

# FIELD HEARING IN PALMDALE, CA: CHALLENGES FOR SMALL DEFENSE CONTRACTORS

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## HEARING BEFORE THE SUBCOMMITTEE ON CONTRACTING AND WORKFORCE OF THE COMMITTEE ON SMALL BUSINESS UNITED STATES HOUSE OF REPRESENTATIVES ONE HUNDRED FOURTEENTH CONGRESS SECOND SESSION

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Questions for the Record:	
None.	
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None.	
Additional Material for the Record:	
None.	



## CHALLENGES FOR SMALL DEFENSE CONTRACTORS

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TUESDAY, APRIL 5, 2016

HOUSE OF REPRESENTATIVES,  
COMMITTEE ON SMALL BUSINESS,  
SUBCOMMITTEE ON CONTRACTING AND THE WORKFORCE,  
*Washington, DC.*

The Subcommittee met, pursuant to call, 2:00 p.m., at the Palmdale City Hall Chamber Room, 38300 Sierra Highway, Palmdale, California, Hon. Steve Knight, presiding.

Present: Representative Knight.

Also present: Representative Valadao.

Mr. KNIGHT. Good afternoon. Thank you all for coming. This hearing will come to order.

Before we begin, I would like to sincerely thank everybody for coming, and a special thanks to our witnesses for giving up some of their time today. I appreciate your willingness to take time out of your schedules and appear before this Subcommittee to talk about the barriers small contractors face when working with the Department of Defense.

I would like also to extend a warm welcome to my friend and colleague, Congressman David Valadao, from the 21st District. He has a lot of Bakersfield and Hanford, and a lot of those other little cities that you drive by on the 5.

[Laughter.]

I appreciate David coming down and helping us out with this.

Government contracting offers a unique opportunity to invest in small businesses while also stimulating our economy. Small businesses play a critical role in our economy and job growth, creating 7 out of every 10 private sector jobs. With our economy continuing to sputter along, it is more important than ever to invest in the small firms that support our communities and provide opportunities for our families. It is difficult to build a strong economy when its foundation, America's small businesses, is not strong itself.

Small business contractors are good for the government and good for the economy. Small businesses tend to be more nimble, responding to market changes more rapidly than larger counterparts, and they drive the innovation sector that makes America more agile in the global economy. They increase competition and innovation, create jobs, and save taxpayer dollars, which is why there is a statutory goal of awarding 23 percent of prime contract dollars to small businesses.

Having a healthy small business industrial base means that taxpayers benefit from the increased competition, innovation, and job

creation. It also means that we can securely support programs crucial to our national defense instead of relying on foreign-made goods.

The percentage of dollars awarded to small businesses is a good measure of success, but it is not the only measure. Over the last 4 years, while the percentage of dollars being awarded to small businesses was increasing, the number of contract actions with small businesses fell by almost 60 percent. At the DOD the number fell by almost 70 percent. The size of the average individual small business contract action increased by 230 percent during the period, and by nearly 290 percent at the DOD. The percentage of some contracted work going to small businesses has also fallen by nearly 2.5 percent.

These statistics are all alarming in their own way, but one of the more clear-cut and disturbing figures is that there are over a hundred thousand fewer small businesses registered to do business with the Federal government than there were in 2012. These data points suggest we have a problem with our small business defense industrial base.

Right here in California's 25th district, we are in a unique position of having a huge presence of defense contracting companies as well as a large number of small businesses that are seeking government contracts. We have around 480 small businesses seeking to do business with the Federal government here in this district. This means there are many opportunities for small companies to be Federal prime and subcontractors, but there are also significant challenges and barriers for them.

We have asked our witnesses today to discuss some of these barriers and suggest ways to reduce them. I look forward to hearing these ideas and taking their recommendations back to Washington where I can work with my colleagues to make things easier for small firms to enter the defense contracting arena and ensure a healthy, vibrant defense industrial base. Again, I want to thank each of our witnesses for taking the time to be with us today, and I look forward to hearing your testimony.

We have three witnesses here today, and we do have some rules. We will abide by them as well as I can do. We have 5 minutes for you to chat, and when you start going over that, I will look at you. If you do not respond, then I will start going like this.

[Laughter.]

[Gavel.]

At that point if you do not respond, we will escort you out. No, we will be as lenient as we possibly can, but if we can adhere to around 5 minutes, that would help us.

Let us get right into it with our witnesses. A couple of the witnesses I know. I have worked with them, have been with their businesses, have seen what they do, and have talked with them. This is exciting for me to have two witnesses come in that I have a good relationship with. Then David will introduce our third witness.

Our first witness today is Mr. Don Rhea, Vice President of Clancy JG International in Lancaster, California. Mr. Rhea has a bachelor's degree from Chapman University followed by graduate study work at University of Southern California. His background

includes working for the National Aeronautics and Space Administration—"NASA" for all of you—followed by a career as a contractor supporting the Department of Defense.

His knowledge and experience includes engineering analysis, air traffic control, air space management, unmanned aircraft systems, simulation training, flight tests, test ranges, and business management.

Clancy JG International has been awarded more than \$18.5 million in private contracts since their inception in 2007. It is geographically diverse with locations across the United States as a Small Business Administration certified 8(a) program participant, and as a service-disabled veteran-owned small business.

Mr. Rhea.

**STATEMENTS OF DON RHEA, VICE PRESIDENT, CLANCY JG INTERNATIONAL, LANCASTER, CALIFORNIA; KIRK FLITTIE, GENERAL MANAGER, AEROVIRONMENT UNMANNED SYSTEMS, SIMI VALLEY, CALIFORNIA; AND VIRGINIA VILLA, OWNER AND CEO, WEST PACIFIC ELECTRIC COMPANY, LEMOORE, CALIFORNIA**

#### **STATEMENT OF DON RHEA**

Mr. RHEA. Thank you, Congressman Knight, Congressman Valadao. I appreciate you taking the time to entertain this topic, a very important one to us.

I would like to open today by expressing my appreciation for all the small business specialists within the Department of Defense who tirelessly search and evaluate opportunities for small businesses to participate in government contracts. These individuals engage in active dialogue with the small business community on a regular basis through industry days, outreach events, and regular office visits by small businesses, and we've greatly benefitted by their support.

I acknowledge that opportunities for small business participation in the Department of Defense acquisitions are present. Many opportunities result from the small businesses developing and submitting capability statements in response to sources sought and market surveys. Small businesses spend many hours traveling to customer facilities and networking to identify opportunities where our talents and expertise can contribute to the mission.

With this approach, as stated, we have succeeded in building a business base. Roughly 80 percent of our 2015 revenues were as a prime contractor and with customers, as mentioned, from Alaska to Washington, D.C. We've done that because we have a committed and dedicated staff.

I have direct experience working with small businesses that range from startups to more sizable ones around \$30 million and above. As a services company, Clancy JG International targets technical support services opportunities with selected NAICS codes, North American Industry Classification System codes, which we also refer to as size standards.

One of those that we pursue as a NAICS code is 48190, which is "other support activities for air transportation" with a size standard of \$32 and a half million. To pursue opportunities under this

NAICS code, a company must have an average revenue over the most recent 3-year period of \$32 and a half million or less. And as a company approaches a \$32 and a half million average, they are much larger. They have more resources, and they enjoy a significant competitive advantage over companies our size; that is, companies of less than \$5 million in annual revenues.

It's very difficult for a \$5 million small business to compete with a \$32 and a half million small business as a prime contractor. But, as you see, we've had some success. To overcome these challenges, small business will typically search for opportunities to provide subcontract support, thus increasing revenues and developing a corporate past performance portfolio, which is needed to be a credible prime.

Small businesses awarded contracts under any small business set aside or NAICS, regardless of the size standard, do not provide any subcontracting opportunities. However, if the contract is full and open in competition with a small business subcontractor requirement, then opportunities for small businesses do exist assuming that the company has the correct technical skill to contribute. We have seen prime contracts with as much one-third of the work designated for small business. These contracts provide opportunities for several small businesses to participate.

Over the past decade, there's been significant momentum towards contract consolidation. Small business contracts absorbed into large contracts, and multiple small business contracts consolidated into a sizeable small business contract.

Over my career, I've been party to both of these scenarios. In the case of a large contract, a follow-on subcontract might be available. However, the opportunity for a small business to pursue the next step in becoming a prime contract has been eliminated.

In order for a small business to grow as a prime contractor, they must have the ability to bid as a prime contractor. While contract consolidation still exists today, it is limiting small business opportunities. There have been recent instances within the Department of Defense where tasks were removed from small business contracts removed from a large business, set aside for a small business, which provided a great opportunity for a small business prime. We've seen some of that in the other direction, mostly the Navy.

Finally, government regulations are causing significant challenges for small businesses. The Affordable Care Act is driving up the costs of healthcare. We have witnessed far greater increases in health insurance premiums than we saw in prior years before the ACA implementation with reduced coverage and much higher deductibles. The challenges in bidding a multiyear firm fixed price contract—as a services company that's what we pursue—for indirect cost control is vital.

Other challenges are associated with access to capital. Since the financial collapse in 2008, regulations have prevented small businesses' access to capital through the typical borrowing route. As a result, many small businesses are faced with utilizing the services of receivables financing companies to fund expenses while waiting for invoices to be paid, which is an expensive proposition.



As small business leaders, we understand that these challenges exist. Small business leaders are typically entrepreneurs and are adept at solving problems and thriving. Addressing these challenges is becoming more difficult in recent years and deter many small businesses from pursuing Department of Defense contract opportunities.

I appreciate the opportunity to testify and provide my real world insight into this topic and the challenges that face small business defense contractors. Thank you.

Mr. KNIGHT. Thank you, Mr. Rhea.

Second on the docket is Mr. Kirk Flittie, Vice President and general manager of Unmanned Aircraft Systems at AeroVironment, Incorporated.

With more than 25 years of experience in the commercial and defense business segments, he was promoted to vice president and general manager for unmanned aircraft systems at AeroVironment in May of 2015. Before assuming his current position, he was Vice President for the HALE UAV business area.

Prior to joining AeroVironment, Mr. Flittie worked for the American Rocket Company, a commercial space launch company, for 8 years as an operations director, program manager, and senior engineer. Mr. Flittie also worked at Northrop Aircraft Corporation as a design and test engineer on the F-20 fighter, the Tigershark, several classified programs, and advanced hypersonic aircraft.

He holds a Master's of Science in aeronautical and astronomical engineering from the Massachusetts Institute of Technology and a Bachelor's of science in aerospace engineering from the University of Notre Dame.

Mr. Flittie.

#### **STATEMENT OF KIRK FLITTIE**

Mr. FLITTIE. Thank you, Congressman Knight and Congressman Valadao. Please allow me to thank you, Congressman Steve Knight, for inviting me to testify in front of the Small Business Subcommittee on Contracting and Workforce. I'm honored to represent the 650 proud employees of AeroVironment in Simi Valley, California.

AeroVironment is a technology solutions provider that designs, develops, produces, supports, and operates an advanced portfolio of unmanned aircraft systems and electric transportation solutions. Agencies of the U.S. Department of Defense and allied military services use the company's electric powered hand launched unmanned aircraft systems extensively to provide situational awareness to tactical operating units through real time airborne reconnaissance, surveillance, and communications.

AeroVironment's electric transportation solutions include a comprehensive suite of electric vehicle charging systems, installation of network services for consumers, automakers, utilities, and government agencies, power cycling and test systems for EB developers, and industrial electric vehicle charging systems for commercial fleets, and unmanned aircraft systems.

With over 25 years of experience developing, supplying, and supporting small, unmanned aerial systems, AeroVironment is a prime contractor and supplier to all U.S. Department of Defense pro-

grams of record for this category of unmanned aircraft systems, and has delivered more than 20,000 new and replacement air vehicles to customers in the U.S. and elsewhere.

AeroVironment's family of small U.S. air vehicles includes Raven, Wasp, Puma, and Strike. These backpackable manned portable hand-launched unmanned aircraft systems are carried and used by our armed forces, who frequently operate across large geographic areas, often far removed from their bases, and are dependent mainly on what they carry in their packs or vehicles. They deliver frontline real time situational awareness to increase combat effectiveness and force protection.

By transmitting livestreaming, color, and infrared video from on-board cameras directly to a common hand-held ground control station with an embedded color monitor, AeroVironment's aircraft systems provide real-time information that help U.S. and allied armed forces operate more safely and effectively.

Mr. Chairman, thank you for the opportunity to be here today to discuss the opportunities and challenges of business for the Department of Defense. I'd be happy to answer any questions that you might have.

Mr. KNIGHT. Thank you very much. Now, I will let Congressman Valadao introduce our third witness.

Mr. VALADAO. Thank you, Chairman Knight. Our third witness is Ms. Virginia Villa, CEO of West Pacific Electric Company in Lemoore. In her capacity at West Pacific, Ms. Villa is in charge of day-to-day operations, purchasing, human resources, and development of technical proposals, among other tasks. Previously she was CEO of Covenant Services, Incorporated, in Lemoore, and the supervisor of D Electric also in LeMoore.

A federal contractor for over 25 years, Ms. Villa is a member of the United States Women's Chamber of Commerce and the Hispanic Chamber. Born and raised in Central Valley, Ms. Villa lives there with her husband and six children.

Ms. Villa, thank you for being with us today, and welcome.

#### **STATEMENT OF VIRGINIA VILLA**

Ms. VILLA. Good afternoon, Congressman Knight and Congressman Valadao. I appreciate the invitation to testify here today, and I'm honored to provide you with insight into the obstacles faced by a small woman-owned defense contractor.

My name is Virginia Villa, and I am the CEO of West Pacific Electric Company located in Lemoore, California. Located in California's Central Valley, Lemoore is home to the Naval Air Station and surrounded by many rural communities that are traditionally underserved. The Central Valley is also home to many small business and minority-owned companies struggling to grow and provide jobs for their employees.

My firm, West Pacific Electric Company, is an electrical firm which currently employs 11 full-time employees. Our services include all phases of electrical with a special emphasis on high voltage electrical distribution. Currently we bid on federal, state, municipal, and commercial projects throughout California and neighboring states. When opportunity permits, we bid as a prime contractor, but the majority of our bidding is as a subcontractor.

As Chief Executive Officer of West Pacific Electric Company, I have attended numerous events sponsored by various Federal agencies, such as the Society of Military Engineers, SAME, and the Minority Business Development Agency, also known as MBDA. I attended each of these events with the assumption that I would be given the same opportunities as other contractors to bid on Federal, State, and local contracts.

While these events provided more insight and information regarding submitting bids for defense contracts and were marketed as providing opportunities for all interested in seeking government contracts, the reality is that each event shared one common message. It is recommended that the small defense contractors reach out to large contractors for subcontracting opportunities.

As those of us here today understand, small businesses and businesses owned by minorities face unique challenges when competing for contracts and jobs for their employees. These challenges are most apparent when larger companies and major projects leave out the small business firms and ignore the potential to include them in this serious bidding process.

I understand large contractors may find it easier to work with proven subcontractors, but this leaves out growth potential for qualified companies to compete. Many in my position wonder why small businesses are expected to pull on the coattails of large contractors just to get an opportunity to bid while it should be the large contractors reaching down into the large pool of small businesses that can perform the work.

As CEO of West Pacific Electric, accessing federal contracts is a challenge I face every day. In addition to attending informational events sponsored by SAME and MBDA, I also have taken the initiative to meet with small business representatives of various agencies to present my firm's proposals and capabilities. Furthermore, I have aggressively worked to expand my own network in an effort to better position my company. I am a member of the United States Women's Chamber of Commerce, MBDA, SAME, and the Hispanic Chamber of Commerce, which provides with networking opportunities to work with large contractors.

To contribute to my qualifications, I hold the following certifications: Economically Disadvantaged Woman-Owned Small Business, CPUC, State of California Small Business, Small Disadvantaged Business, SDB, and GSA contract holder, all of which are contract vehicles when bidding on government projects. Despite these efforts, my company continues to face obstacles when applying for government contracts. I will provide you with one reoccurring example.

When a large government contract is released, our firm does preliminary research to confirm that a subcontracting plan is incorporated within the solicitation. If a subcontracting plan is incorporated and my company decides to bid on the project, a lot of work and man-hours go into preparing a bid. We oftentimes later find out that the majority of the contractors that have been awarded a subcontract are large firms. This leads me to believe that subcontracting plan is ignored and discourages me from bidding on the next project.

While larger established companies have an advantage, there are still opportunities for small businesses and minority-owned companies throughout the state and in the Central Valley. It is critical that my company has access to projects close to home in the Central Valley. Potential projects include the development of the California high-speed rail, a \$68 billion project, and the renovations at Lemoore Naval Air Station, \$1.6 billion. General construction projects are a deal for businesses to participate in and help subcontracting and job creation opportunities.

I believe there are many common sense solutions that should be considered in order to encourage the involvement of small businesses, and I'm happy to have the opportunity to discuss those further at today's hearing.

In closing, again, I want to thank you for the opportunity to testify before the Committee today. I hope that my testimony provides you with further insight and information regarding the challenges faced by small business defense contractors. Thank you.

Mr. KNIGHT. Thank you very much. Part of what we do in this hearing is coming out to the district, coming out to southern California instead of having everybody go to Washington, D.C. to testify in front of Congress. It's very beneficial. We get to hear right here. You can drive right to City Hall in Palmdale, and we did one in Pasadena this morning, and we plan on doing some of these across the State. And so, that makes it a little bit, well, less costly for you, less intimidating, and more down home, and just real answers to real problems.

At our hearing in Pasadena today, we had four woman-owned small businesses. We talked about access to capital, some of the barriers, and none of them were defense companies, but all of them had the same exact barriers they were trying to get past. It was fruitful, and I think we are going to get something out of it, and we are going to work with something. That was very helpful that couple of hours that we spent in Pasadena.

I will start off with Mr. Flittie. I understand that AeroVironment has had success internally developing innovative solutions that were embraced by the DOD and subsequently fielded by our U.S. forces. By getting the department's focus on better buying power, are you finding the department recognizes the contributions of your internal investments and compensate you accordingly for your IP?

Mr. FLITTIE. One of the approaches that we do at AeroVironment that we have done historically, is to invest heavily internal research and development funds. Typically about anywhere 10 to 15 percent of our revenue goes back into internal research and development to develop products, improve them, and position them to the point where we are ready to compete.

One of the barriers that we find when we go into these competitions with much larger organizations than we are, is that oftentimes the requirements to compete are that we are required to share our intellectual property that we have developed on our IRAD with other companies to try to level the playing field. That is one of the reasons we used the IRAD to develop this is to bring it to high, what is called, technology readiness levels so that we are prepared to compete, but we also want to retain intellectual property as well as part of that.

That creates a barrier for us because it is seen as an unfair advantage for us especially when we are competing against much larger organizations. We have to be able to share the data rights in intellectual property of things that we developed internally. That is a barrier for us because it is that intellectual property, that intellectual capital that we use to grow our business.

Mr. KNIGHT. Let me push a little further on that. Basically what you have created there is your intellectual property, and that is what you have developed; that is, the program or the product that has been developed by your company. To go a little bit further on that, if there is not a way of more or less protecting this without going into this process, what does that do to the company? You do not go out and try and produce or create something new, or change something and make it better?

Mr. FLITTIE. Some of the protections that we will seek are traditional ones through patent protection, but oftentimes the protection is just an internal trademark or just protected intellectual property that we do not share. So what we will try to do is we will try to use that intellectual property and their designs in their competitions, and try to restrict it the best we can to be able to compete effectively without having to share it with our competitors.

Mr. KNIGHT. I will go on to Mr. Rhea. About what is your success rate in winning contracts from the Federal government? Are there any particular agencies or particular part of the DOD that are better to work with than others, or maybe better services that are better to work with than others?

Mr. RHEA. We won our first prime contract with the FAA in 2009. We bid against six other companies, and it was a service-disabled veteran-owned small business set aside, and we were awarded the contract. That was our first prime contract award.

Since then, the bulk of our awards have been as a result of briefings or sole sources through the 8(a) program. We do some work with the Army National Guard, and we do some work with the Navy China Lake. China Lake is the organization I mentioned earlier that has been taking work off of some of the large consolidated contracts set aside for small businesses. We have been up there several times giving briefings, and as a result of the briefings, they have selected somebody and then negotiate a contract with them. Even though it is an 8(a) set aside, it has been somewhat of a competition to get it. So those are the opportunities that I have seen only the Navy pursue.

In my previous companies I have had work at Edwards Air Force Base, but most of that work had been consolidated with the large contracts, and there really are not opportunities for some contractor on a contract at NASA Armstrong. That is one of my two subcontracts. The other one I am a subcontractor to a company in Washington, D.C. for the FAA. The rest of our contracts with the DOD are all prime contracts, but they have been limited solicitations.

It is really difficult. We have bid on a lot of contracts, back to your question on how many we have won. We have bid on a lot of larger contracts, but because we do not have relevant past performance, and they define "relevancy" in terms of the size of your company. Being a company of 30 employees and less than \$5 million

in annual revenues, and you are bidding against somebody that has got several hundred employees, it is very difficult to compete.

We just bid on fairly large contract at NASA Armstrong, but some of that is you just have to keep going. You bid on these knowing that you probably do not have a probability to win, but you want them to know you are interested so that when something else comes up, you may have another opportunity.

As a small business you get really creative trying to get your name out, trying to get to know people, trying to influence what is coming out. We responded to a lot of market surveys. Some of them we decided to bid on when they come out. Some of them we do not. But you are trying to get people to know who you are and just get the word out there, because as small businesses we have a lot of talent. It is just getting through those hurdles of relevant past performance and similar contracts.

I just got a solicitation this last week to bid on some transit alert stuff, which is not typically what we do, but it is our NAICS code, for 44 bases throughout the U.S. The way it was written, you had to have two contracts where you did the same exact work. When the contracting officer called and said are you going to bid it, we said, no, because you are too restrictive on your past performance. We can meet one requirement, which is past performance of similar contracts, but you required in addition to that two specific past performance citations, which we cannot meet, so we are not bidding.

Those are the things that we have a challenge with. As small businesses, it is really difficult to find opportunities. When you bid them, you bid some of them knowing you do not have a chance of winning, but you bid them anyway just to get some experience, some knowledge, some insight. As a small company, when you have two or three people doing all the work, you have a very limited number you can bid on. So you are very selective as to which ones you pursue.

Mr. KNIGHT. On a scaling percentage, how much more difficult is it on certain products, certain bids that you are trying to bid on because of the scale, because of some of the larger companies that can do these things, that can do four, five, six bids, and do multiple programs, and maybe some of those programs are similar, and so they can use similar things. They can use similar products, and that makes it easier for them to scale down maybe a price or something like that.

Mr. RHEA. The larger your base is, the more competitive you can be. In our case, we have a very small business base, so our ability to adjust our rates and become more competitive is very restrictive because there are certain costs of running the company. I mentioned the medical insurance. The cost of benefits is by far the largest expense we have, and if we cannot control indirect costs in our fringe costs, we have a tough time competing against the big companies.

Most of these contracts are coming out firm fixed price. The ones that have been set aside have been time and materials converted to firm fixed price once we negotiated them. But most of them that are coming out, they want to put together a firm fixed price bid. That one I just mentioned, that we chose not to bid on, that was one of those that was going to be firm fixed price.

It is very difficult in this market to predict where things are going to be over the next 5-year period because they are all a base period and four options period.

Mr. KNIGHT. Ms. Villa, again, we spoke this morning about some of the obstacles and some of the access to capital issues that have been happening with woman-owned businesses, with businesses that have not had a lot of access to capital, minority-owned businesses, disabled vet-owned businesses. Are you finding that that is an issue in your business?

Ms. VILLA. Absolutely, it is an issue. In fact I get calls all the time from non-banking, Wells Fargo, and 20 percent interest, because they target us because as a small business we do not have access to the original type of working capital.

Currently we are working with a bank to where they want to put a lien on the receivables; in other words, take the receivables as collateral. It is a struggle because that is a hard notion to bring into any type of federal agency or any other customer that you are working with is to let them know, there is a possibility that my receivables may be used as collateral; therefore, you have to send the money directly to the bank.

It is a struggle. It is a continued struggle.

Mr. KNIGHT. I am going to let Congressman Valadao ask the next series of questions if you would like. When it comes back to me, I am going to get a lot more specific on helping us help you. You have a couple of congressmen here that sit on several committees, so when I start asking the next series of questions, it will be on, because a lot of times we come in front of businesses, and businesses will say regulations are killing us, or this is killing us, or this or that. Then I say, okay, well, help us out with that, and they say, oh, well, it is just, you know, everything. Everything is killing us. I cannot go back and say, hey, everything is killing them.

If we can delve down there, or as we move forward in the next week or 10 days and you have time to kind of push forward on, what is really stopping me from expanding my business, from getting more contracts. I cannot help you become bigger. I cannot do that, but we might be able to soften some of the barriers or get rid of some of the barriers.

Mr. VALADAO. Since you have got the mic still, Ms. Villa, you mentioned some commonsense reforms that could be implemented to help small businesses. Can you expand on what some of those might be, and what can we do in Washington to help you with that process?

Mr. KNIGHT. Eyes on your own paper.

[Laughter.]

Ms. VILLA. Absolutely. Very familiar term: accountability. It is all about accountability. As a contractor that traditionally bids maybe 20 percent prime, 80 percent subcontract, I am looking for accountability from contracting officers and general contractors. So when I see that there is an implementation within the solicitation for a small business utilization plan and it is not being met, and I go to a job site and I see all large contractors, it is frustrating because at the end of the day there are no sanctions, nothing being done, and it is continually happening.

I have thought about this. I think about this every day. One thing that I think would work is in the construction industry, after we are awarded a project, we have what they call the submittal phase. In the submittal phase is when you turn into the government your environmental plan, safety plan, QC plan, the type of equipment that is in compliance with the solicitation.

I think there also needs to be a plan that the general contractor has to submit to all the subcontractors that they are using. Show the contract amount. Show its discipline. Then, like all the other sections, it either gets denied or it gets approved. At the end of the project when you do the wrap-up, the warranty letter, all the other documents that you have to give to the federal government, do a follow-up plan with the steps. Make sure that there was not, we see commonly used a lot, a lot of the bait and switch. Make sure that does not take place.

I think if general contractors and contracting officers see that they have to continue to do that, I think a lot will change because there is no room for error. They have to comply, and they have to be in compliance with the solicitation. I think that will help a lot of the small businesses.

Mr. VALADAO. Mr. Rhea, how familiar are you with the SBA's contracting assistance programs, and have they been helpful to you?

Mr. RHEA. I am familiar with it, we have been down to some of their training programs. Having been a small business contractor for 30 years, we understand the environment. When we go down to a training class, it is really not very informative.

The biggest challenge we have is not in learning how to be a small business and how to operate. It is identifying opportunities we can bid. We have demonstrated our ability to win as a prime and win in a competitive environment. There are just very few ducks to shoot at. We are always having the challenge of trying to identify those opportunities. We have recently put more emphasis into being a subcontractor because there are more opportunities there.

I go to SBA meetings. In fact, I am going to one next month down in Anaheim. We participate because we are supportive of the small business community. Does it provide us much benefit? No. Even the PTAC, we do not get much out of the PTAC except for the ability to work with other companies and potentially find other opportunities. We go to those primarily to network, not because there is something we can gain from that.

Part of the problem for us is we have been around here for a long time, so we do not need to learn how to do what we are doing. We just need to find more opportunities to go chase.

Mr. VALADAO. Mr. Flittie, your company has been very successful contracting with the Defense Department. Can you offer any advice to some of our younger, smaller companies?

Mr. FLITTIE. The key things that we have done as a small company, most of the competitions that we compete on, are under the NAICS code for aircraft manufacturing. Companies that are under 1,500 employees or less are classified as small business even though we are much larger than most of my counterparts. We oftentimes compete with the Boeings, the Lockheeds, the very large



aerospace companies. We face similar barriers in trying to take the next steps.

The key thing that has helped us be successful, one thing I talked about earlier, is that we have found that to try to compete at the next level, trying to raise the capital as to IRAD or external capital to develop the products, and technologies, or services to a certain level where the Department of Defense is ready to adopt it. For example, they characterize it by, the technology readiness level. If we can get it to a TR level of 5 or 6, then the government is more willing to put in the incremental investment to take it to the next level then to put it out operationally.

We found that to be a very successful model over the years, getting to that level, and then we can compete and win on programs both as prime and as suppliers to win contracts that basically take it to an operational level, to a much higher TR level. That is a strategy that we have used.

We often faced similar things, too, trying to identify the opportunities out there. Some of the barriers that we face are, again, trying to identify opportunities that we can go pursue as a prime because we are oftentimes limited by not being considered large enough or having the capabilities to go to the next level. We are even limited to the prime opportunities, and so we oftentimes are pursuing subcontracting opportunities as well.

Even though we are all different sized small businesses, there are similar barriers as we are all trying to grow to the next level in the Department of Defense.

Mr. VALADAO. Do I have time for one more, Mr. Chairman?

Mr. KNIGHT. You do.

[Laughter.]

Mr. VALADAO. I have been in Congress longer than him, and I have to ask him for permission.

[Laughter.]

He is loving this. Ms. Villa, have you utilized the Procurement Technical Assistance Center, PTAC, and what was your experience?

Ms. VILLA. Yes, I have. Our local PTAC is out of Monterey. It has been favorable. In fact, the gentleman that I work with, he has offered a lot of insight, a lot of recommendations, and it has been helpful. In fact, I just signed up for bid matching. We will see the results of it. He does email me probably twice a month to see if there are any, needs, any way that they can help me, so it is favorable.

Mr. VALADAO. All right, thank you. I yield back.

Mr. KNIGHT. I am going to go back to Ms. Villa on accountability. So we did a bill in the California legislature that looked at roofing contractors. A lot of roofing contractors in California had not done the things that we expected of them. They did not have, unemployment insurance, or a business license, or, they just were not allowed to work. Yet they were doing an awful lot of roofing in California.

The roofers were very upset at this, and they said, people have to play by the rules in order for our bid to be equitable because if I go in there and I bid and I have to do everything by the accords of law and some folks do not, I am never going to win a bid.

If I get what you are saying about accountability and talking about prime contractors and them not following maybe a percentage or not following something, what happens there?

Ms. VILLA. The problem is nothing.

Mr. KNIGHT. Okay.

Ms. VILLA. That is the complaint is because as a small contractor, I have limited resources in my estimating department. When it continually happens, you no longer bid to the general contractor.

Mr. KNIGHT. I am an apples for apples kind of guy because if you are going to bid, then you have to be on the same level playing field. If you are not, then somebody is going to probably win a lot more bids than you if they are undercutting something, or they are not paying for something, or they are not doing something.

I am going to move right down the line. I have been to AeroVironment several times, and even launched one of your vehicles that you said I could not hurt, and I did my best. I did not hurt it, but it did not launch because I did not do it correctly. You are dealing with an awful lot of the big companies and big contracts on kind of a small to medium level company. You are competing, and you are doing fairly well, probably not as well as you want to do.

You have to put a lot of investment in certain projects and certain things that you want to go out there, and you have got to show a demonstrator, you have to show this, you have got to prove something. All of that is coming out of your pocket to do that in order to bid. How difficult is that to deal with a big, big company and you are trying to deal with these types of bids when you are leveraging your company quite a bit?

Mr. FLITTIE. The types of investments we make, I mentioned, are IRAD type investments, like capital, or bid and proposal, the marking costs to pursue. We find that we have to be very selective on the ones that we go after because most of the prime work that we will try to compete for at the next level is against larger aerospace, and they do have larger resources to draw upon. We cannot go and pursue everything, so we have to be selective on the things that we think we can be very competitive on, then develop a good strategy, then deploy our investment resources, and go compete.

The key is being very selective. We cannot go and pursue all the things. Even though we think we would be very competitive on a lot of them, we just do not have the resources to do that, to go be competitive on all of them.

Mr. KNIGHT. That in itself becomes a problem for small business because you are going to put a lot of effort into bid. You just do not go over there and say, yeah, I can do this. It is a process, it takes manpower to do this, and it takes an awful lot of money and know-how. If you are only getting a bid out of 10 bids or something like that, then it is taking an awful lot of effort to continue to move on. I think that is one of the things that we understand with smaller businesses in the aerospace industry, especially in the defense industry.

I will go back to this, and this could be for any one of you. Since I have been on the Armed Services Committee now for 16 months and I have seen all the services and what they do and what they

do not do, and some do it better than others—I firmly believe that—is there someone that you work better with in contracting, or is there a service branch that has figured it out, because I can tell you just up front, the Air Force does things a lot differently than everybody else does, and not because we are an Air Force town, but I can say this, I think they do it pretty well. The Air Force does it pretty well. They do it completely different than the Navy and the Marines and the Army, or the Navy and the Army.

Are you finding any of that? Are you finding anybody who does it better?

Mr. FLITTIE. I am willing to go. We do find there is a large variation between services and how they approach the federal acquisition regulations and implement them and actually implementing their competitions. They all follow the law, but in how they actually implement them, there are large variances.

We find that a lot of the customers that we tend to pursue are what we call for us early adopter customers. These are like intelligence agencies, NASA, DARPA, organizations that tend to have acquisition strategies that are more rapid and quick to field shorter cycles that are more culturally aligned with the way we try to do business and break in, whereas we see that we need to win those first to have a shot at the more traditional, the longer-term acquisitions because the longer-term acquisitions may go on for 5, 15 years, and to go even go and compete on those.

Those can be multiyear competitions, and so we are in a few of those right now where we have to have a sustained capture strategy investment for two or three years to position to compete on something. Again, you have to be very selective and you have to be very focused to go after that type of business.

Mr. RHEA. I would make a couple of comments from the services side because we focus just on services contracts. Edwards has two primary large services contracts. One is just up for recompetes now, and we managed to get on the team as a subcontractor for that one. The other is one of those extremely large small business contracts where there are no opportunities for subcontracting.

We have found that as far as Edwards Air Force Base, we have not had many opportunities to go penetrate that market even though in my previous life I had gotten a \$25 million sole source contract as an 8(a) company. There used to be more. Those had been consolidated 10 years ago when they pulled everything together and came up with these large consolidated contracts.

We have had a little success in the Air Force. We have had a little bit more with the Navy because the Navy has done just the opposite of China Lake where they have pulled some of the large task order contracts, pulled some work off, set it aside for small business to compete as a prime. We have some small business primes less than \$5 million that go for 5 years that have a few people on them. We have seen more out of the Navy than we have the Air Force as a prime.

Ms. VILLA. My experience has just been with the Department of Navy, specifically NAS Lemoore. The majority of it, I am probably priming maybe 10 percent right with NAS Lemoore where the remainder is as a subcontractor.

Mr. KNIGHT. Does that ever push down into the China Lake area or any of that with the Navy?

Ms. VILLA. It does not. Previously my husband owned a firm back in 1991 where he used to be an 8(a) contractor, and we did have a lot of experience—China Lake, NAS Lemoore, NASA, Point Hueneme—all the agencies. But specifically now, no, it does not. It specifically just stays at NAS Lemoore.

Mr. KNIGHT. Then lastly, my broad question, we just announced one of the biggest contracts in quite some time with the new bomber. As this unfolds this next year or year and a half, how does that unfold for small or subcontractors? Is it going to be released? Are there going to be jobs or parts that come down that can be bid on? Are there going to be subcontracting availabilities for certain parts of the new bomber, or is it going to be all cloak and dagger until the end?

Mr. FLITTIE. It is interesting. For our business what we are seeing, that is, that we are saying with Northrop weighing that, that they are potentially abandoning some of their other markets because they want to focus on the long-range bomber and other stuff. There are opportunities for us to potentially move into some other markets and other competitions for things that they traditionally have been in because they are looking to focus on those. Not so much directly, but we are looking to subcontract components or systems on long-range bomber.

But the shift in maybe their emphasis is potentially opening up other opportunities for us to compete, so maybe a different look at that.

Mr. KNIGHT. Okay.

Mr. RHEA. Our only opportunity would be probably in the flight test aspect of that, and it would be indirect. It would not be Northrop directly, but with our customers we support potentially with some opportunities of support to flight program. But other than that, there is nothing that we expect to be able to support because we are not in that business. We do not manufacture anything. That is not really where the focus and where the money is going to be for quite a while. We do not expect to see anything that is going to benefit us except to keep—

Mr. KNIGHT. Quite a while.

Mr. RHEA.—except to keep the flight test activity alive for a number of years in the future.

Ms. VILLA. I have not researched any opportunity, so I have no information.

Mr. KNIGHT. It was just an open-ended question since this is such a huge contract and this is going to go on for 35 years, that you would think that there would be opportunities there.

Again, my homework is specific to us, of how we can change, how we can do better. I think we got a couple of ideas this morning from talking to the woman-owned businesses and talking about the barriers and the issues. We even talked about capital issues that are happening today with crowdfunding, and peer-to-peer, and groups like that that they can raise capital, and some of the businesses had done that. I know that probably does not fit your category at all, but it was a little bit of out of the box thinking there.

Do we have businesses in the audience? I know this young lady has been shaking her head a whole bunch. Every time Ms. Villa says something, she is shaking her head. Here in the area that have had similar problems, similar barriers? You can come on up since I am the chairman.

[Laughter.]

I can do whatever I want.

Ms. Robison Whitcomb. Good afternoon. Thank you for giving me the opportunity to come speak. My name is Rebecca Robison Whitcomb. I am the owner of She Marine Veteran Supply in Bakersfield. I am a service disabled veteran and small business. After 22 years in the marines and combat tours, I decided to come back home and become a small business owner, and Kern County has been fantastic to me in that way. But I have been trying to make the decision about a move into Federal contracting and how do I get there from here as a retiree and as a small businessperson.

I did participate in the Boots to Business and many of the Small Business Administration education programs to make veterans prepared to be small business owners because we are generally entrepreneurial and opportunistic by nature. And I have noticed just going out to Edwards Air Force Base the answer is, drop off your capability statement, your line card aligned with your NAICS codes, and do not call us, we will call you.

As a small business that is a bummer because that is a 70-whatever mile drive from Bakersfield there, and you are hoping, okay, well, I am still going to look on fedbizopps, and I am going to look for all the regular resources that we have and mine for opportunity. But, as a super micro business that is really just starting, the answer is exactly what these colleagues of mine are saying, that unless you have some kind of coattail experience with another business, you are not going to get to emerge on your own.

Then the State has been giving many different opportunities in terms of access to the marketplace that I think would benefit. To go to your question about specificity is that when you can report participation and you are not just requiring each individual report, but you are requiring the prime to report their disadvantaged business partners and how that goes, and establishing federally enforceable teaming agreements.

This is exactly what Ms. Villa said. In terms of the high-speed rail, they have decided that they are going to make the primes that win the different discrete contracts report who their small business partners are. I show up to those meetings routinely, and they do not actually want to commit to you because it is a designed build, and so they do not know how you are going to go about it. But you cannot progress in supporting them until you know if you are on the team, and you do not know if you are on the team.

It is a very big stop and start situation, and it is no different when you get into the federal environment. I happened to be given the opportunity to be with one of the 8(a) companies that was nationally recognized as a woman-owned small business. They are coaching me before I am even making the decision to go into the 8(a) program to make sure that it is the right step for me because am I more productive in California because the access to business in California is much greater than in the federal government for

a brand new person like me. My company is a very, very small micro business, and I have six employees.

Thank you.

Mr. VALADAO. Do you mind if I ask a question—

Ms. ROBISON WHITCOMB. Yes, go ahead.

Mr. VALADAO. I have known Ms. Villa for a long time and we have talked about other issues before in the same realm. Do you feel when you have an opportunity to talk to some of these or see some of these opportunities, do you feel like you are provided all the information you need to make a proper bid?

Ms. ROBISON WHITCOMB. Occasionally yes. I have had much good fortune with some prime contractors, specifically Manson, even though I do not live on a waterway. Bakersfield is pretty far from a reasonable waterway. But Manson as a large firm has offered a lot of outreach to be able to participate in the RFP process and to be a competitive teammate for them.

Even though you might not be a Manson type person, because I do some construction supply, it gave me that opportunity to go, okay, so how do I write so that I am in support of what the overall advantages are, or how do I make this better coming as a small business. I am not sure what other things I could individually do as a super tiny business. Just what you guys said a little earlier about being so small, like do you have enough money.

I get opportunities every single day that come to my email, that says we want to DBE or we want a DBE to participate in a Cal Trans job, what have you. I call and I say, okay, I am interested, I checked the box, I sent back the email, what is the next step? I do not know. Then now you are past the time to put in your part of the participation, so is that participation actually real? Does it exist?

Mr. VALADAO. Do you feel that they do that just so they could check the box about the woman-owned business?

Ms. ROBISON WHITCOMB. Absolutely. Absolutely, because it takes it to the next step. It is just like anything else. If you do not want someone to come to the party, you give them the invitation the night before. It is. It is absolutely true.

We get to the invitation to the party within 5 days of PB being—

Mr. VALADAO. Due, released.

Ms. ROBISON WHITCOMB.—released—thank you—or submitted, and then you do not have the time to, prioritize that, where is that going to go. My development dollars for proposal writing, you are looking at my proposal writing shop.

[Laughter.]

That gets really tough because then you go, okay, I am going to call this guy and say is this a real opportunity or is this so you can say we looked and we could not find it.

What I do know California has done, especially on the Federal part, in the National Guard for the State of California, because sometimes it is Title 10 money and sometimes it is state money, is that they just tell the prime contractors go back until you find them.

When you are talking about accountability, I really appreciated that when I was in Sacramento and I said how do I qualify for a

Title 10 opportunity and for State opportunity. They said, here is a list of every one that is a prime. They are looking for you. They have been helpful in helping to turn around, go back out to go find those opportunities, and they just will not accept you tried. You did not try enough. Try harder and continue to try until you get it right. I am proud of California for doing that.

Thank you.

Mr. VALADAO. Thank you.

Mr. KNIGHT. Thank you. Anyone else? Come on up. It is your chance to testify in front of the City of Palmdale.

[Laughter.]

Mr. SHARKEY. Good afternoon. My name is John Sharkey. I am a retired NASA aerospace engineer. I used to work with Kirk several years back. Now I am an owner of a small business here in Palmdale, Sharkey Technology Group. It is basically a machine shop right now.

I have two comments. One would be a small area, but it is specific, that you might be able to help with, and that is on the ITAR restrictions. In order for us to compete on a lot of the jobs, we have to have something called the DDTC registration. It costs \$3,000 for a small company. I think it is the same fee that you have.

There ought to be some mechanism for small companies like us—we are a million bucks a year—or waive the fee so we can get into the program and start getting some of the contracts. If we do not get, say, \$50,000 back in business, it is kind of lost money for us.

When I talked to the State Department about waiving those fees, they say, talk to your congressman, so I thought I would bring that up.

Mr. KNIGHT. You just did.

[Laughter.]

Mr. SHARKEY. We make shafts, housings, you know, small components. I do not know why that is considered a munition or defense article, but they do, or at least the State Department says it is so.

Mr. KNIGHT. We are talking about ITAR quite a bit, not so much that, but the restrictions of ITAR and all of the—

Mr. SHARKEY. It is complicated.

Mr. KNIGHT.—problems that come.

Mr. SHARKEY. It is complicated. It is hard for a small business because there is a lot of overhead that goes with it. But just getting into the door and getting through that DDTC registration thing, that would be helpful.

Mr. KNIGHT. Okay.

Mr. SHARKEY. I understand ITAR because when I was with Northrop Grumman and with NASA, I went through the whole indoctrination, and so I understand that part of it. But for a small company, it is on the other side. In fact, I thought it would be easier going from government, the primes, to being a small business owner. It is tough especially right now in today's market. It is really tough. In fact, one thing that hit us really hard was the sequestration budget cuts in this area here. It really put a damper on the businesses here.

Another problem that we had recently was with the HubZone. We have the HubZone, actually a pretty good one, here in Palmdale

in Antelope Valley. We incentivize our employees to move into HubZone areas so we could qualify. We went through the process. About a year and a half into the approval process we were strongly advised to withdraw our application or they were going to kind of stonewall it forever and make sure we never got it through.

I never quite understood what was behind it other than there was some complication on our profit sharing plan. They viewed it as an employee stock ownership plan. I could not get over that hurdle, and I know it is not.

Mr. KNIGHT. Okay.

Mr. VALADAO. They had a problem with you having—

Mr. SHARKEY. Basically I took my government retirement plan, my thrift savings plan, and used that to buy a business. They called that an employee stock ownership plan, which it is not. But because of that, every employee in our company had to be a U.S. citizen in the HubZone.

I had to provide a lot of information on every employee whereas you only really have to provide information on 33 percent of your employees to be qualified. That went on for like a year and a half, and then they said, no, you better pull it out or you are never going to get through. We have been incentivizing employees for more than 2 years to live in the HubZone, but it has not paid out yet.

Then the third thing I would like to bring up is on the machine shop side of things. We are a tier 5 contractor. You are a tier 1. Tier 2.

We are tier 5, so Boeing and Honeywell, Parker Hannifin, Stork Aerospace, S-4. We are the parts. We are down at the part level, tier 5. A lot of the business in that the tier 4, tier 5, they go overseas to get all their stuff, so we are really competing with Mexican shops, Indonesian shops, for DOD work. To me, it is really hard for us to compete. We have to compete with a part that maybe takes us 10 bucks a part to make and they are going to do it for 2 bucks for a U.S. job. It is really hard to understand.

A lot of those companies, they are doing the reshoring or they are bringing it back onshore, but they still want the same rate that they got before because they have the contract before. But it is very difficult for us to compete with that kind of sourcing.

Mr. KNIGHT. Okay. Make sure you get us your information—Lisa back there in the red jacket—and we can follow up with you.

Mr. SHARKEY. On the HubZone thing?

Mr. KNIGHT. On everything you just said.

Mr. SHARKEY. I can send you a letter or something?

Mr. KNIGHT. No, we are not going to ask for a dissertation. We are going to follow up with you.

[Laughter.]

Mr. SHARKEY. Okay.

Mr. KNIGHT. I know you are an engineer, and we do not want that.

[Laughter.]

Mr. SHARKEY. Somebody told you about me in advance. No, you are right about that. Thank you for your time.

Mr. KNIGHT. Thank you. Sir?

Mr. FLITTIE. I would like to make one comment on Mr. Sharkey's comment about the ITAR. A big part of our supply chain



in our environment is small business primarily here in the southwestern United States, and we do see that one of the big barriers for them, a supplier to us, is the ITAR controls, on parts that really do not need to be ITAR controlled.

As you know, all the FAR requirements, ITAR, they all have to flow down to the lowest level. We are figuring out a way where we can help even the smaller businesses that we use in our supply chain as well as be able to compete, not only cost competitive, but there are enormous costs associated with being ITAR compliant, all the documentation and things. If there is a way to reduce those burdens on the small business, that is another way to help make them more competitive so they can be part of the broader supply base as well.

Mr. KNIGHT. If it is a part, why do we need the ITAR controls?

Mr. FLITTIE. It is a long, complex thing, but it is——

Mr. KNIGHT. Is it is a long, complex thing that I am going to understand, or is it a long, complex thing that I am going to go why we do need it on the part?

Mr. FLITTIE. The latter.

Mr. KNIGHT. Okay.

[Laughter.]

Mr. FLITTIE. The latter.

Mr. SHARKEY. I believe it is in the definition, and maybe it was published in the Commerce Business Daily or somewhere. It is the definition.

Mr. KNIGHT. I understand the restrictions for many of the things that go into our products, but on a part, I am a little lost. Okay. Yes, ma'am?

Ms. CHAVEZ. I believe——

Mr. KNIGHT. Come on up.

Ms. CHAVEZ. Thank you.

Mr. KNIGHT. You have a few minutes.

Ms. CHAVEZ. Thank you very much. My name is Marilupe Chavez. I am with JCJ Chavez. We are also a woman-owned small business in construction. I understand where Ms. Villa is coming from.

Mr. KNIGHT. Here?

Ms. CHAVEZ. I am actually out of Ridgecrest, China Lake.

Mr. KNIGHT. Okay.

Ms. CHAVEZ. I just recently received my 8(a) certification, and there are a lot of areas. Part of it is bonding. I want to compete as a prime contractor. I have a past performance as a subcontractor. But the bonding, it is now my dilemma.

I have certain amount of bond, but in order for me to get a job contract or an IDIQ, I have to be at a higher bond. I believe that being a small business, and, again, I do not call myself a small business. I actually call myself a micro business still. I feel that there should be a cost set aside for companies like mine that are just coming up in the construction business.

Everything that Ms. Villa said, I am 100 percent there.

Mr. KNIGHT. She was a good witness.

Ms. CHAVEZ. Yes. All the barriers that she talked about, I am facing all those barriers also.

Mr. KNIGHT. Okay, thank you. Thank you all for coming today. I want to thank our witnesses. It is very important that Congress gets to hear from the people who are actually doing the day-to-day business from the businesses that are dealing with the dilemmas, the barriers, the problems, from the shops that have two people in there to the shops that have 499 or 699 people in there.

We want to know what the barriers are because if you continue to have those barriers, that means you continue to not be able to create more opportunities, and opportunities are jobs, and opportunities are a better place for someone to learn a trade, learn a skill, or use their education. If that is not there, then they look elsewhere, and sometimes elsewhere is not inside the United States of America, and we do not want that to happen.

As this hearing comes to a close, I want to thank Mr. Valadao for coming all the way up here. I am going to take him over and see the joint strike fighter line now so he can see that and see some of the things that happen here in Palmdale, but also happen in southern California and affect his district, and affect his businesses on a daily basis.

A strong defense industrial base is critical to both our national security and to our economy, and a strong industrial base is only strong when it comprises a robust and active small business component. Small firms are ready, willing, and able to quickly provide the DOD with new technologies that can save lives on the battlefield and provide a better return on investment for our taxpayers. I look forward to going back to Washington, D.C. and to discussing these issues with my colleagues. I look forward to hearing from all of you on issues that we can work on in Congress.

I will leave you with this. Understand that Congress has a lot of people that are doing a lot of different things, and the more specific you get with us, the better it is. The better you can put a pin on that issue and say if you helped us with this, it would help our industry, the easier it is for David and I to go back and get a coalition and to work together with people to make sure that we can do something better. I know that David's and my goal is to make things better, not to stand in the way of opportunities.

Unless anyone else has anything to say, I ask unanimous consent that members have 5 legislative days to submit statements and supporting materials for the record.

Mr. KNIGHT. Without objection, we are adjourned. Thank you all.

[Whereupon, at 3:10 p.m., the Subcommittee was adjourned.]

**A P P E N D I X****FIELD HEARING - APRIL 5, 2016 2:00 P.M.**

Committee on Small Business Subcommittee on Contracting and the Workforce

Hearing: Challenges for Small Defense Contractors

Witness: Donald C. Rhea, Vice President, ClancyJG International

Thank you, Chairman Hanna and Members of this Subcommittee for the opportunity to testify.

I'd like to open today by expressing my appreciation for the small business specialists within the Department of Defense who tirelessly search and evaluate opportunities for small businesses to participate in Government contracts. These individuals engage in active dialog with the small business community on a regular basis through industry days, outreach events, and regular office visits by small businesses, and we have benefited greatly from their support.

I acknowledge that opportunities for small business participation in Department of Defense acquisitions are present. Many opportunities result from the small business developing and submitting capability statements in response to sources sought solicitations and market surveys. Small businesses spend many hours traveling to customer facilities and networking to identify opportunities where our talents and expertise can contribute to the mission. With this approach ClancyJG International has succeeded in building a business base with approximately 80% of our fiscal year 2015 revenues self-performing as the prime contractor, with customers from Alaska to Washington, DC., and a committed and dedicated staff of talented individuals.

I have direct experience working with small businesses that range from startups to more sizeable small businesses with more than \$30M in annual sales. As a services company, ClancyJG International targets technical support service opportunities within selected North American Industry Classification System (NAICS) Codes, also referred to as size standards. These size standards define the small business criteria in terms of annual revenues and/or number of employees. For example, one of many NAICS Codes we perform services under is 488190, Other Support Activities for Air Transportation with a size standard of \$32.5M. To pursue opportunities under this NAICS Code a company must have an average revenue over the most recent three fiscal years under \$32.5M. A company with revenues approaching the \$32.5M average is much larger, has more resources, and enjoys a significant competitive advantage over companies of our size, that is companies with revenues of less than \$5M. It is very difficult for a \$5M small business to compete against a \$32.5M small business as a prime contractor, but we try and as you can see have had some success.

To overcome this challenge, a small business would typically search for opportunities to provide subcontract support, thus increasing revenues and developing a corporate past performance

portfolio which is needed to be a credible prime contractor. Small businesses awarded contracts under any small business set-aside, regardless of the NAICS Code and associated size standard, do not provide subcontracting opportunities. However, if the contract was a full and open competition with a small business subcontracting requirement then opportunities for small business exist, assuming they have the correct technical skill set to contribute. We have seen prime contracts with as much as one third of the work designated for small business. These contracts provide opportunities for several small businesses to participate.

Over the past decade there has been significant momentum toward contract consolidation, small business contracts absorbed into a large contract and multiple small business contracts consolidated into a sizeable small business contract. Over my career I have been a party to both of these scenarios. In the case of the large contract, a follow-on subcontract effort was available. However, the opportunity for a small business to pursue the next step in becoming a prime contractor was eliminated. In order for small businesses to grow as a prime contractor they must have the ability to bid a prime contract. While contract consolidation still exists and is limiting small business opportunities, there have been recent instances within the Department of Defense where tasks were removed from a large contract and set-aside as a small business prime, a great opportunity for entry into the market by a small business.

Finally, Government regulations are causing significant challenges for small business. The Affordable Care Act (ACA) is driving up the cost of health care. We have witnessed far greater increases in health insurance premiums than what we saw in the years prior to the ACA implementation, with reduced coverage and much higher deductibles. The challenge is in bidding a multi-year firm fixed price contract where indirect cost control is vital. Other challenges are associated with access to capital. Since the financial collapse of 2008 financial regulations prevented small business access to capital through the typical borrowing route. As such small businesses are faced with utilizing the services of a receivables financing companies to fund expenses while waiting for invoices to be paid, an expensive proposition.

As small business leaders we understand that these challenges exist. Small business leaders are typically entrepreneurs and adept at solving problems and thriving. Addressing these challenges is becoming more difficult in the recent years and deter many small businesses from pursuing Department of Defense contract opportunities. I appreciate the opportunity to testify and provide my real world insight as to the challenges that face small defense contractors.

Thank You.

**Statement of**

**Mr. Kirk J. Flittie, AeroVironment**

**Vice President and General Manager, Unmanned Aircraft Systems**



**Before the House Committee on Small Business,**

**Subcommittee on Contracting and the Workforce**

**Palmdale, California**

**April 5, 2016**

Please allow me to thank Congressman Steve Knight for inviting me to testify in front of the Small Business Subcommittee on Contracting and the Workforce. I am honored to represent the 650 proud employees of AeroVironment.

AeroVironment is a technology solutions provider that designs, develops, produces, supports and operates an advanced portfolio of Unmanned Aircraft Systems (UAS) and electric transportation solutions. Agencies of the U.S. Department of Defense and allied military services use the company's electric-powered, hand-launched unmanned aircraft systems extensively to provide situational awareness to tactical operating units through real-time, airborne reconnaissance, surveillance and communication. AeroVironment's electric transportation solutions include a comprehensive suite of electric vehicle (EV) charging systems, installation and network services for consumers, automakers, utilities and government agencies, power cycling and test systems for EV developers, and industrial electric vehicle charging systems for commercial fleets.

#### Unmanned Aircraft Systems

With more than 25 years of experience developing, supplying and supporting small UAS, AeroVironment is a prime contractor and supplier to all U.S. Department of Defense (DoD) programs of record for this category of UAS and has delivered more than 20,000 new and replacement air vehicles to customers in the U.S. and elsewhere. AeroVironment's family of small UAS includes Raven®, Wasp™, Puma™ and Shrike VTOL™. These back packable/man portable, hand-launched unmanned aircraft systems are carried and used by armed forces—who frequently operate across large geographic areas, often far removed from their bases and dependent mainly on what they can carry in their packs or vehicles—and deliver front-line, real-time situational awareness to increase combat effectiveness and force protection. By transmitting live, streaming color and infrared video from onboard cameras directly to a common, hand-held Ground Control System with an embedded color monitor, AeroVironment's UAS provide real-time information that helps U.S. and allied armed forces operate more safely and effectively.

Mr. Chairman, thank you for the opportunity to be here today to discuss the opportunities and challenges of business with the Department of Defense. I would be happy to answer any questions.

Good Afternoon Chairman Chabot and Ranking Member Nydia Velazquez. I appreciate the invitation to testify here today and I am honored to provide you with an insight into the obstacles faced by a Small Women Owned Defense Contractor.

My name is Virginia Villa, and I am the CEO of West Pacific Electric Company, located in Lemoore, California. Located in California's Central Valley, Lemoore is home to a Naval Air Station and surrounded many rural communities that are traditionally underserved. The Central Valley is also home to many small businesses and minority-owned companies struggling to grow and provide jobs for their employees.

My firm, West Pacific Electric Company, is an electrical firm which currently employs eleven full time employees. Our services include all phases of electrical work with a special emphasis on High Voltage (Electrical Distribution). Currently, we bid on Federal, State, Municipal, and Commercial Projects throughout California and neighboring States. When opportunity permits we bid as a Prime Contractor, but the majority of our bidding is as a Subcontractor.

As Chief Executive Officer of West Pacific Electric Company, I have attended numerous events sponsored by various federal agencies such as the Society of Military Engineers (SAME) and the Minority Business Development Agency (MBDA). I attended each of these events with the assumption that I would be given the same opportunities as other contractors to bid on federal, state, and local contracts.

While these events provided more insight and information regarding submitting bids for defense contracts, and were marketed as providing opportunities for all interested in seeking government contracts, the reality is that each event shared one common message: it is recommended that small defense contractors reach out to large contractors for subcontracting opportunities.

As those of us there today understand, small businesses, and businesses owned by minorities, face unique challenges when competing for contracts and jobs for their employees. These challenges are most apparent when larger companies and major projects leave out small business firms and ignore the potential to include them in the "serious" bidding process.

I understand large contractors may find it is easier to work with proven sub-contractors, but this leaves out growth potential for qualified companies to compete. Many in my position wonder why small businesses are expected to pull on the "coat tails" of large contractors just to get an opportunity to bid, while it should be the large contractors reaching down into the large pool of small businesses that can perform the work.

As CEO of West Pacific Electric, accessing federal contracts is a challenge I face every day. In addition to attending informational events sponsored by SAME and MBDA, I have also taken the initiative to meet with small business representatives of various agencies to present my firms' proposals and capabilities. Furthermore, I have aggressively worked to expand my own network in an effort

to better position my company. I am a member of the United States Women Chamber of Commerce, MBDA, SAME, and the Hispanic Chamber of Commerce, which provides me with networking opportunities to work with large contractors. To contribute to my qualifications, I hold the following certifications: Economically Disadvantaged Women-Owned Small Business, CPUC, State of California Small Business, Small Disadvantaged Business (SDB) and GSA Contract Holder—all of which are contract vehicles when bidding on government projects.

Despite these efforts my company continues to face obstacles when applying for government contracts. I will provide you with one reoccurring example:

When a large government contract is released, our firm does preliminary research to confirm that a subcontracting plan is incorporated within the solicitation. If a subcontracting plan is incorporated, and my company decides to bid on the project, a lot of work and man hours go into preparing a bid. We often-times later find out that a majority of the contractors that have been awarded a subcontract are large firms. This leads me to believe the subcontracting plan is ignored and discourages me from bidding on the next project.

While, larger, established companies have an advantage, there are still opportunities for small businesses and minority owned companies throughout the state, and in the Central Valley.

It is critical that my company has access to projects close to home, in the Central Valley. Potential projects include the development of the California High Speed Rail (\$68B) and the renovations at Lemoore Naval Air Station (\$1.6B). General construction projects are ideal for small businesses to participate in, and help develop sub-contracting and job creation opportunities.

I believe there are many common-sense solutions that should be considered in order to encourage the involvement of small businesses and I am happy to have the opportunity to discuss those further throughout today's hearing.

In closing, I again want to thank you for the opportunity to testify before the committee today. I hope that my testimony provides you with further insight and information regarding the challenges faced by Small Business Defense Contractors.

