V. Witnesses

Panel I

Mr. Timothy Foreman, Director, Secretary of the Navy, Office of Small and Disadvantaged Business Utilization

Ms. Tracey Pinson, Director, Secretary of the Army, Office of Small and Disadvantaged Business Utilization

Panel II

The Honorable Anthony Brown, Lieutenant Governor, State of Maryland

Mr. Hubert Green, President, Prince George's County Black Chamber of Commerce

Mr. John Watkins, President, Ingenium Corporation

Mr. Rick Weidman, Executive Director, Policy & Government Affairs, Vietnam Veterans of America

For additional information on this hearing, please contact Velvet Johnson at 5-3741.