

SBA's 8(a) SUBCONTRACTING PROGRAM—  
MINORITY ENTERPRISE


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HEARINGS  
BEFORE THE  
SUBCOMMITTEE ON GOVERNMENT PROCUREMENT  
OF THE  
SELECT COMMITTEE ON SMALL BUSINESS  
UNITED STATES SENATE  
NINETY-SECOND CONGRESS  
FIRST SESSION  
ON  
THE SMALL BUSINESS ADMINISTRATION'S 8(a)  
SUBCONTRACTING PROGRAM

SAN FRANCISCO, CALIF.—SEPTEMBER 29 AND 30, 1971

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## SMALL BUSINESS ADMINISTRATION'S 8(a) SUBCONTRACTING PROGRAM—MINORITY ENTERPRISE

WEDNESDAY, SEPTEMBER 29, 1971

U.S. SENATE,  
 SUBCOMMITTEE ON GOVERNMENT PROCUREMENT OF THE  
 SELECT COMMITTEE ON SMALL BUSINESS,  
*San Francisco, Calif.*

The subcommittee met, pursuant to notice, at 10 a.m., in the Ceremonial Courtroom, Federal Building, 450 Golden Gate Avenue, San Francisco, Calif., Senator Joseph M. Montoya (chairman of the subcommittee) presiding.

Present: Senator Montoya.

Also present: Joseph L. Ward, assistant general counsel; and Keith A. Jones, minority counsel.

Senator MONTOYA. The committee will come to order.

The Subcommittee on Government Procurement of the Select Small Business Committee is assembling here today to seek information with respect to many problems affecting minority enterprises and members of ethnic groups.

We have called this hearing to hear testimony from representatives of Government agencies, community action organizations, bankers, large Government contractors, subcontractors, and individuals on the 8(a) subcontracting program administered by the Small Business Administration.

As all of you know, the 8(a) program is a device by which the SBA enters into a procurement contract with Government buying agencies and then subcontracts the work to firms owned or operated by members of disadvantaged or minority groups.

The 8(a) subcontracting program is but one effort in many being made by the Federal Government to foster the creation of growth of viable "minority" firms. A recent survey—the first of its kind—taken by the U.S. Census Bureau indicates that we have approximately 322,000 minority-owned businesses in the country today with total receipts of \$10.6 billion. This amounts to less than 1 percent of total annual business receipts and 4 percent of the total number of firms of the entire business community.

The rationale behind these efforts to improve the percentages is both humanitarian and economically practical. It is humanitarian because we are, as Americans, continuously striving to make equal opportunity a living reality of our democracy. It is economically practical because the utilization of the vast, but largely untapped, reservoir of business talent and skill found in our minority groups can spur us on to an even higher productive output than we now possess.

As I have said, there are many programs, both public and private, to achieve greater participation of disadvantaged persons in American business. Almost every Federal agency has such a program. Many private organizations, some publicly funded, have minority business development as their objective. Industry is beginning to realize the benefits to be accrued from assisting fledgling minority businesses. There are programs for business loans and guarantees, management and technical assistance, information dissemination services. However, some of these efforts are not what they should be: some are uncoordinated, underfunded, understaffed, or lacking in clear guidelines.

I believe the 8(a) subcontracting program is a very practical vehicle for bringing new or fledgling businesses into the mainstream of our free enterprise system. Naturally, we have looked at the vast power of the Federal procurement budget when seeking to implement this program and bring minorities in more sufficient numbers into the regular business community. However, the private sector must share this social responsibility, and this will be an area of continuing concern to the subcommittee.

The approach in this context is predicated on the proposition that our Nation's growth has been sparked by the realization of the full potential of every citizen and in providing an opportunity for full participation of all individuals and groups in the progress of our society.

The program is not designed to foster a giveaway but rather to introduce these firms to the hard realities of the marketplace. Obviously, many of them need access to long- and short-term financing and management and technical assistance. We hope to find out at these field hearings whether the various types of assistance are being made available to those businesses qualifying as 8(a) subcontractors.

We hope to pinpoint some of the elements of success of these subcontractors and make them of record as living examples of how this program can work. By the same means, we hope to isolate the pitfalls to be avoided by oncoming firms seeking aid under this program.

This is an informal hearing. Many witnesses are joined in panels of similar interest. I would appreciate it if each witness would briefly state for the record some background information on his affiliation and his relationship to the 8(a) program, if any. All written statements will be entered into the record of these hearings. After each panelist has presented his introduction, I would like to ask several questions and encourage active responses from all members of the panel. We are especially interested in having your views on what can be done to improve this program.

Our first witness this morning is scheduled to be Mr. Joseph C. Angello, vice president, Bank of America of San Francisco. Mr. Angello and Mr. Maxwell—Mr. Anthony Maxwell, would you like to join with him, and we will deal with you immediately after and then we will have some questions.

**STATEMENT OF JOSEPH C. ANGELLO, VICE PRESIDENT, BANK OF AMERICA, SAN FRANCISCO, CALIF.**

Senator MONTOYA. Do you have a written statement?

Mr. ANGELLO. Yes, I have.

Mr. Chairman, thank you for the invitation to be with you today. My remarks will relate in the first part to your experiences with the SBA-minority entrepreneur programs for the most part. They will not necessarily describe our business loan relations with our many minority businessmen outside that program.

We draw from our experience of 354 SBA-ME loans made totaling \$12,250,000. I will also reflect on experiences of the \$4 million funded California Job Development Corp. sponsored by the nine San Francisco and Los Angeles clearing house banks. To date, this effort has produced 77 loans for \$2,500,000 to minority entrepreneurs who could not qualify for bank credit even with SBA guaranty.

Overall, our involvement in these programs has been satisfactory. We find ourselves in a constant state of research and education to improve our capability and the chance of success of our minority businesses. The knowledge gained the past 3 years that we have participated in the program has increased our abilities and resourcefulness; but we recognize critical problems remain unsolved. Not so much in the loan acquisition, most of the California banks are sufficiently acquainted with SBA procedure and have determined a participation.

The major problem now is in the handholding after the loan is made. Management and technical assistance and the lack of these must receive the highest priority of required research and development.

Other problems that need attention include: the need to improve the communications between the minority business community and the financial institutions, including the Federal agencies. I sense a kind of "credibility gap" exists. A better rapport could prevail.

The lack of technical and business management experience contributes heavily to the failure of any small business and especially when qualified management and technical assistance is not available. In this regard, let me share with you a recommendation we are considering for our own bank's utilization as we analyze our progress and prepare for the future.

We need to be patient with problems and accept failures as part of the learning curve, yet learn from our experiences that we may overcome the obstacles, such as that at the time an application is taken, a condition be placed in the term loan agreement that would identify a resource to monitor the credit. This resource would be a paid CPA or consultant or a member or team from a community organization such as ICBO or PACT or SBA-SCORE or SBA-AGE, or the like.

It would be required, at least for the first year of the existence of the loan, that a monthly progress report be made at the entrepreneur's place of business with the entrepreneur, the monitor, and the bank lending officer in attendance. If progress is sufficient, that first year, the condition could then be required on an every other month or even quarterly basis the second and following years of the life of the loan.

ICBO officials have told me the entrepreneur frequently drops them and their consulting services, even though free, once the loan has been granted and he has the money. We could, therefore, assist the community organizations by providing a continuity of contact beyond the loan and granting phase.

With regard to SBA's 8(a) contracts. Bank of America has had a very limited experience with this financial program. The Los Angeles Job Development Corp. has also had little experience. There has been only one failure and I believe it is fair to state this was caused by a very poorly operated business and not due to lack of funds or governmental redtape and delays.

The Bank of America has three 8(a) contracts in process, and they appear to be progressing well, but it cannot be determined that they are successful until they have been completed.

LAJDC has one company with three separate 8(a) contracts in progress. Two appear to be progressing satisfactorily, while one, it is anticipated, may result in a loss.

Our research indicates there are pros and cons to the 8(a) contract but the negative factors are not insurmountable. The following remarks are general in nature as certainly there may be exceptions. First, the advantages as we see them :

1. Subcontracts, a definite unexpected and low-cost increase in sales to the minority contractor.
2. Elimination of highly competitive bidding. SBA is the prime contractor and may sublet the contract to their choice.
3. Built-in profit that should be more generous than normal, considering the elimination of competitive bidding.
4. Financing of accounts receivable is made easier at a preferred rate for this type financing.

Now, for the problems as we see them :

1. Communications between the borrower and SBA need to be improved, and here it is more of an understanding as to contract content and appreciation of what is involved.
2. Paperwork delays. There is excessive lagtime between issuance of contracts and purchase orders, to shipment schedules and, in some instances, from bidding to approval of prototypes.
3. Point of inspection and acceptance is critical.
4. Start-up costs are in some cases prohibitive. A company may be required to manufacture a prototype and to do this may even require additional machinery. Should the contract be awarded, the costs could get out of hand easily if they have to step up their operation substantially, particularly in equipment, personnel, and inventory.
5. Many 8(a) contracts require long production runs with which the minority contractor has had little or no experience. This coupled with a strained working capital condition, new employees and limited production capability produces problems.
6. Although the 8(a) contract relieves the minority contractor from the formal bid process, he must have sufficient understanding of the contract content to cost out the production. That is, relate SBA's anticipated net profits to his own operation.

I have four brief recommendations :

1. Greater care should be exercised by SBA in awarding contracts to firms which lack reasonable capabilities to perform.
2. Purchase order style of financing could be integrated with the accounts receivable financing in order to provide the necessary working capital to manufacture the product.
3. Attention should be given to reduce the time delay from point of contract award to first shipment date.

4. Provide on-site inspection for acceptance of the completed product.

Senator MONTROYA. Thank you very much, Mr. Angello, for a very fine statement.

Now, would you relate for the record, for the benefit of this subcommittee what your direct experience has been with respect to the 8(a) contracts and also loans to small business concerns in which your bank has participated?

Mr. ANGELLO. The three 8(a) contracts we have in existence are all in southern California and are B. & W. Maintenance, a \$185,000 contract.

Senator MONTROYA. What is B. & W. Maintenance?

Mr. ANGELLO. This is a plant maintenance type of operation, clean-up, et cetera.

Mr. Chairman, is it possible to call my associate, Mr. Sergeant, our SBA officer, to join me on the panel.

Senator MONTROYA. Certainly.

Mr. ANGELLO. There are some items here that I may not be sufficiently clear on, so I would like to ask him to assist me. This is Fred Sergeant, assistant vice president of the Bank of America and designated as our SBA loan officer.

B. & W. is essentially involved in cleaning plants and keeping them in order?

Mr. SERGEANT. Yes, this is my understanding.

Senator MONTROYA. Well, when you speak of B. & W. Maintenance, do you mean to say that this is a firm that concerns itself with providing janitorial services and other maintenance services to plants in the area?

Mr. ANGELLO. Yes.

Senator MONTROYA. Well, do they do this under 8(a) contracting?

Mr. ANGELLO. They have an 8(a) contract.

Senator MONTROYA. From whom?

Mr. ANGELLO. From the SBA.

Mr. SERGEANT. From the SBA.

Senator MONTROYA. But to which Government agencies do they provide these services?

Mr. SERGEANT. Well, this type of loan is handled through one of our branches so that the research as to, you know, the procurement of the contract, et cetera, is not available to our information here today.

Senator MONTROYA. But the point I want to make is: Do they offer this type of service to any Government agency in the area, and, if so, to which agency or agencies?

Mr. SERGEANT. I do not have the answer to that.

Senator MONTROYA. Is it the GSA?

Mr. SERGEANT. Is it—

Mr. ANGELLO. Not GSA.

Mr. SERGEANT. Probably, a military-type installation.

Senator MONTROYA. OK. You do not have the answer, apparently.

Well, tell us about the other ones.

Mr. ANGELLO. The second one is Barrazo Construction Co. This is a \$257,585 SBA 8(a) contract.

Senator MONTROYA. What is that?

Mr. SERGEANT. Here, again, you see, these types of loans are handled and administered right directly through the branches, and the information we have compiled, these statistics are represented in terms of dollar totals and the size of the contract, et cetera.

Senator MONTOLA. You just have the loan data?

Mr. SERGEANT. Yes, sir; that is correct.

Senator MONTOLA. I noticed your recommendation here about surveillance of operation. You recommend that, especially through a CPA or some other type of consultation. I think that is a very good idea. But is there any way possible for the banking institution and SBA to require, as a part of the lending contract, that the individual submit himself to this type of surveillance by volunteer agencies?

Mr. ANGELLO. Mr. Chairman, there are conditions in SBA's terms for granting a loan that include educational processes in attending certain types of classes. I have asked some of our legal department if there would be a problem here, and I'm told that it is worth a try; a condition which requires or would tie the entrepreneur to that resource is very much needed. As I stated, all too frequently, once he has the money he discards the consulting agency even though it may be free.

Senator MONTOLA. Is it not better to insure that he will submit to it as a part of his borrowing contract?

Mr. ANGELLO. Yes, as a resource; and this is why we state here that it would be a condition of the bank's terms on the agreement, and if it is a condition that the SBA would permit as an inclusion, I think we can enforce it.

Senator MONTOLA. Does the Bank of America have any such counseling services?

Mr. ANGELLO. When you get into the counseling services, Mr. Chairman, bankers usually can make a pretty fair fiscal judgment as the entrepreneur submits financial information. But I find all too often that he is not capable of making the other types of management, skilled judgments with regard to inventory control or marketing, advertising, and that sort of thing, and I think we are going to have to call on other industries for support here.

Senator MONTOLA. Well, the only reason I mention it is because the Bank of America is reputed to be one of the biggest banking institutions in this country, and I was trying to ascertain whether you had this type of service for these minority entrepreneurs. Some banks do.

Mr. ANGELLO. We have it on a limited basis. We have produced material, written material, we conduct seminars occasionally, and we support community organizations, and SBA programs and seminars, and the like. We have not geared a counseling service, as such, for those. We have put our efforts in support of the community agencies.

Senator MONTOLA. What community services would be available to these business people for surveillance and monitoring the progress of the operations?

Mr. ANGELLO. Presently, the services available would be through the community organizations, as I have mentioned here, tying them in, or if the entrepreneur can afford a fee-paid consultant or CPA or PA, include him and identify him. What we suggest here is that we become specific at the outset of the loan, that the monitoring agency be identified.



Senator MONTOLA. Here is what I am concerned about. We have had a lot of grants made to so-called community organizations for the purpose of advising minority entrepreneurs, and if you look at some of these community organizations you find there is not one person in there who has had business experience, and still they are offering advice. And I am very concerned about exposing the small business entrepreneur to bad advice or inexperience, because that compounds his problems.

Mr. ANGELLO. In Los Angeles, for example, there is a company, private and federally funded operation called MECLA, which is paid technical assistance and consultants that are assigned to the entrepreneur. At the present time it is on a limited basis. We hope that it can be expanded. I agree, I think that the paid counselor is listened to more emphatically than the free.

Senator MONTOLA. I would rather see businessmen in the community on the banking community assemble some business talent to work on a voluntary basis with these minority entrepreneurs. I think that would be more effective than just calling in somebody who has been given a grant to provide counseling services to minority business enterprises—irrespective of whether the counselors in that particular firm has the competency or capability to do so. I think that that is what is wrong with this type of setup. Do you not agree with me?

Mr. ANGELLO. Well, I think we, in the banking industry, are looking for a way to attend to this. We have volunteer programs within the organizations that are somewhat effective, but, yes, generally, I would agree with you on that theorists usually cannot provide too much assistance. It takes the man with the practical experience to help the entrepreneur.

Senator MONTOLA. Then, SBA can also perform an important function, because, usually, the capital that goes into these minority enterprises is furnished to a large extent by SBA and the rest of it is furnished by bank participation; correct?

Mr. ANGELLO. Well, the capital, for the most part, is furnished by the bank with guarantees by SBA, yes; correct.

Senator MONTOLA. Under SBA guarantees?

Mr. ANGELLO. Yes.

Senator MONTOLA. And what can you tell me about what the role of SBA should be as far as surveillance and monitoring and checking with these small business enterprises? Because at the present time, I do not feel that SBA would overload itself since they are not making too many direct loans to start with?

Mr. ANGELLO. Well, I think they have the dollar availability to provide that mechanism, at least to assist the private sector. I cannot say that the SCORE or the ACE program has been that effective. I feel that it needs some better direction, maybe a combination of these two with a closer relationship with the expertise. Yes, SBA should take a part and could take a part.

Senator MONTOLA. I have only seen one of these people working, and that was on the Navaho Reservation, and he did a magnificent job on the Navaho Reservation, but I have not seen it anywhere else.

Mr. ANGELLO. I have met a number of these men in a group and individually, and the dedication seems to be there. I believe they need some very firm direction.

Senator MONTROYA. Now, what has been your experience with respect to the loans made to 8(a) contractors? Do they keep up their payments, or do you have to prod them?

Mr. ANGELLO. The three that we have had in the Bank of America have been, to this point, all satisfactory. They are on target. The third one I did not mention was Hi-Pro Foods. This was a \$300,000 contract. Each of these, incidentally, also has a separate SBA term loan or some kind of revolving line in addition to the 8(a) contract financing. Within the Bank of America, the three contracts we have in southern California are performing satisfactorily, as I understand it. The one that is in the Los Angeles Job Development Corp. is California Golden Oaks. They have three separate contracts, and it is my understanding that two of them are performing well. The third one we may have problems with, and I cannot expand on what those problems are at this time.

Senator MONTROYA. Well, do you think that the 8(a) contractors are performing very frugally on this? Are they operating on a small margin?

Mr. ANGELLO. Well, I wonder—again, lack of experience cautions me to generalize, but from what I hear I wonder if, in the main, the contractor has a full appreciation of what it takes to perform on an 8(a) contract. I wonder if he is fully realizing and understanding the involvement because he is not required to go through the bidding process. I wonder if he is a little bit misled by the total amount of the contract.

Senator MONTROYA. And perhaps, I will ask you: Is it a 15-percent maximum profit permitted on a Government contract?

Mr. ANGELLO. Generally, 10 to 15 percent, but when all of the work is performed and all of the problems that are attendant to a new contractor, a relatively new contractor, who has been working on a small plane and begins gearing up on a large level, I think his profit is greatly minimized from what he expects it to be.

Senator MONTROYA. Did I understand you to say that you had only made loans to three of these subcontractors?

Mr. ANGELLO. To my knowledge, yes.

Senator MONTROYA. Out of the Bank of America?

Mr. ANGELLO. To my knowledge, yes.

Senator MONTROYA. What is the total of all of these three loans?

Mr. ANGELLO. \$185,000, \$237,000, and \$300,000. About \$725,000.

Senator MONTROYA. I see.

Mr. ANGELLO. I would qualify that by saying I believe we would look forward to more participation, as we have participated in the other SBA programs with full cooperation, and in this 8(a) program I think there are some built-in features for the banker that are attractive, especially when you consider the advances made and the contracts receivable type of arrangement. I think this is attractive to the banker. I cannot explain the minimum number, and I am not sure that is all we have had. Our communications sometimes are not all the very best.

Senator MONTROYA. The point I am trying to make, Mr. Angello, is this: SBA holds itself out as a great friend of minority enterprise, and there are a lot of press releases coming out of Washington these days about it. And then SBA offers to participate in some loans and tells

the potential borrower: "We will consider making a guarantee on any loan that you might procure from a financial institution but get a letter from a banker that they will participate and we will consider your application." Then the minority entrepreneur goes to a banking institution and asks: "Will you participate in this loan?" And he finds the door closed on him, and there is where the fault lies—SBA is requiring bank participation and there is no bank participation even on the distant horizon.

So, where are we? We are nowhere. We are in a land of promise and no action, you see.

Now, what do you conceive to be the bankers' role in trying to open a few more pockets here in this particular plate of potential lending?

Mr. ANGELLO. If I could relate to three of the major banks that have participated in SBA, Wells Fargo, I believe, has been outstanding, particularly in northern California; Security Pacific, particularly in the last 18 months or 2 years I feel has done an outstanding job in SBA minority entrepreneurships. Finally, the Bank of America, I feel, has demonstrated a full cooperativeness with the SBA programs. I think this could be related to the 8(a), because it is a part of the overall SBA program, and I certainly would not want to overlook, at least in the Los Angeles area, where I have firsthand knowledge, the minority-owned banks, the Bank of Finance, for example, the Pan American Bank. These are heavily involved in SBA. The banking community, for the most part I think, has geared itself to SBA minority entrepreneur credit. I would hope that same cooperative attitude would spill over into the 8(a) program.

Senator MONTÓYA. How much would you estimate your bank has participated in loans to minority entrepreneurs?

Mr. ANGELLO. Oh, my goodness, that would be extremely difficult. We have, for example, 90 branches that are located in predominantly minority populated communities, and through the years, discounting SBA activities, I would say that we have been totally involved in providing business loans to the minority entrepreneur, and that is one of the reasons why I prefaced my remarks, that I was talking only about the SBA-ME program, and approximately \$12,500,000 has been expended. I think there has been, and I have experienced, a sense of cooperation.

More than that, at the very senior level of the bank, there is dedication.

Senator MONTÓYA. Is there a program specifically designed to help minority enterprises in the Bank of America?

Mr. ANGELLO. Yes; yes. Mostly—

Senator MONTÓYA. What do you call that program?

Mr. ANGELLO. Our urban affairs program, which encompasses housing, employment, the full spectrum, including minority business loans. It is a total effort, and the SBA program is easiest to identify as far as a direct contribution into a minority business loan program per se. The Job Development Corp. is another such effort.

Senator MONTÓYA. Well, the Job Development Corp. is a more or less united effort by some of the banks in California.

Mr. ANGELLO. Nine California banks, yes, collectively.

Senator MONTÓYA. How many loans have they made?

Mr. ANGELLO. I believe it is 77, Mr. Chairman.

Senator MONTROYA. Seventy-seven for \$2,500,000?

Mr. ANGELLO. Yes.

Senator MONTROYA. And the Bank of America has expended \$12,250,000 on minority enterprise loans?

Mr. ANGELLO. Yes.

Senator MONTROYA. That is over a period of how many years?

Mr. ANGELLO. Since about September 1968, so we are talking about 3 years.

Senator MONTROYA. About 3 years. Do you think that represents good effort on the part of the Bank of America?

Mr. ANGELLO. Well, I would say that the effort has been there; I would say that for the most part—and I believe SBA would substantiate this, as far as availability of credit to the minority entrepreneur by most branches, it is there. It has been a matter of education, training. You know, the program almost doubled each year, which is an indication of the effort of people like Fred Sergeant who conduct seminars with our people and groups, in conjunction with SBA, on a regional basis. We see it growing year by year.

Senator MONTROYA. I am not trying to deprecate. I think it is wonderful that you have done that much. I am just trying to ascertain whether this program could be expanded, because I notice that you have SBA guarantees on every one, every bit of \$12,250,000 in loans.

Mr. ANGELLO. This is the SBA program, Mr. Chairman. There are countless numbers of loans made to minority entrepreneurs outside of the SBA program, but I cannot identify and relate in numbers to you these loans.

But in this program alone, this is what we have.

Senator MONTROYA. Well, there was a very wealthy man in my community when I was out in Santa Fe, and his name was Sento Condalodia. He was very wealthy. And, so, an entrepreneur came into see him and told him: "Mr. Condalodia, the First National Bank told me if I could get you to sign my note that they would lend me the money"; and I think that is what the Bank of America has done with all of these entrepreneurs: Uncle Sam has signed the note. So, Sento Condalodia told this man: "You go back and tell the bank that if they will sign the note, I will lend you the money."

Now, I think your testimony has been very valuable, Mr. Angello, and I know that the Bank of America has tried to do certain constructive things to recognize the minorities in the California area. I do not expect the banking institution to open its coffers and lend out money without determining whether or not that loan is repayable, whether there is capability for repayment. I do not think that is a good banking practice to do that. But I am trying to ascertain how SBA can have a more meaningful coordinating role to see that the banking institutions do lend money to meritorious businesses.

Mr. ANGELLO. We would look forward to that.

Mr. JONES. Mr. Chairman, with your permission, I would like to ask Mr. Angello a further question about the possibility of coordinating the 8(a) contract program with the guaranteed loan program.

As I understand it, the SBA will analyze an applicant for the 8(a) program and then determine whether or not that applicant is qualified to participate in the program. It occurs to me that at the time of the SBA's decision that the applicant is qualified, it might be appro-

priate for the applicant, a representative of SBA, and the applicant's banker to sit down and talk about whether a line of credit arrangement could be possible for any future 8(a) contracts and at that time the banker and the SBA could determine what are the proper financial limits for the 8(a) contractor, and at the same time the contractor would be assured that once he was given a contract within these limits appropriate financing would be available. Do you think that is a feasible way of going about financing contractors' contracts?

Mr. ANGELLO. I think it would be a sensible approach. In the 8(a) contracts we have had, I would guess that—you might substantiate this, Fred. I recognize a couple of these as being our customers. I know that Hi-Pro was prior to the 8(a) contract. And in most—I would not say "most," but I would say in many instances the 8(a) contractor prospect is already a customer of the bank. I think, generally, he would go to his own bank and I think that anything that can happen in advance, has to be helpful.

Mr. SERGEANT. I would like to add to that, in our experience with these three with which we are familiar, they came to us, and they already had the 8(a) contract awarded; so, it was not a case of coming to the bank and saying: "Would you be willing to participate in it, if we can obtain the 8(a) contract?"

Mr. JONES. In Mr. Angello's statement, he mentioned the prohibitive startup cost and advance working capital conditions, and that these were problems that might be alleviated if, prior to the entering into the contract, there was some determination of financial limits within which the contractors ought to work, some undertaking in terms of the line of credit, or otherwise, which would permit him to operate safely within those limits.

Mr. SERGEANT. You see, we, I think, are all saying the same thing. We are saying that we would like to see more selectivity in the awarding of the contract, where the contract emanates, and if we can be assured that the contract is not going to be out of the limits of capability of the company. It sounds like it would be a very nice type of financing for us to participate in.

Mr. JONES. Well, as a practical matter, what could you do to effectuate coordination at the point of qualification?

Is there something the bank can do, or should we talk to the SBA about this tomorrow?

Mr. ANGELLO. I see a practicality and feasibility of the three-way meeting if the leadtime for credit analysis, especially for a new company to the bank, would not prohibit or delay the 8(a) contract letting, but I think if we had the opportunity to look at the experience of the man ahead of time and then add to it what will happen and what can happen with the 8(a), I think we can make more sensible judgments.

Yes, I agree with you; I think there is a feasibility to this.

Mr. JONES. I think, then, Mr. Chairman, it might be appropriate to mention this possibility when the SBA testifies tomorrow. That might be a very helpful way of solving some of the problems that have been encountered with the 8(a) program.

Senator MONTROYA. What is your experience with the minibank concept?

Mr. ANGELLO. The minibank—Mr. Walter Hoadley, I believe, who is with our Bank, was one of the strong advocates of this concept. It had been in the ABA Urban Affairs deliberations for many months.

From what I know of it, this is an infusion of capital by the larger banks or by the ABA member banks into the minority banks, those that have been in existence for at least 3 years and have shown that they relate to the needs of their communities.

Is this correct?

Senator MONTROYA. Yes.

Mr. ANGELLO. Well, as I discussed it with Mr. Hoadley, I would certainly support it.

Senator MONTROYA. Has the Bank of America participated in this?

Mr. ANGELLO. Absolutely. I think we were probably one of the first investors.

Senator MONTROYA. Fine.

I believe that is all, Mr. Angello.

Mr. ANGELLO. Thank you.

Senator MONTROYA. Thank you, Mr. Angello.

Next we have Mr. Anthony Maxwell, who is president of the Banco del Pueblo, Santa Ana, Calif.

You have submitted a statement, have you not?

Mr. MAXWELL. No. The invitation to appear before your committee only asked me to submit a summary of my experience, and I did not prepare a statement to give to the committee.

Senator MONTROYA. Yes. The summary will be made a part of the record, and you may proceed, Mr. Maxwell.

(The summary referred to follows:)

# Banco del Pueblo

## COMMERCIAL BANK

September 29, 1971

SUMMARY OF MINORITY ENTREPRENEURSHIP  
ACTIVITIES OF ANTHONY MAXWELL  
PRESIDENT, BANCO del PUEBLO  
SANTA ANA, CALIFORNIA

After an early career as a farm laborer and construction worker, Mr. Maxwell worked as a postal clerk.

In 1956, he migrated to California where he began his banking career with Bank of America, Boyle Heights Area of Los Angeles, as Teller.

Subsequently, Mr. Maxwell was appointed to the Officer Training Program at Bank of America.

Upon completion of Officer training, Mr. Maxwell received his first Officer assignment as Head of the Loan Department at the Huntington Park Branch. The following years, he was the Assistant Operations Officer at the Lynwood Branch, Operations Officer at the Montebello Branch, Operations Officer in East Los Angeles, and Assistant Cash Operations Officer at the 4th. and Spring Branch downtown Los Angeles.

In April 1965, Mr. Maxwell joined the original staff of Pan American National Bank as Operations Officer. In November 1965, he was appointed Cashier; at that time,

only two Mexican-Americans were holding that position in California. Pan American National Bank was the first Mexican-American Bank in this country.

During the next few years, Mr. Maxwell served as Cashier and Lending Officer in a bank serving primarily the Spanish-speaking of East Los Angeles.

It was during this time that Mr. Maxwell became more aware of the iniquities facing the Spanish-speaking in regards to banking services.

In August 1969, he became Bank President, at that time, the only Mexican-American Bank President in California! In October 1970, Mr. Maxwell left Pan American National Bank to organize the Banco del Pueblo Commercial Bank in Santa Ana, California. Banco del Pueblo is the only bank in this country with a complete Mexican-American Board of Directors, and featuring a bilingual staff in all areas of banking. Banco del Pueblo is dedicated to providing all banking services to all our Mexican-American and Latin communities, with emphasis on the disadvantaged minorities.



- Member Board of Directors of Banco del Pueblo.
- Member Executive Committee and Board of Directors of Southern California Minority Capital Corporation.  
Minority Enterprise Small Business Investment Corporation.
- Member Urban Affairs Committee and Executive Council of the American Bankers Association.
- Member Executive Council National Bankers Association.
- Member Small Business Advisory Council, Los Angeles Area.
- Member Board of Directors of the Mexican-American Opportunity Foundation.

STATEMENT OF ANTHONY MAXWELL, PRESIDENT, BANCO DEL PUEBLO, SANTA ANA, CALIF.

Mr. MAXWELL. The Banco del Pueblo is one of the newest minority banks in the country, opened about 12 weeks ago with a capital of a million dollars, about 90 percent owned by the Mexican-Latin community in Santa Ana. During this time, we have accumulated a million and a half dollars in deposits, which is an infinitesimal amount, small in relation to the major banks in California.

However, in these few weeks we have been open we have already made over \$200,000 in loans to the community of Santa Ana. We have approved proposals, SBA-related proposals, totaling \$300,000, eight different proposals.

Senator MONTROYA. What do you mean by that?

Mr. MAXWELL. We have had clients coming in who have been interested in obtaining a participating bank for SBA loans. We have reviewed the proposals. We have made investigations as to the expertise of the applicants in the business that they are relating to and checked their credits and made sure that they are good members of the community and we have approved these proposals, and in total they add up to approximately \$300,000.

Senator MONTROYA. Has SBA given their approval?

Mr. MAXWELL. No. They are at the SBA office, presently being reviewed by the SBA.

Senator MONTROYA. How long have you been working on these loans?

Mr. MAXWELL. Oh, we started about 4 weeks ago. After we got—

Senator MONTROYA. So, SBA has not had adequate time to investigate these applicants?

Mr. MAXWELL. No, no, they have not. Now, I understand—and this is hearsay, but I understand—they have approximately 350 loan proposals at the SBA Los Angeles office that they are working on, and I do not know and I cannot relate because I do not know the size of their staff and what the workload is there in relation to the number of applicants they have.

Senator MONTROYA. What has your relationship been with SBA so far?

Mr. MAXWELL. When I was president of the Pan American National Bank, we became involved with the SBA for the first time, and in a period of approximately 1 year we made approximately \$1 million in SBA-related loans, which represented at that time something like 15 percent of our total loan portfolio. This, in my opinion, was a tremendous vote of confidence for the minority businessmen in that minority bank since they are relatively new in our economic scene, and they do not have the loan-loss reserves that the older banks have. Therefore, when they make a loan, it is really a commitment to the community, because we do not have an account where, if the loan goes bad, you just charge it off against the account without affecting your profits and your capital.

I think this points out one very important thing, that the minority banks with which I am familiar, for example, with the Bank of Finance and the Pan American National Bank, they are doing, percentage-wise, a much bigger job in the minority enterprise field, SBA-

related and otherwise, than the major banks, even though they have a very small amount of deposits.

Take, for example, I think, if we combined the total deposits of the Pan American National Bank and the Bank of Finance, they have about \$30 million in deposits, and yet they have, both, approximately \$4 million in SBA loans. This shows a commitment; this shows a concern, and yet they do it with very limited staff. For example, at our particular bank, since we are new, all of the SBA applicants that come in—in fact, most of the applicants that come in—I have to personally interview and personally make decisions on whether or not they have a viable package.

Senator MONTOYA. Do you have any followup services provided for these?

Mr. MAXWELL. No; we do not.

Senator MONTOYA. Is it your intention to so provide these services?

Mr. MAXWELL. It would perhaps be a year before we could provide these services at the present time.

Senator MONTOYA. Do you think they are essential?

Mr. MAXWELL. I think they are absolutely vital to the survival of most of these programs.

If I could relate it to the 8(a), when I was at the Pan American Bank we made an SBA loan to an 8(a) contractor. I believe the amount, if my memory serves me right, was about \$200,000 on top of another SBA loan they had at another bank, and the production there involved making practice bombs for the Defense Department. These people were very knowledgeable as to their business, and they made their bid properly, and I understand the program is working quite well. There were, however, a couple of problems that developed.

No. 1, the payment coming from the Defense Department put a tremendous drain on the cash flow.

Senator MONTOYA. In what way?

Mr. MAXWELL. Well, by the time, say, for example—this was, for them, an entirely new line of production. Now, you get an SBA loan, and your first payment starts down the line somewhere about 45 to 60 days from the time you fund the loan. There is no way on this new product that is being produced there will be a cash flow shown in that length of time. It is going to be usually about 6 months before—they buying their equipment, installing it in their plant, getting the necessary skilled labor, producing the item, delivering it—before they can get paid.

So, the payment schedule that starts within 2 months after the loan is funded is really very unrealistic, unless in the loan proposal there is included enough money to take care of the first four or five payments.

Senator MONTOYA. Do you not usually take care of it yourself in the loan agreement?

Mr. MAXWELL. Well, we do now, but at one time we did not.

Senator MONTOYA. I never knew a bank that did not take care of itself.

Mr. MAXWELL. This is one of the things we learned through experience with the SBA program.

Senator MONTOYA. That is the way it should be, you get so much percentage of the progress payments; and you do that in these loan agreements; do you not?

Mr. MAXWELL. We do now, yes. But when I was at the Pan American Bank, we did not necessarily provide for this.

Senator MONTOYA. What was your experience when you were loan officer at the Pan American Bank as far as default on these minority entrepreneur loans?

Mr. MAXWELL. I am going to answer specifically relating to the SBA loans. We had one loan that did not pay back. It was a \$6,000 loan with a 90-percent guarantee. There was another one later on that was 100 percent, and it was about a \$25,000 loan. The loss to the bank was about \$5,500. But when you relate that to the interest that the bank earned on the million dollar portfolio—

Senator MONTOYA. So, you did not lose anything?

Mr. MAXWELL. No.

Senator MONTOYA. What was your experience with the minibank operation?

Mr. MAXWELL. I serve on the Urban Affairs Committee of the ABA, and I was involved in the idea and in selling it, and we, at the Banco del Pueblo, are going to put a percentage of our stock in the minibank.

Senator MONTOYA. You cannot participate in it until you have had 3 years' experience; is that right?

Mr. MAXWELL. We cannot participate; that is true. We have no need to participate at this time. We hope we never have to.

Senator MONTOYA. Do you make small loans, too, in your bank?

Mr. MAXWELL. Yes. Our loans are primarily small loans. We have a limitation of \$800,000, legal limitation—I am sorry, not \$800,000, but \$80,000, to any one borrower. The largest loan we have made to date was a \$25,000 loan to a minority person to purchase a restaurant.

Senator MONTOYA. And are you a State bank or nationally chartered?

Mr. MAXWELL. We are a State bank.

One comment that I would like to make regarding the 8(a) program is that in some, in one or two, the problem has been improperly pricing the product in that there has not been enough allowance, profit allowance, for the business to be able to turn a profit over and windup with a profit.

Senator MONTOYA. Whose fault would that be?

Mr. MAXWELL. Well, this would be the fault of the person that worked the numbers to arrive at a figure for selling the service.

Senator MONTOYA. Well, usually, since SBA is the prime contractor, SBA should be able to figure out what that small businessman who is an 8(a) contractor could make in the way of profit on a markup.

Mr. MAXWELL. They should be able to, yes.

Senator MONTOYA. Because usually the small entrepreneur who is going into a contract for the first time is not going to have the ability to figure his profit; is he?

Mr. MAXWELL. He would have an extremely hard time, because he is not cognizant of all of the factors that affect the price of a product. Many times they consider this, or most of the time people do, but not all of them, you know, and they end up at the end with no profit.

Senator MONTOYA. In view of your experience with Mexican-American business people who are starting a business for the first time, or have tried to increase their business on a more sophisticated basis, is it your feeling that there should be some monitoring or surveillance service to help this individual better orient himself and give his business a better sense of direction?

Mr. MAXWELL. Yes. We naturally make direct loans also that have no involvement with the SBA, but there are two areas that we are very insistent upon in counseling with the minority businessman: (1) That he obtain the services of a certified public accountant so that he can get the necessary information as to sales and costs, and their net profit, and things of this nature, so that they can properly inlay the different parts of their financial statement. That is No. 1.

And (2) is an area that they do not generally allow enough importance, and that is as to life insurance. So, in these two areas we are leaning very heavily on them.

Senator MONTROYA. You require life insurance on your business loans?

Mr. MAXWELL. Well, it depends on the amount of life insurance the man already has. If his life insurance is adequate, no. If it is not—for example, I made a loan to a man the other day, \$6,000, and he had a net worth of \$110,000, and \$10,000 worth of life insurance. Well, obviously, there is no relationship. The man needed more life insurance.

Senator MONTROYA. I know some banks require from their borrowers a life insurance policy which someone in the bank usually writes.

Mr. MAXWELL. Yes. The credit life and disability insurance is available through our bank, but it is not a requirement. Most people, particularly installment loan borrowers, want it, because, you know, of the peace of mind that it gives them on it.

Senator MONTROYA. Is there any way that a bank like the Bank of America can help your bank directly?

Mr. MAXWELL. The Bank of America was helpful to us in our organization, and, in fact, they are our prime correspondent bank. What we need more than anything else is more involvement. As you can see, just in 12 weeks we have more volume, and, as you can see, in 12 weeks, what we have been able to generate, and we obviously cannot continue at that rate with the deposit structure that we have.

Senator MONTROYA. What about Government deposits?

Mr. MAXWELL. Yes. I have been working on that since shortly after the bank opened. We have received two deposits that are Government-related, or three, rather. The two major ones, one for \$200,000, and another one for \$115,000, and both are through the U.S. Marine Corps canteen fund in Washington, D.C. Of course, these are time-certificate deposits, and we are paying the going rate of interest on them. We also have about a \$15,000 deposit from the Operations SER Office in Santa Ana.

Senator MONTROYA. What about the Post Office?

Mr. MAXWELL. No, we have not received anything at all from the Post Office.

Senator MONTROYA. Have you asked them?

Mr. MAXWELL. Yes, and their auditor has been out to talk to us, and we have been promised deposits from the Post Office, and we have been promised deposits from HUD, and we have been promised additional deposits from HEW. We have a lot of promises, but we have about four major corporations that have helped us with tax money. North American Rockwell gave us \$250,000; Southern California Gas gave \$50,000; Southern California Edison gave us \$50,000, and these are in for 30 to 60 days, and they cannot be considered in the normal lending functions of the bank, because they are such short-term deposits. But they do help in the earning factor.

Mr. JONES. In this connection, Mr. Chairman, it might be helpful to call Mr. Maxwell's attention to Opportunity Funding Corp. which is an OEO-grantee and which also makes deposits to minor banking enterprises. Are you familiar with that?

Mr. MAXWELL. Yes, I am. The Pan American National Bank and the Bank of Finance have obtained some of their deposits. We are still working on it. We find, for example, when we apply to HUD for these deposits, that there is an area that creates problems for us, and I certainly consider ourselves to be in the Los Angeles area but many of these deposits are funneled into the local area through the county or the city treasuries. At that point, they become subject to the regulations of the State of California involving deposits in the cities and counties. One of the limitations that is placed on these deposits is that a bank may not have more than an amount equal to its capital. So, for Pan American Bank or for ourselves that would be \$1 million. In other words, what we are saying is that by channeling the funds through this avenue—and I think with about 28 or 30 minority banks in this country, about \$30 million, and we shut our mouth. That is all that can happen. I really think that some way should be found for the minority bank to be able to fully participate in the Federal Government deposits without these restrictions; because the restriction is very unrealistic, due to the fact that these deposits are collateralized by the minority banks.

Senator MONTOYA. Are you saying the State law places a restriction that you shall not have governmental deposits in excess of \$1 million?

Mr. MAXWELL. Those are in the county treasuries and the city treasuries.

Senator MONTOYA. That is State and local funds?

Mr. MAXWELL. Yes.

Senator MONTOYA. But there is no prohibition on the amount of Federal Government funds that can be put into a bank?

Mr. MAXWELL. Not directly, no; but when they go into the county treasury first they become subject to this limitation because they then become part of the funds of the county, they go to the county treasury.

Senator MONTOYA. I am speaking of the Federal Government and not the county or the State.

Mr. MAXWELL. But you see, it originates at the Federal level and goes to the county first. Once it becomes part of the county funds or within the control of the county treasury the limitations step in.

Senator MONTOYA. No, you do not understand me. You are speaking of funds that become integrated into State funds?

Mr. MAXWELL. Yes.

Senator MONTOYA. But I am speaking of funds like the Post Office funds. Should the Post Office Department tell you that they want to deposit \$2 million in your bank; there is no State limitation or prohibition on that, is there?

Mr. MAXWELL. No; there is not.

Senator MONTOYA. That is the point I am making.

What about the requirement that for SBA loans the borrower must obtain bank participation?

Is that an inhibition or a serious obstacle as you see it?

Mr. MAXWELL. The way I understand it works is this: The SBA has very limited funds for making direct loans, so, therefore, as I understand, they have a waiting list of loans to be funded directly by SBA, which means that if a person is interested in getting a loan within a reasonable period of time, he more or less has to obtain bank participation; otherwise, he could be waiting and waiting and waiting. and you know business does not wait for anyone.

Senator MONTÓYA. Well, have you encountered situations where individuals with good repayment capability have failed through no fault of their own to find bank participation on an SBA-guaranteed loan?

Mr. MAXWELL. Most of the packages we are currently looking at came to us because the other banks had not shown any interest in them.

Senator MONTÓYA. Well, as a matter of fact, most of these banks are not interested in small loans of, say \$5,000 to \$10,000, to minority enterprises, are they, unless the individual has triple A credit?

Mr. MAXWELL. I do not know to what extent their interest is, but I do know that when my people, particularly—and I am talking about the Latin-American, Spanish-American, or whatever name is attached to it—go to these banks, they are either turned or given the impression that it is going to take such a long time that it discourages them; and, so, they wind up at my bank, and, of course, we have a very limited staff, and we are trying to do the best we can to get these things processed. I do not know how meaningful this is, but all of the packages that have come to our attention have been good packages.

Senator MONTÓYA. Have you had referrals to your bank from other banks on loan applications?

Mr. MAXWELL. No; no, we have not. Since I was in the East Los Angeles area and I am a known banker in banking circles there, some of the people that have come to us, in fact, most of the people that have come to us, have come from referrals from either groups or persons in the East Los Angeles area. Some of these people go to the office in East Los Angeles to obtain assistance in preparing their packages, and then they are referred, after attempts are made at another bank to place a loan, to us.

Senator MONTÓYA. Do you have an organization here known as CABBIO?

Mr. MAXWELL. I do not know. I know the organization exists but I do not know how active it is. I have never been involved with it anyway.

Senator MONTÓYA. How about MESBICs, have you had experience with them?

Mr. MAXWELL. I am a member of the board of directors of MESBICs that is currently being funded, and we were lacking something like \$30,000 in subscriptions to get the thing going the other day. We still have not begun our lending.

Senator MONTÓYA. What can you tell me about the counseling services that are available from organizations which have been funded through grants under OEO?

Mr. MAXWELL. I have not been familiar with any specific cases.

Senator MONTÓYA. You know of some of these organizations?

Mr. MAXWELL. I know they exist, yes.

Senator MONTORA. Do you, in your opinion, feel they have the capability to advise business people?

Mr. MAXWELL. Well, the people that work there, generally speaking, are not, you know, hard-core businessmen who have been forced to make a dollar. They are people who have trained in the field of finance but have not had the practical experience of having to do it themselves.

Senator MONTORA. Would you start thinking in terms of whether or not an organization can be formulated from among successful business people so that such an organization can provide know-how and counseling services to new minority entrepreneurs?

Mr. MAXWELL. This would be a tremendous challenge to anyone, because there are several of them that have to be overcome to effect an organization such as this, No. 1 being that an active businessman, which is really the best one to help in this instance, generally is extremely busy within his own business, there being many demands on his time from charitable groups, government, and different areas; so, finding a group of men who have the time and would be willing to give to this purpose would be hard. There is also the problem that many times the local businessman does not want another businessman with whom he is familiar looking into his business.

Senator MONTORA. How about the SCORE program?

Mr. MAXWELL. I know they exist. I am not familiar with any clients they have worked with.

Senator MONTORA. Thank you very much, Mr. Maxwell.

Do you have anything else to add?

Mr. MAXWELL. No; except to say that it has been quite a thrill for me to be here today.

Senator MONTORA. Well, I wish you success in your banking operation. We are doing the same thing in New Mexico, starting some new banks there. Thank you.

Mr. Ray Dones, president, National Association of Minority Contractors, San Francisco, Calif.

#### STATEMENT OF RAY DONES, PRESIDENT, NATIONAL ASSOCIATION OF MINORITY CONTRACTORS, SAN FRANCISCO, CALIF.

Senator MONTORA. Do you have a written statement, Mr. Dones?

Mr. DONES. Yes, sir, I have.

Senator MONTORA. Do you have a copy?

Mr. DONES. I was not able to get copies to you earlier, but I have some copies here if you would like them.

Senator MONTORA. Thank you. You may proceed, sir.

Do you wish to read your statement?

Mr. DONES. Yes, sir.

Senator MONTORA. It is not a lengthy statement, and if you desire to read it, you may proceed to do so.

Mr. DONES. I will read parts of it.

Senator MONTORA. Well, it will be made a part of the record, and you may proceed to emphasize parts as you wish and make comments on it as you wish.

(The prepared statement submitted by Mr. Dones reads in full as follows:)



## STATEMENT BY:

MR. RAY DONES, PRESIDENT NAMC, NON-PROFIT EDUCATIONAL ASSN.  
801 McALLISTER STREET, SAN FRANCISCO, CALIFORNIA  
BEFORE U.S. SENATE SMALL BUSINESS COMMITTEE  
SEPTEMBER 29, 1971

At the minority builders conference here in San Francisco in July 1969 where the National Association of Minority Contractors (NAMC) was born, SBA came under severe and caustic criticism from 300 black, brown, oriental and American Indian contractors from all over the country. The Small Business Administration has moved to improve its image in the minority business community in general and with black and brown builders in three special programs. The programs that have been most helpful are the 8(a) "Set Aside" subcontracts, loan guarantee and bonding guarantee programs. The SBA has spent the last two years trying to find ways that would increase their effectiveness and offer meaningful help to minority contractors. The National Association wishes also to thank the Small Business Administration, the Senate select committee on Small Business and this subcommittee for your efforts, for they are beginning to bear fruit.

SBA is moving to guarantee letters-of-credit as well as loans made to contractors. These advances can now be subordinated to the interest of surety companies after two years of NAMC urging. SBA is now beginning to understand the need to make their guarantees available for revolving lines of credit, as well as for fixed-amount loans.

"Set Aside" is a term that NAMC members are beginning to hear around the country. Under Section 8A of the Small Business Act, the Small Business Administration is authorized to act as prime contractor on "Set Asides" of various increments of government work.

There are set asides which are developed for areas of high unemployment because of their labor surplus. There are set asides which are developed to channel a share of Federal procurement contracts through a mechanism designed specifically for small businesses. Both of these set asides when applied to the construction industry are now available to our membership.

Due to the efforts of many people in SBA and out, the urgings of Arthur McZier and of Joseph Conrad from the SBA Washington office the support of Senator Joseph M. Montoya (D.N.M.), sympathetic involvement of the staff and members of this subcommittee and the push of the NAMC and its member, the Administration has recently defined 8(a) set aside in such a manner that the current regulations permit the inclusion of the construction industry as a part of the program.

Under 8(a) programs the Small Business Administration acts as the General Contractor for the Federal agency which wishes to contract for a specific construction task. SBA then has the option of negotiating with a subcontractor of its choice and of requiring or waiving a surety bond, at its option.

Since SBA does not bid or compete with private industry for contracts, 8(a) deals only in jobs that have not yet been publicly announced. Once a contract has been awarded, SBA is responsible to the agency to see to it that the contract is fulfilled in all respects.

When a contractor approaches SBA for an "8(a)" contract several things happen. First, the contractor has to qualify as being "disadvantaged." Secondly, he must prepare financial statements, a work history or resume, a 5-year projection of his business and other detailed information. SBA's thinking is that "8(a)" contracts, being preferential, should only serve to get a business on its feet, and so projections must show how the company can become self-sufficient within three years.

Although SBA is committed to providing technical and managerial services to its clients, the agency is understaffed in this area and clients must usually look elsewhere for assistance in putting together the necessary paperwork. NAMC strongly recommends an increase in Technical Assistance funds available to expedite the contractors learning process. The funding of the educational and training efforts of Minority Contractor Associations by SBA could greatly enhance the development of minority builders.

Once a client supplies the needed documents, SBA sets out to find contracts for him. This may involve actively promoting a client, as well as merely attempting to match his capabilities with currently listed jobs. Once a job is found and a suitable price agreed upon, SBA awards the subcontract to the client. The agency, being responsible as prime contractor, follows through with advice and assistance to make sure the contract is completely fulfilled.

The NAMC Directors meeting in New Orleans last Saturday and Sunday asked me to inform you of the need to expand the 8(a) contracting capability to state and local government agencies and their political sub-divisions. Although the \$100 million that should be available to the program from Federal agencies will doubtless increase the effectiveness of this business-development mechanism, the bulk of Federal funds will not be available without some legislative changes.

SBA needs the ability to bring DOT and HUD Programs under the 8(a) contracting capability. Section 3 of the 1968 Housing and Urban Development Act states that: "the Secretary shall require that local contractors and low-income residents be employed to the greatest extent feasible in the development of housing under the specified federal programs." This is one of the strongest provisions which has been enacted regarding disadvantaged minority contractors and the employment of the poor and should, when properly implemented, provide substantial opportunities for attaining parity in our industry.

Several billion dollars are being spent annually under programs which include a statutory mandate of maximum employment opportunities for low-income area residents and the utilization of low-income contractors in federally assisted construction projects. The issue of employment of the disadvantaged minorities and the poor in general is rapidly coming to a head.

The significance of developments of this nature is apparent in light of the fact that the federal government parcels out more than \$20 billion each year for building contracts, covering about half of the construction done in major cities.

Jobs are available in the cities where the poor live, and should be linked to programs designed to upgrade the environments of the poor. It is fitting that the development of urban physical and human resources should provide reciprocal benefits. The need for human rehabilitation is certainly as great as the need for physical reconstruction of slum areas. Employment opportunities and requirements relate to both low-income employees and minority contractors as their potential employers.

Minority contractors in the nation's capital have been given only one-half of one percent of work on the Washington Metropolitan Area Transit Authority's 96-mile regional rail transit system now well into the construction phase. The program, on which Department of Transportation (DOT) Secretary John A. Volpe has threatened to freeze contract awards for the third time, will take 10 years to complete and require a peak labor force of 6,000 by July, 1973.

All indications are that the Small Business Administration wants to make the construction industry in the Washington Metropolitan area, and the transit system project in particular, a model for equal employment opportunity.

SBA needs legislative support for their attorneys' rulings that 8(a) can apply to this type of work for "Authorities" or political sub-divisions of local governments in order to expand their sphere of assistance.

The NAMC asks you to provide legislation enabling an expansion of 8(a) to all federally-funded programs.

Mr. DONES. At the minority builders conference here in San Francisco in July 1969 where the National Association of Minority Contractors (NAMC) was born, SBA came under severe and caustic criticism from 300 black, brown, oriental, and American Indian contractors from all over the country. The Small Business Administration has moved to improve its image in the minority business community in general, and with black and brown builders in three special programs. The programs that have been most helpful are the 8(a) "set-aside" subcontracts, loan guarantee, and bonding guarantee programs. The SBA has spent the last 2 years trying to find ways that would increase their effectiveness and offer meaningful help to minority contractors. The national association wishes also to thank the Small Business Administration, the Senate Select Committee on Small Business, and this subcommittee for your efforts, for they are beginning to bear fruit, we believe.

The 8(a) program has now been expanded, and we understand that during fiscal year 1970 there were about \$22 million worth of contracts awarded, and last year the contracting process was expanded to include about \$66 million. And we understand from our friends in SBA that the Government plans additional expansion so that \$100 million for the next fiscal year will be incorporated.

But according to SBA, some of these 8(a) subcontracts let to subcontractors who had had no previous Government contracting experience go at approximately 10 percent more to do a job than it would cost if subject to a competitive bidding process. We think that this cost is part of a learning process that is essential to the development of minority contractors and it probably could be decreased with more technical assistance funds available to organizations that are funded and who have ability to provide some managing assistance in order to make sure that the contractors have the job figured out as it should be.

We also think that SBA needs the ability to bring the Department of Transportation and HUD programs under the 8(a) contracting capability. Section 3 of the 1968 Housing and Urban Development Act states that "The Secretary shall require that local contractors and low-income residents be employed to the greatest extent feasible in the development of housing under specified Federal programs." This is one of the strongest provisions which has been enacted regarding disadvantaged, minority contracts and the employment of the poor and should, when properly implemented, provide substantial opportunities for attaining parity in our industry.

Several billion dollars are being spent annually under programs which include a statutory mandate of maximum employment opportunities for low-income area residents and the utilization of low-income contractors in federally assisted construction projects would improve the employment of the disadvantaged minorities and the poor in general in the communities that they are designed to aid.

Jobs are available in the cities where the poor live and should be linked to programs designed to upgrade the environments of the poor. It is fitting that the development of urban physical and human resources should provide reciprocal benefits. The need for human rehabilitation is certainly as great as the need for physical construction of slum areas. Employment opportunities and requirements relate to

both low-income employees and minority contractors, so that as we help minority contractors from the disadvantaged communities we can certainly increase the amount of construction work that is available to the low-income inhabitants of these communities.

I would also like to call the subcommittee's attention to the fact that minority contractors in the Nation's capital have been given only one-half of 1 percent of the work on the Washington Metropolitan Area Transit Authority's 96-mile regional rail transit system now well into the construction phase. We have been informed that the Small Business Administration attorneys have ruled that the 8(a) program should be available for Metro construction work.

I think that SBA needs now some legislative support for their attorneys' rulings, so that 8(a) can apply to this type of work for political subdivisions of local governments in order to expand this specific sphere of assistance.

The NAMC asks you to provide some legislation enabling an expansion of 8(a) to all federally funded programs.

Senator MONTOYA. Where is your organization located?

Mr. DONES. Our office is 801 McAllister Street in San Francisco.

Senator MONTOYA. Are you acquainted with the problems in the Los Angeles area?

Mr. DONES. Yes, I am acquainted with the problems in the Los Angeles area in that our NAMC secretary and some of our board members are from Los Angeles.

Senator MONTOYA. We had some hearings, through another committee of which I am chairman, the Economic Development Committee of the Senate, in Watts, and I was very much amazed at the statistical information obtained in the testimony we elicited there, to the effect that the commercial activity in Watts has gone down from what it was before the riot, in spite of the fact that over \$300 million have been spent in Watts, and most of the money that has been spent in Watts has been on studies and no action.

Would you agree with that?

Mr. DONES. Yes, I agree with that, and I think that there is not an availability of equity funds for people in the minority community for development, or for entrepreneurship that would provide some meaningful employment opportunities.

Senator MONTOYA. Well, many of the people in Watts were working way out and commuting sometimes 20 or 30 miles, and there is very little industrial activity within Watts. The same is true of east Los Angeles, and the unemployment rate in Watts and east Los Angeles is enormous, way ahead of the rest of the country.

Now, speaking of minority contractors and the difficulties which they have had with respect to getting bonded, that has been a concern of the subcommittee for quite some time, as you know, and we have tried to get SBA into this picture so that these people can make bonds under SBA auspices.

Now, I do not know what progress was really had, because since I pressed for this we have not had any followup hearings to find out what SBA has done, and we are going to elicit this tomorrow and in future hearings in Washington. But have you noticed any participation from the private sector with respect to giving small contractors a little more recognition?

Mr. DONES. I think there has been a great increase in the understanding of the problem, Senator Montoya, and I think there has been some increase in the development of the contractors, so I think they have gained a far greater share of available work, but, we must realize that when you relate it to parity with the total majority population, we still have a long way to go. To illustrate what I mean, I think of the \$100 billion in construction work that currently is annually available, and of the \$76 billion or so that was available about 5 years ago when organizations of minority contractors began to organize around the country, the minority contractors were getting about one-tenth of 1 percent of the total construction dollar. So, I would say that within the last 5 years their contracting ability has sustained a ten-fold increase, so that now we have about 1 percent of the total construction dollar. But in order to gain parity, we need a fifteen-fold increase again, in order to get what we deem to be the proper share of construction.

Senator MONTOLA. Well, do you not feel that this share would be increased if you convinced the private sector that you had the capability and also the financial ability to take care of these contracts? Is that not the cause of this gap?

Isn't it true that the private sector does not have full confidence in the ability of the minority entrepreneur to serve as a contractor?

Is that not where the real fault lies?

Mr. DONES. Yes. I think it is the combination of both the lack of ability to work in the private sector and lack of ability to work in the public sector, too.

Senator MONTOLA. A lack of communication, too, lack of rapport, and the fact that many minorities have gone into contracting without knowing the full impact of contracting and many of them have gone broke in the process, and when one in a minority goes broke it reflects on all of the others.

Mr. DONES. That is true, Senator. But we also need a development of the ability of the minority contractor himself. I think now we are beginning to solve this communications problem so that the private sector and also the Government sector understand now the basis of the need for developing minority contractors. But we now have the very difficult job of really developing the capabilities and the organizations of the minority contracting entities so that they can take advantage of the opportunities that are available to them. This means that we must increase the capability, the equity capital that he has, his organizational structure, and also his bondability so that we can move into both the public and private sectors, because the private sector usually requires some guarantee of performance from either builder-control mechanisms or a bonding-company mechanism in order to assure the owner that no loss will be sustained in the contracting.

Now, the majority group contractors are fairly well organized, and they can provide these kinds of assurances, but minority contractors always, to be competitive, have to be able to provide these same kinds of performance assurances that the majority-group contractor can, and at a competitive rate. Now, if it costs the majority group contractor six-tenths of 1 percent to provide a bond, and it costs the minority contractor 4 or 5 percent, well, then, he cannot be competitive working in this field.

Senator MONTROYA. Well, is there such disparity?

Mr. DONES. Yes, sir; there is a standard bond market and a substandard bond market also, and there is a disparity in rates.

Senator MONTROYA. Why can you not go to your State legislature to prevent this kind of disparity or discrimination?

Mr. DONES. I think that we are afraid that we will have no market if this happens.

Senator MONTROYA. What about the provisions of Public Law 91-609 which permits SBA to guarantee 90 percent of the loss?

Mr. DONES. I think this approach is one that will be successful in alleviating the conditions I just talked about, so that this bonding guarantee from the Small Business Administration, as soon as it is universally administered, will go a great way toward alleviating this disparity.

Senator MONTROYA. Do you know of any instances where small contractors are being charged more for their bonds than the big contractors?

Mr. DONES. Well, I know of many instances where contractors are being charged or are paying as much as 5 percent for bonds, and I know of several instances where builders control is required by a bonding company or some control mechanism is also required before they will write the bond so that the total cost is larger.

Senator MONTROYA. Would you furnish such information in writing for the committee?

Mr. DONES. Yes, sir; I will be happy to.<sup>1</sup>

Senator MONTROYA. We will be glad to receive it. We would like to look into it.

Mr. DONES. But I think that this is because of the development of the small contractor. It is a sort of system that we live in, and rather than an overt kind of discrimination, because bonding companies write bonds when they feel that there is no risk to assuring there will be completion; then, if the loss percentage goes up, then it is natural to assume there will be some attempt to increase the rates also, and if we try to eliminate what we call the substandard market, it means many of the smaller and newer contractors who have not had a wealth of experience in construction and have not established a track record will not find any source of bonds at all if we try to equalize these rates.

Senator MONTROYA. Even with the SBA guarantee?

Mr. DONES. I think the SBA guarantee has, so far, only been available to contractors at the standard bond rates and I do not know of any guarantees that have been written for a substandard bond market. When that 90-percent guarantee is available, I think that it will lessen the risk of bonding companies, although, frankly, if bonding companies feel—

Senator MONTROYA. And if it lessens the risk of bonding companies, then it should necessarily reduce the rate; but will it?

Mr. DONES. If bonding companies believe there is even 10 percent risk and the guarantee is only 90 percent of the job, they will not write the bond anyway, even at a 5-percent rate. If they think there is an appreciable risk that they will lose even 10 percent, they still will not write the bond.

Senator MONTROYA. Thank you very much.

<sup>1</sup> Material not furnished.

Mr. JONES. Mr. Dones, under the SBA guarantee program, does not the SBA charge the surety company a fee?

Mr. DONES. Yes; I think there is a fee of two-tenths of 1 percent that is charged.

Mr. JONES. So, it is really not large enough to be significant?

Mr. DONES. No; I do not think the two-tenths of 1 percent charge, in addition to the bonding fee if it is a standard market, is going to raise the rate so that it will appreciably affect the job.

Now, you know that most construction contracts, particularly those in the FHA sector where bonds are required, or usually required, there is another mechanism that can be used now, I understand. But the profit rate for the contractor is sometimes limited to a maximum of 4 percent, and if a contractor has a bond market available at 2 percent or 3 percent or 4 percent, well, we use up all of the potential profit. But two-tenths of 1 percent is down within the realm where it is not likely to be a deterrent to this type of contract.

Mr. JONES. Did I understand you to say this program is not yet in effect here in San Francisco?

Mr. DONES. I think that it is a little too early, you understand, of course, to make an assessment of what the impact will be. There have been probably, 100 applications in process, but I have yet to see the instance where the SBA guarantee was used for a contractor's bond.

I think within a month we will know how effective the program is, but it is a little early yet.

Mr. JONES. The program was operated on a pilot basis in Los Angeles. Are you familiar with the results there?

Mr. DONES. I have talked to John Brown and others there who had some bonds written under this basis, and they indicate that it is extremely helpful to them, and it has been successful in getting bonds for contractors who would not have been bonded before.

Mr. JONES. Thank you.

Senator MONTOYA. Thank you very much, Mr. Dones.

The next witness is Mr. Quentin L. Milsap.

Mr. Arthur F. Thomas of Pride Unlimited.

And Mr. Al Hicks, of San Francisco, and Mr. John Grayson, president, Univox California.

You may all come forward, and we will interrelate your testimony if we possibly can.

Mr. NASH. I am a substitute. I am Thomas Nash, the general manager, and I am substituting for Mr. Thomas, who is ill.

Senator MONTOYA. You are Mr. Thomas Nash, are you not?

You are representing Mr. Thomas?

Mr. NASH. Yes, I am.

Senator MONTOYA. Who is representing Mr. Hicks?

Mr. Hicks is not here.

Since Mr. Milsap appears first on the list, would you lead off, sir?



**STATEMENT OF QUENTIN L. MILSAP, QUANTUM ASSOCIATES, INC.,  
OAKLAND, CALIF.**

Senator MONTOYA. Do you have a written statement?

Mr. MILSAP. No, I do not.

Senator MONTOYA. Who has a prepared statement?

Mr. GRAYSON. I do, sir.

Senator MONTOYA. All right, Mr. Grayson, you may proceed and submit your statement. How long is it?

Mr. GRAYSON. Three pages. It will take about 3 minutes.

**STATEMENT OF JOHN GRAYSON, PRESIDENT, UNIVOX CALIFORNIA,  
LOS ANGELES, CALIF.**

Senator MONTOYA. Well, we have a copy here, and it will be made a part of the record at this point, and you may proceed, sir, to summarize it and give us the highlights, and I will ask you some questions after you do that.

(The prepared statement submitted by Mr. Grayson reads in full as follows:)

Statement to the Select Committee on Small Business  
House of Representatives of the United States Ninety Second Congress  
13 September 1971

John Grayson, President  
Univox California

Scope

My experience and concern cover a wide range of topics under the heading of Minority Business Enterprise Development; however, I understand this hearing concerns itself with Government Procurement. My comments will therefore be limited to the subject of Government Procurement as it is viewed by this minority business venture (Univox California). I will share my perceptions regarding both the acquisition and performance phases of the procurement cycle.

Background

Univox California, an electronics manufacturing company, is an unusual minority enterprise for a number of reasons worth mentioning to establish the context in which my experiences are evaluated.

My partner, Mr. Bernard Weiss, and I, each bring over 20 years of directly applicable preparation and experience to this venture. This preparation includes training as graduate engineers and work experience with above average achievement as engineers, engineering managers, project managers, and business managers.

The start up capital costs, initial market penetration time and costs, along with internal operational procedures and methods effort, were among the major factors which influenced our choosing to begin with the acquisition of an existing firm. This acquisition gave us, among other things, current customers including the major airlines, some of the largest aerospace companies, and many government procurement agencies. These customers were, at that time and since that time, ordering and receiving products from Univox California meeting all specifications and schedules. The products were used by commercial airlines, in military aircraft and equipment, and in other defense programs.

To this baseline operation, we intend to develop through all avenues available to us, a major growth activity and a model for minority business development which leverages more business development per dollar than has been the rule. The major obstacle we must hurdle to achieve this goal is low business volume. Our long range plans indicate a transition from solely military and aerospace markets to a number of commercial opportunities. To provide the resources and posture necessary to compete in these areas, a significant increase in sales volume is needed.

The U. S. Government could be the source of those increased sales. I understand it is the intent and goal of our government to use its ability to solve such problems. Government procurement policies, therefore, are crucial to the success of Univox and many other minority enterprises.

Attempts over the past nine months to acquire an increased sales volume through government procurements have to date utterly failed. I find myself today with a number of immediate and very promising opportunities which would launch Univox toward its objectives, and yet realizing that nine months ago I would have said the same thing. The nine months have been 38 weeks and close to 270 days of "being on the brink of acquiring sizeable government contracts," without one success.

This condition has persisted in spite of:

1. Having the technical and managerial expertise of the principals
2. Being a firm certified under the SBA 8(a) program
3. Having a facility meeting federal specifications for performing electronics manufacturing for military equipment
4. Actually performing on orders from government and military agencies meeting specifications, costs and schedules
5. Providing the Small Business Administration with descriptive information about our capabilities, lists of those agencies of government to whom we have sold items, and the part numbers of the items sold
6. Having a current sales volume insufficient to support the personal financial needs of the principals.

#### Conclusions and Recommendations

Whenever I attempt to analyze why this condition exists, inevitably the magnitude and complexity of problems the Small Business Administration and the other agencies have are transferred to me. Instead of experiencing a boost from affirmative and supportive action, I am the constant recipient of delay, declarations of impotence, and often obstruction. My course of action then shifts to the obstacles which hopefully when cleared will open the way for success, while fighting the growing feeling that today's obstacles are not between me and success, but rather between me and other obstacles and other obstacles....

1. Goals for procurement by the government from minority businesses must be consistent with objectives. If "a piece of the action" is believed to provide the stated benefits to both the minority community and the whole nation, then the "piece" necessary to achieve those benefits should be defined and should become the goal. The plans and efforts of those agencies which are crucial to making the intentions a reality must be aimed to goals which are consistent with the objectives. Current goals are established in a vacuum and are keyed to levels which support "successful" annual reports. This kind of goal setting allows an infinite amount of resources to be expended without ever achieving objectives. The result being an expensive, aimless program of "doing something" but producing in the end a pattern of frustration, disappointment, and worst of all the perpetuation of the current dilemma.
2. The profit making organization cannot be excluded from participating in minority business development for profit. The intimate relationship between an organization aiding a minority business and the minority businessman contains the opportunity for a transferral of the "entrepreneurial spirit" which is rightly not a part of the non-profit organizations makeup. Further remuneration based on objectives of business progress, instead of "look good" records would add subtle but effective impetus to results based on objectives. The multitude of difficulties encountered by minority firms in performing on government contracts would be greatly diminished and controlled by the participation of profit-oriented organizations whose participation was purchased. This recommendation is made in an inclusive sense not instead of what is now being done.

In summary, I must say that current procurement policies and agencies have failed to capture the opportunity to achieve the intent of the charter of the Small Business Administration's Minority Business Program or the Office of Minority Business Enterprise. I am convinced that without changes in policy such as I have suggested, we shall not achieve what is within our capability and our grasp. The massive and unprecedented action required to bring the minority community into the American economy will grow to impossible proportions unless men such as yourselves act now.

I am at your service to provide any additional supportive data you may require and I stand available to participate in helping to develop detail methods of implementing some of my suggestions.

Mr. GRAYSON. Thank you, sir.

I began my statement, sir, with the fact that I have had some considerable experience in the area of minority business development over the last 4 or 5 years, but I am going to try to aim most of my principal comments and concerns today to the idea of minority business development in terms of procurement. I am referring to some background information about Univox California, an electronic manufacturing company, because I believe it to be an unusual minority enterprise for a number of reasons worth mentioning to establish the context in which my experiences are evaluated.

My partner, Mr. Bernard Weiss, and I, each, bring over 20 years of directly applicable preparation and experience to this venture. This preparation includes training as graduate engineers and work experience with above average achievement as engineers, engineering managers, project managers, and business managers.

Senator MONTOYA. Would you state your educational background?

Mr. GRAYSON. I have a bachelor of science degree in engineering.

Senator MONTOYA. From what university?

Mr. GRAYSON. Pacific State University in California.

We chose in our venture to select an ongoing operation rather than a startup, because of the vast difference in capital outlay required. This also gave us, among other things, current customers including the major airlines, the largest aerospace companies, and many Government procurement agencies. These customers were, at that time and since that time, ordering and receiving products from Univox California meeting all specifications and schedules. The products were used by commercial airlines, in military aircraft and equipment, and in other defense programs.

Senator MONTOYA. What products do you manufacture?

Mr. GRAYSON. We manufacture electronic cable, connectors, control boxes, assemblies for airlines, and military and commercial aircraft.

Senator MONTOYA. What was your gross last year?

Mr. GRAYSON. We were anticipating \$100,000.

Senator MONTOYA. Last year?

Mr. GRAYSON. That is right. We have been in operation 9 months.

Senator MONTOYA. Oh, I see. Up to now, what has been your gross?

Mr. GRAYSON. Approximately, \$72,000.

Senator MONTOYA. All right, proceed.

Mr. GRAYSON. To this baseline operation, we intend to develop through all avenues available to us, a major growth activity and a model for minority business development which leverages more business development per dollar than has been the rule. The major obstacle we must hurdle to achieve this goal is low-business volume. On long-range plans indicate a transition from solely military and aerospace markets to a number of commercial opportunities. To provide the resources and posture necessary to compete in these areas, a significant increase in sales volume is needed.

The U.S. Government could be the source of those increased sales. I understand it is the intent and goal of our Government to use its ability to solve such problems. Government procurement policies, therefore, are crucial to the success of Univox and many other minority enterprises.

Attempts over the past 9 months to acquire an increased sales volume through Government procurements have to date utterly failed. I find myself today with a number of immediate and very promising opportunities which would launch Univox toward its objectives, and yet realizing that 9 months ago I would have said the same thing. The 9 months have been 38 weeks and close to 270 days of "being on the brink of acquiring sizable Government contracts," without one success.

This condition has persisted in spite of very significant things:

1. Having the technical and managerial expertise of the principals;
2. Being a firm certified under the SBA 8(a) program;
3. Having a facility meeting Federal specifications for performing electronics manufacturing for military equipment;
4. Actually performing on orders from Government and military agencies meeting specifications, costs, and schedules;
5. Providing the Small Business Administration with descriptive information about our capabilities, lists of those agencies of Government to whom we have sold items, and the part numbers of the items sold; and
6. Having a current sales volume insufficient to support the personal financial needs of the principals.

#### CONCLUSIONS AND RECOMMENDATIONS

Whenever I attempt to analyze why this condition exists, inevitably the magnitude and complexity of problems the Small Business Administration and the other agencies have are transferred to me. Instead of experiencing a boost from affirmative and supportive action, I am the constant recipient of delay, declarations of impotence, and often obstruction. My course of action then shifts to the obstacles which hopefully, when cleared, will open the way for success, while fighting the growing feeling that today's obstacles are not between me and success, but rather between me and other obstacles. And I would like to add that I have met twice this year, as recently as 2 weeks ago, with the National Association of Black Manufacturers, which is an organization recently formed, comprised of about 70 manufacturing organizations under black ownership and leadership, and out of that experience I might say that I have found the same thing true of all other minority manufacturers I have met.

I submit, then, for your consideration, two recommendations which I am sure, if implemented, would undergird all efforts currently operating in a realistic and effective way, an undergirding which would certainly insure men the end of hopes and promises and give them a fulfillment of dreams.

The recommendations are:

1. Goals for procurement by the Government from minority businesses must be consistent with objectives. If "a piece of the action" is believed to provide the stated benefits to both the minority community and the whole Nation, then the "piece" necessary to achieve those benefits should be defined and should become the goal. The plans and efforts of those agencies which are crucial to making the intentions a reality must be aimed to goals which are consistent with the objectives.

Current goals are established in a vacuum and are keyed to levels which support "successful" annual reports. This kind of goal-setting allows an infinite amount of resources to be expended without ever achieving objectives. The result being an expensive, aimless program of "doing something" but producing in the end a pattern of frustration, disappointment, and worst of all the perpetuation of the current dilemma.

2. The profitmaking organization cannot be excluded from participating in minority business development for profit. The intimate relationship between an organization aiding a minority business and the minority businessman contains the opportunity for a transferral of the "entrepreneurial spirit" which is rightly not a part of the nonprofit organization makeup. Further remuneration based on objectives of business progress instead of "look-good" records would add subtle but effective impetus to results based on objectives. The multitude of difficulties encountered by minority firms in performing on Government contracts would be greatly diminished and controlled by the participation of profit-oriented organizations whose participation was purchased. This recommendation is made in an inclusive sense not instead of what is now being done.

In summary, I must say that current procurement policies and agencies have failed to capture the opportunity to achieve the intent of the charter of the Small Business Administration's minority business program or the Office of Minority Business Enterprise. I am convinced that without changes in policy such as I have suggested, we shall not achieve what is within our capability and our grasp. The massive and unprecedented action required to bring the minority community into the American economy will grow to impossible proportions unless men such as yourselves act now.

I am at your service to provide any additional supportive data you may require, and I stand available to participate in helping to develop detail methods of implementing some of my suggestions.

Senator MONTOLA. Thank you very much, Mr. Grayson, for a very fine statement, and I mean that sincerely. I know the frustrations about which you speak, because many of the business people in my State have come to me with similar problems, and I want to say, in all sincerity, that I do not think that this problem is engendered by any attitudes on the part of SBA but rather by some of the procurement agencies of the Government.

Now, for example, I think the Defense Department could do a better job in recognizing minority entrepreneurs, but they do not do it. They have greater requirements for goods and services in the Defense Department, and there are many communities here that could be reactivated and become economically viable if only the Defense Department would infuse these communities with a little economic plug. I think that is where the fault lies.

I think GSA has been doing a fair job in trying to recognize minority enterprises in this country. I want to say that they could do a better job than they are doing, but at least the GSA is trying. And the SBA is merely an instrumentality. They are the agents of the small entrepreneurs, and they are trying to do something. But I am not satisfied with the statistics, because in the Federal procurement pie small business has been going down percentagewise in the last 4 or 5 years, and we keep a study of this on a year-by-year

basis. We have been conducting hearings for the last 7 years on what small business derives from the Federal Government.

Now, you are a small enterprise, just starting, and you are entitled to some help. I did not hear you allude to any monetary requirements. Your allusions were strictly confined to your hope that the Federal Government, through its vast procurement empire, would recognize your enterprise. Now, you say that you have been certified by SBA to do this type of work is that correct?

Mr. GRAYSON. Yes, sir.

Senator MONTONA. How many employees do you have?

Mr. GRAYSON. Five, sir.

Senator MONTONA. And has SBA or any other agency surveyed your plant?

Mr. GRAYSON. Yes, sir. Sir, if I might: My reference to Univox is more as a demonstration, in the specific, of a condition that exists.

Senator MONTONA. Well, I understand that, and I have taken it in that light.

Mr. GRAYSON. What I hope to communicate to the committee is that there is a fundamental lack, in my judgment, of an implementing way, to make economic development and minority business development a reality in this country, and that is why I take the dangerous time away from my business today to be here, to address that issue.

I think that it is not something as vague as, when I go to the SBA, or another agency, or if I come to this subcommittee, it is another military procurement policy. I think it is a question of national urgency. If I read and believe half of all of the reports, if we are talking about the economic development of a people just as we talk about the economic development of Europe at the end of the Second World War, or the Far East at the end of the Second World War, we are talking about scoping a development and talking about making a commitment that has something to do with the end result; and I submit, sir, that that has never happened, either by the Congress or any other group who has said that they really want to make the minority community a part of the economic mainstream of America. And I am saying that it takes something, persons like yourself, to work on the national level of our country who can draft legislation to say, just like we developed Europe after the war, we need to look at the minority community in America, and we need to develop it, and nothing as small as the typical procurement policies of the Federal big agencies or the typical procurement policies of the private sector can stand in our way. It is the traditionalism that has created the problem that we are faced with today.

So, what I am hoping that the subcommittee would consider is posturing itself toward looking at: "How can we do this the way we have done everything else?" When we said we were going to the moon, for example—and I was privileged to work in the aerospace business for 18 years—we selected a goal there, and we made a commitment; we formed a Government agency, but we gave the private organizations the opportunity to make money, a profit, to get us to the moon. We have excluded private organizations for profit from participating in helping minority businesses. We have deliberately brought in only those organizations that do it on a voluntary or a non-profit-oriented basis, and I think that is fundamentally an error; and I think the



only people that can do it are people such as yourself. I think the whole process of SBA saying one year that we did \$30 million in the minority community and the next year saying that we did \$66 million and hope to do \$100 million in the minority community the following year does not relate to perhaps maybe the \$30 billion or \$40 billion that is necessary to make the minority community economically viable. Yet, those are the kinds of goals and those are the kinds of reports you will hear tomorrow.

They are not related to what we are trying to accomplish, and I am concerned that at the highest levels of our Government that that awareness which has been applied to every endeavor this country has ever cared about is not being applied to this whole process of minority business development, and it seems to me that what we find ourselves doing is denying that if we want to go to the moon we will go to the top of Mount Everest, because it is closer, and it does not matter whether it is closer on the top of Mount Everest or whether it is closer in Death Valley, it takes a rocket to get to the moon. And, so, we spend our time talking about better ways to climb a mountain because we are going to the moon, and we evaluate the SBA and we call them names and criticize them and make them better when they are a mountain-climbing operation and we need a rocket. That is what I would like the subcommittee to address itself to.

Senator MONTOLA. I agree with you wholeheartedly, Mr. Grayson; in what you have said. But it all spells the frustration of the past and the hopes of the future—that is what it spells. And we have been trying to work into a fiber that will bring this realization to bear.

Now, of course, in this committee, we are confining our jurisdiction to what we can do through Federal procurement to help small business enterprises and small business generally. Through other committees in the Congress, we are trying to do the very thing that you espoused, and it is a slow process, and I am very disappointed myself.

Mr. GRAYSON. Could, then, this committee have something to do with setting the goals instead of organizations themselves setting them?

Senator MONTOLA. Well, we are trying to. We will have hearings in Washington, and we will ask the Defense Department why they are not doing more. This is not a legislative committee, so we cannot recommend legislation out of this committee. This is merely a committee to hear the problems of small business, and we certify the results of the hearings to the Congress in a report, and then we depend on the other legislative committees to formulate the legislation.

Mr. GRAYSON. Could this committee recommend, for instance, that the goals for procurement by all of the Government agencies through the 8(a) program be a specific percentage of the procurement?

Senator MONTOLA. Yes, yes; we could do that.

Mr. GRAYSON. Well, that is the kind of thing I mean, so that when they set their goals, if there is no legislation, at least the goals they set can be compared against the recommendations of a committee such as this.

Senator MONTOLA. Well, we have been trying to do this for years, and we have called in the Defense Department. You do not realize how hard we have tried. If you would just read the hearings, we have been very vocal about our insistence that they do more for the small business community; and I say this from knowledge and I say this

most sincerely—the Defense Department could do more and could contribute substantially to the rehabilitation of many communities in this country if they would just spread the procurement pie a little more equitably and with a better economic direction.

So, anyway, thank you, Mr. Grayson, for your observations. We appreciate them.

Mr. JONES. Mr. Chairman, in this connection, I would like to ask Mr. Grayson some questions.

Senator MONTANA. Yes.

Mr. JONES. First of all, Mr. Grayson, I am glad you made your comments. I think they are very important, and they were eloquently made.

It is helpful to have these suggestions about the types of goals we might wish to set. One of the problems in setting goals is that all great programs are finally reduced to a question of administration.

Goals are fine, but unless they are pursued earnestly at all levels within the Government, they merely remain goals.

For that reason, I would like to pursue you with some of your own experience with your business, because it may shed some light on the administrative effectiveness of the program we now have. In this connection, when did you first go to the SBA for certification under the 8(a) program?

Mr. GRAYSON. I was certified in November of last year.

Mr. JONES. So that, in fact, was just about the time you organized the business?

Mr. GRAYSON. That is right; at the same time.

Mr. JONES. And did you have any difficulty with the certification process?

Was that a fairly rapid and prompt process?

Mr. GRAYSON. I had some difficulty, but it was overcome in a short period of time. I might add that I have an opinion regarding that process. I was certified within about 2 months total from the time I first applied, and it took a number of things—perseverance, and whatnot. But I am personally convinced that the certification was held up the short time it was and was made because my volume goal was reduced by a factor of 10. And in direct language, I am convinced that was so that the SBA would have a good-looking record at the end of the year. And, here, again, it is because the program of goal setting and evaluation of those persons who are supposed to be supporting me are motivated by and reporting to a system that makes them do the opposite.

Mr. JONES. What was your originally stated goal and what was the goal as finally established?

Mr. GRAYSON. My originally stated goal was to develop the business volume to a rate of \$80,000 per month by the 12th month of the operation, which would have been a rate of \$1 million a year. My present facility has the capability to do at least twice that.

The business plan was not going to be approved unless that total amount was changed to \$70,000 for the total year. And I might add that I have done that without one 8(a) set-aside contract. That kind of work comes in on the telephone.

Mr. JONES. But at the time of the certification it was essentially a requirement of certification that you reduce the goal to that?

Mr. GRAYSON. I cannot say it was an essential requirement. In the discussion of what would have to be done to my business plan before it would be approved, that became very clear to me, and I was also told if anything in excess of that came, it would not be effected by the business plan.

Mr. JONES. Since then, you have done approximately \$72,000 worth of business. How much of this is with the Government?

Is that all with the Government?

Mr. GRAYSON. I would say that 50 percent of it is probably with the Government, directly, and maybe 25 percent indirectly through major contractors.

Mr. JONES. And on these Government contracts, did you obtain them through formal bidding procedures?

Mr. GRAYSON. Yes.

Mr. JONES. So, you located—

Mr. GRAYSON. Our business is the "phone," because our business from various procurement agencies was where larger outfits would not bid on them, because it is low quantity.

Mr. JONES. And you have informed the SBA of all of these contracts and your capability for similar such contracts in the future?

Mr. GRAYSON. Yes, I have.

Mr. JONES. To what do you ascribe their failure to locate these contracts or similar such contracts for you?

Mr. GRAYSON. I think it is a combination of a number of factors. One of them is their preoccupation of what their objectives are and what is going to be among them more successful and what resources they have to apply to any kind of situation. For instance, they are fearful of an operation, and I heard in the previous testimony of Mr. Angello from the Bank of America what he was suggesting was something that I disagreed with, that they be more careful before they give a contract to a minority firm. There is a tremendous amount of carefulness, if anything, and is supported by the self-fulfilling prophecy idea. That is one part of it—they are afraid of an ambitious program, and they do not have to move into ambitious programs, because their goals are the ones they have set.

Mr. JONES. Have you spoken to other firms which have been certified for the 8(a) program?

Mr. GRAYSON. Yes.

Mr. JONES. Are their experiences similar to yours?

Mr. GRAYSON. Similar and worse. I might add also—

Mr. JONES. I do not see how they could be much worse.

Mr. GRAYSON. I located a contract, the only 8(a) contract that I am now working on, and I have invested a considerable amount of money in the pursuit of it. I located the procurement source, convinced the procuring agency, the Marine Corps in this case, that Univox should be considered on it, and I expedited their proposal, had a copy of it prepared, worked on the proposal for over 2 weeks before it got to the SBA office and submitted that proposal. And the size of that contract was \$866,000. My business proposal was being reviewed by the SBA while the technical proposal was being reviewed by the Marine Corps. When the Marine Corps called the SBA, the SBA was not going to negotiate a contract until we got an answer from the Marine Corps on the technical portion. The Marine Corps called the SBA and

told them that they were dissatisfied with my technical proposal. In that phone conversation, the SBA told the Marine Corps: "Then, cancel the procurement." They did not contact me; they did not let me participate in a conference or a discussion as to what the differences were or as to why they were dissatisfied. There was not supportive or prenegotiation discussions or any kind of thing which, in my business, in previous experience in the aerospace business, was the normal next step, and I had to personally fly to Washington, D.C., to pursue a conference where I could determine the specifics as to why my technical proposal was not satisfactory.

As a sidelight, as a result of that, the whole thing was opened up again, and I am given another opportunity to make another presentation to the Marine Corps.

But I raise the example to show that the supportive commitment aspect is not there, not because there is someone in the SBA who does not like me or does not want the program to work, it is because the success is not based on him doing the most ambitious, or being the most supportive, or causing the thing to really happen; it is based on the most conservative point of view that possibly can be taken, and it is based on the guaranteed success—but that is what we are up against to begin with.

Mr. JONES. In connection with your second recommendation, Mr. Grayson, I wonder if you could be more specific in exactly what you mean by involvement in profitmaking organizations?

Mr. GRAYSON. Yes. I understand that if an organization wanted to propose, for instance, to the SBA or any Government agency with the responsibility for minority business development, and would want to propose that, they would take either a new or existing minority business in some particular condition and propose a plan of development for a company and provide the expertise and support and training, or whatever it took, the assistance in negotiating the best contract as well as financing and would write out a program, just like any other kind of program.

Then, they would have that program priced and funded, and then be paid against those costs. And some of the profit, based on their performance or development of that minority business, such a relationship, is not allowed in minority business development; the only kind of organization that can get funded by the Government to assist the minority business is a nonprofit organization, and I am suggesting that we have never done anything in our country of any significance, anywhere near the magnitude of what we are addressing ourselves to here today in that manner.

When we wanted to go to the moon, we formed NASA, and NASA immediately hired people who, for profit, put us on the moon. When we have tried to do anything of that nature, that is exactly what we have done, and I am saying: When you take on a massive task of developing, economically developing, in the minority community and you exclude this profit-oriented person, you have taken, it seems to me, the germ of the magic combination we have used in this country of the Government and private sector together solving problems, and I am suggesting that at a fraction of the millions of dollars we have spent now—and I am not even saying "Do not do it, do not do the other," but I am saying that if we just, in addition to that, allow

this to happen, then we would see a tremendous difference in the effectiveness of all of these programs, just where they stand.

Mr. JONES. Thank you, Mr. Grayson, Mr. Chairman.

Senator MONTOYA. Thank you, sir.

Next will be Mr. Nash.

**STATEMENT OF THOMAS NASH, PRIDE UNLIMITED, INC.,  
SAN JOSE, CALIF.**

Mr. NASH. Senator, I am Tom Nash, as I said before, and I am representing Mr. Thomas of Pride Unlimited.

Senator MONTOYA. Would you state who you represent?

Mr. NASH. Pride Unlimited, Inc.

Senator MONTOYA. And what is that?

Mr. NASH. Pride Unlimited is a group of businesses whose primary source of income comes from the building maintenance business, and we are involved in the 8(a) program; and we feel grateful to SBA and your committee for permitting us to speak. I would like so much to go to the defense of some of what I have heard with reference to the Small Business Administration, for prior to our becoming involved with SBA we were struggling, barely able to keep our heads above water because of the closed doors for minority enterprises regardless of what venture they were going into.

Senator MONTOYA. How many individuals work in your corporation?

Mr. NASH. At the present time?

Senator MONTOYA. Yes.

Mr. NASH. At the present time, we have 73.

Senator MONTOYA. Seventy-three?

Mr. NASH. Employees.

Senator MONTOYA. And where do they work? What kind of contracts do you service?

Mr. NASH. We are servicing right now the Hamilton Air Force Base, the Federal Aviation Administration contracts. The two contracts that we have under the 8(a) program are those, but as the direct result of having acquired these two we have been able to get others, not under the 8(a) program but other businesses. And as a direct result of that, of acquiring this business, these contracts with SBA being with a prime contractor, we have been able to siphon off from some of our other jobs key people, and then go into the welfare and get people from the welfare program and people who are on work furlough and parolees and people who are trying to get started again in life, and we have been able to pull those into a training program, working through the department of employment, and we have been able to institute a training program wherein we have been able to fill those vacancies with these people who are working in nonsensitive areas. However, the thing that I am so proud of is the fact that we met a very outstanding member of the SBA here who made available to us not only his expertise in this field as far as administrative functions of it, the administration of our business, was concerned but who also gave to us the right to contact him on a 24-hour basis on any problems that might arise.

Now, in my opinion, that, to me, was over and above what was naturally expected of him as an administrator of the business, in order to help us. This would show that he had a real interest.

And this man was Mr. MacPherson, who is available to us on a 24-hour basis on any problem that might arise.

As the result of that, we have been able, from the 8(a) program, to bill out a sum total of \$17,640 per month, running to \$11,680 a year profit, which caused us then to be able to expand Pride Unlimited, and now we are involved in the second phase of our program which, to us, is the most important, because we feel the most important thing now for minorities is to get involved in the economic mainstreams of the country, and to do so we must have education.

So, Pride Unlimited has now become the principal investor in the American Business College which is located at 330 South Second Street, where we are still instituting training.

Senator MONTROYA. Do you receive a grant from the Federal Government for training?

Mr. NASH. Negative. We are using an assistance program wherein we are reimbursed a portion of the amount that is being utilized for training purposes from the State.

Senator MONTROYA. Are you talking about the on-the-job training?

Mr. NASH. Right; on the job.

Senator MONTROYA. Well, you receive some compensation then?

Mr. NASH. We are receiving some compensation along those lines.

Senator MONTROYA. You have a total—

Mr. NASH. Seventy-three employees in the janitorial field, in janitorial services.

Senator MONTROYA. Up to date, you have been the recipient of \$381,533 in 8(a) contracts?

Mr. NASH. Negative. I think it is around—

Senator MONTROYA. Well, you have the contract with the Air Force, do you not, in the amount of \$101,000?

Mr. NASH. Right, and we have a contract with the Federal Aviation Administration in the amount of \$110,000.

Senator MONTROYA. \$110,000 from the Department of Transportation?

Mr. NASH. Right.

Senator MONTROYA. And \$64,292 which you had in 1970?

Mr. NASH. Oh, that includes 1970?

Senator MONTROYA. I am talking about the 2 years.

Mr. NASH. I see. Yes; yes.

Senator MONTROYA. Do you have any other contracts?

Mr. NASH. Yes; we have.

Senator MONTROYA. In the private sector?

Mr. NASH. Right; we do have. For example, we have the International Business Machines as one of our contracts in the janitorial field. We have a number of other smaller contracts.

Senator MONTROYA. Have you experienced a profit since you have been in operation?

Mr. NASH. We have. The profit, of course, has been small, because of the fact that we have been in the process of expanding and training of additional personnel which means that we have to overload our staff in order to have a continuing training program. But, there again, the open doors that we have been trying to get open for many years were opened to us. We have submitted proposals of all kinds to try and procure contracts. In fact, to tell you the truth, we did not even know

that bids had been let for our Government contracts; these doors were closed to us. But through the SBA, with the SBA being in front of us, we were able then to deal directly through the SBA, and we have been able to survive and be successful. I think that, as I said before, I am very proud of. I am very proud of our association with Mr. MacPherson out of the SBA office here.

Senator MONTROYA. Well, as far as your organization is concerned, 8(a) has worked for you?

Mr. NASH. It really has.

Senator MONTROYA. Well, that is the first instance I have seen where it is has worked successfully with an organization.

Mr. NASH. Well, we have had a successful operation, and we are looking forward to even greater successes. At the present time, of course, we need more jobs because we have applicants that are stacked up very high.

Senator MONTROYA. Well, would you say that because 8(a) made possible the seeds for the existence of your business that you have been able to branch out into the private sector?

Mr. NASH. This is exactly what I have stated from the very beginning. This is why we are very proud of it.

Senator MONTROYA. Thank you, sir.

Now, Mr. Milsap, what do you have to say, sir?

Mr. MILSAP. I did not know that I was supposed to bring a prepared statement.

Senator MONTROYA. Well, you do not have to. You can just give us what you want to give us out of your own mind.

Mr. MILSAP. I would like to say something along the line here that this gentleman here said; 8(a) did work for us.

Senator MONTROYA. What is Quantum Associates?

Mr. MILSAP. We specialize in electronic assembly. We do subassembly work. We are a job shop for a large electronic company. Now, 8(a) did not put us in business at all. Another company put us into business.

Senator MONTROYA. What was the gross of your company during the course of the last year?

Mr. MILSAP. Last year, about \$130,000.

Senator MONTROYA. How many employees do you have?

Mr. MILSAP. We have 17.

Senator MONTROYA. And are you doing 8(a) work?

Mr. MILSAP. Presently, yes. We have completed—

Senator MONTROYA. Is that the bulk of your work?

Mr. MILSAP. How is that?

Senator MONTROYA. Is that a substantial part of your work, 8(a) work?

Mr. MILSAP. No; it is not. It was at one time, and that is the thing I wanted to say. We probably would have been out of business if we had not gotten the first contract. We probably would have been out of business because the economy dropped and the private industry was way down in part of our business, and, then, along came 8(a).

So, we have managed to survive for that 6-month period, I think until the economy picked up again.

Senator MONTROYA. Is your business doing all right now?

Mr. MILSAP. Yes, fine.

Senator MONTÓYA. But you are interested in more 8(a) work?

Mr. MILSAP. Oh, yes, we are; definitely.

Senator MONTÓYA. Is there any question that comes up as to your capability to do the work?

Mr. MILSAP. You mean for SBA?

Senator MONTÓYA. Under 8(a) contracts.

Mr. MILSAP. No, not yet.

We went through all of the preliminaries, like they sent somebody out to inspect the shop and somebody came there to work, and somebody else came and inspected the shop, and, aside from the amount of paperwork, everything went OK in the amount of time that it took to get everything going.

Senator MONTÓYA. What do you suggest for improvements in the 8(a) program?

Mr. MILSAP. First of all, I suggest that SBA have more muscles than they have. I do not think they have enough to work with, and I can understand people looking for successes when they start the first time—

Senator MONTÓYA. What do you mean by “muscles?”

Mr. MILSAP. Have a little more authority to say where work will go. You see, if McClellan does not say that we have a job that we are willing to let out on an 8(a) contract, then they cannot do anything about it.

So, what are they doing up there? They are up there twiddling their thumbs and listening to us when we come here, and yet they cannot get on them, you see, for not doing anything. Well, there are probably a few villains, but I do not think SBA is a villain within itself.

So, what I think is that they should have more authority to say where the work is going. They should know about it when it comes up, and I am pretty sure they do know about it but they do not have anything to say about it.

Senator MONTÓYA. Well, let me say this, let me say this in all frankness. I want to be fair. We are always getting SBA into these hearings and asking them to do a little more in a procurement system, but when we evaluate the evidence, SBA is not in a position to find out about all of the procurement that goes on in Government; they do not have that kind of manpower. And the Defense Department has a way of hiding some of these procurement opportunities.

Mr. MILSAP. OK, why do they hide them?

Senator MONTÓYA. What is that?

Mr. MILSAP. Why do they hide these opportunities?

Senator MONTÓYA. That is what we are trying to find out.

Mr. MILSAP. Well, then, I do not know. All I say is that you are a Senator, and—

Senator MONTÓYA. Trying to find out what goes on in the Defense Department is just as hard as trying to find your way to the moon.

Mr. MILSAP. OK, I can understand that. But my only point is this, that you are a Senator and it takes you and your colleagues to regulate DOD.

Senator MONTÓYA. Well, we are doing it; I think we are starting to do a good job in the Congress on that.

Mr. MILSAP. OK, let me make another suggestion. In NASA we cut down on the amount of paperwork. It has been said by many,



many people that you are not finished until the weight of the paperwork equals the weight of the products, and I can realize there are things that have to be documented, but I think that is a little ridiculous.

Senator MONTROYA. Well, we are on the same course.

Mr. MILSAP. I really do, and I am sure that Carl Warren will agree with me, because he has to do as much as I do.

Mr. JONES. Mr. Milsap, how long after your company was certified did you receive your first 8(a) contract?

Mr. MILSAP. Pardon me?

Mr. JONES. How long after your certification was it before you got your first 8(a) contract?

Mr. MILSAP. Oh, I would say about 3 months. I do not really know. I do not know if that is true or not, but I would say maybe 3 months. I do not know.

Mr. JONES. Approximately 3 months, at any rate.

In your conversations with other minority contractors who have applied for 8(a) subcontracts, do you feel that Mr. Grayson's experience or your company's experience is more typical?

Mr. MILSAP. Do I feel—What?

Mr. JONES. Well, Mr. Grayson testified that his company, after 9 months, had received no 8(a) contract and that that was the experience which other applicants for 8(a) contracts had had, and I wondered, in talking with applicants for 8(a) contracts, if you formed the same general impression?

Mr. MILSAP. I do not know really of any who have had any. I do not know any personally.

Mr. JONES. I see.

Mr. MILSAP. Most of the people I talked to have complaints. They cannot get certified. Something goes wrong some place, they cannot get money. That is another problem; you cannot get money. As far as I know, and if I am wrong I want somebody to correct me, we have not been able to qualify for an SBA guarantee, but Wells Fargo loaned us some money. So, you see, I do not know where the hang-up is there. I really do not.

Mr. JONES. As a legal requirement, the SBA cannot extend a guarantee unless the bank has shown that it is unwilling to make a loan, so if Wells Fargo would make a loan to you, you see, then under the law the SBA could not make the guarantee.

Mr. MILSAP. I have to admit one thing: We did not feel we should have to go through all of the red tape of 6 months of paperwork and then be turned down when we could go to Wells Fargo with a 3 percent higher interest, 3 percent higher interest rate, and take 2 weeks to get what has amounted to a total of \$145,000.

Senator MONTROYA. Well, you did not complete your application with SBA?

Mr. MILSAP. No, we did not. We sent them a financial statement, and it did not look good enough for them.

Senator MONTROYA. Thank you, gentlemen. We will stand in recess until 2 o'clock this afternoon.

(Whereupon, at 12:20 p.m., a recess was taken until 2 p.m. this same day.)

## AFTERNOON SESSION

Senator MONTOYA. The committee will come to order.

This afternoon we are going to listen to some witnesses from the business sector.

We have, as our witnesses here, Mr. Kenneth B. Gay, staff vice president, material, of North American Rockwell Corp., El Segundo, Calif.; Mr. John P. Rogan, vice president, administration, McDonnell Douglas Astronautics Co., Huntington Beach, Calif., and Mr. Fore.

Who are you with Mr. Fore?

Mr. FORE. Wallace Fore, vice president of operations, North American Rockwell Aerospace Group.

**STATEMENT OF KENNETH B. GAY, VICE PRESIDENT, MATERIAL,  
NORTH AMERICAN ROCKWELL CORP., EL SEGUNDO, CALIF.; AC-  
COMPANIED BY WALLACE FORE, VICE PRESIDENT, OPERATIONS,  
NORTH AMERICAN ROCKWELL AEROSPACE GROUP**

Senator MONTOYA. Do you want to proceed?

Do you have a written statement, sir?

Mr. GAY. Yes; we have submitted a written statement, and, with your permission, I will not go through it; but I would like to make a few comments. I would like to enter it into the record, if I may.

Senator MONTOYA. Yes; you may proceed to summarize it, and the written statement will be made a part of the record at this time.

(The prepared statement submitted by Mr. Gay reads in full as follows:)

STATEMENT OF KENNETH B. GAY, STAFF VICE PRESIDENT - MATERIAL  
NORTH AMERICAN ROCKWELL CORPORATION, BEFORE THE SUBCOMMITTEE ON GOVERNMENT PROCUREMENT,  
SENATOR JOSEPH M. MONTOYA, CHAIRMAN, SAN FRANCISCO, CALIFORNIA SEPTEMBER 29, 1971

Gentlemen, my name is Kenneth B. Gay, I am the Staff Vice President, Material, for North American Rockwell Corporation's Aerospace and Electronics Groups. I am the designated Small Business Liaison Officer for the corporation.

We appreciate the opportunity to give you this presentation about our experiences in the 8(a) subcontracting program.

To give you a little of the background leading up to our 8(a) activities, let me explain that we have a subsidiary called NARTRANS CORPORATION located in East Los Angeles. NARTRANS stands for North American Rockwell Training and Services. Originally, we opened NARTRANS to have it serve as a training center for the "hard-core" unemployed. That story is part of the development leading up to our current 8(a) work.

In December 1967 North American Rockwell began to investigate the feasibility of developing an on-the-job training plan to train disadvantaged persons for positions in industry. In May 1968 the company's Board of Directors authorized the formation of NARTRANS in which it invested approximately \$1 million. At about the same time the company negotiated a contract with the Department of Labor under which it was to be paid approximately \$475,000 over a 15-month period to help defray the high cost of training which was necessarily involved in this kind of a project.

The objective of the subsidiary was to provide through continuous and productive work programs an opportunity for so-called "hard-core unemployed" persons to develop vocational skills and work attitudes which would enable them to obtain and keep jobs in the mainstream of American industry. It was originally contemplated that employees who successfully passed through the training program would be transferred to other North American Rockwell divisions in Southern California and other "hard-core" unemployed persons hired to replace them. In addition to training in productive work programs, remedial courses in English and arithmetic were provided in a classroom atmosphere.

Starting from the 75 "hard-core unemployed" persons employed in June 1968, employment rose in November 1968 to a peak of 205 "hard-core unemployed" personnel and a staff of 80. Employment has gradually declined since July 1969 to the present level of 70 direct workers and a staff of 38. Of these 108 employees, 24 are caucasian and the remainder minority.

Unfortunately the inception of this program coincided with the beginning of the steep decline in employment in the

aerospace industry. Employment in North American Rockwell's aerospace and electronics divisions was at approximately 93,000 in mid-1968. Since that time, employment in these divisions has declined to 37,500. In this climate the original plan to transfer persons successfully completing the training course was not practicable. Of the 86 persons who completed the NARTRANS course and found employment with other companies, only a few were actually transferred to North American Rockwell aerospace and electronics divisions.

As originally conceived, NARTRANS was to provide goods and services to the Los Angeles area divisions of the corporation in such fields as drafting, reproduction, typing, key punching, plastics, woodworking, simple machine shop work and tool grinding. Again, the steep decline in North American Rockwell's aerospace business reduced the requirements for NARTRANS products and it became necessary, in order to keep the operation alive, to find work from other sources.

Small contracts were obtained from various companies for such work as the manufacture of computer racks, electrical motor repairs, wood products and refurbishment of office furniture. In addition, NARTRANS developed and is now successfully marketing a line of cassette albums. The prices for this item are competitive, the quality good and production is approaching 1300 units per day. However, one successful product line plus miscellaneous small contracts does not provide sufficient volume to maintain NARTRANS as a viable commercial entity.

As a result, the company began to explore the possibility of qualifying NARTRANS for Government contract awards under the provisions of Section 8(a) of the Small Business Act. To be eligible for an 8(a) subcontract, a concern must be owned by socially or economically disadvantaged persons or plans must be made for the sale of control of the firm to such persons within a reasonable period of time. In December 1969 planning for the divestiture of NARTRANS by North American Rockwell was initiated and in May 1970 a divestiture plan was submitted to the Small Business Administration. The Small Business Administration acted promptly and approval of a plan was obtained on June 2 of that year.

On January 19, 1971 NARTRANS received its first contract award under 8(a) from GSA, in the amount of \$66,294 for plastic goods. During the following seven months NARTRANS has received \$922,132 of 8(a) contracts. These contracts were for additional plastic goods and for electronic kits for the Air Force F-100 and T-33 aircraft. Deliveries on these contracts have started and NARTRANS' plans are based on using these contracts in addition

to approximately one million in additional awards to provide the basis for making NARTRANS viable. In conjunction with this, the plan includes further expansion of our successful plastic products for the commercial market and entry into the commercial market for electrical assemblies. Commercial sales for cassette albums, numerous other plastic products, and electrical assemblies are projected at \$436,088 for FY-1972.

Although the approved plan schedules the divestiture for June 1973 or earlier, our present planning indicates that divestiture may be possible as early as April 1, 1972. We are anxious to accelerate the divestiture providing we can be confident that the operation is on a sound basis with ample backlog to provide support until commercial products and competitive government contracts will provide the necessary cash flow.

In summary, it must be noted that we are disappointed that the earlier training objectives were not fulfilled to the degree we had hoped. The number of employees prepared for work elsewhere during 1969 and 1970 was short of our goal because we did not anticipate the sharp decline in the aerospace industry which reduced our work inputs to NARTRANS and dried up the requirement for its graduates.

It has been fortunate, however, that the SBA program for seeding minority business through Section 8(a) of the Small Business Act has permitted us to change the objectives of the enterprise. Most important, we can now see that the goal of developing NARTRANS into a viable operation ready for divestiture, may be attained as much as a year earlier than planned.

In conclusion, gentlemen, our experience with the 8(a) program has been positive. We have no suggestions for improvements in either the basic program or its administration. If anyone has any questions I will be happy to answer them.

Mr. GAY. Well, this morning, you indicated that you had heard of only one successful 8(a) program, and I would like to say that we feel that we have had a very successful 8(a) program, and I would like to tell you a bit about it.

When we started out NARTRANS organization we started it for the purpose of training the so-called hard core unemployed to the point where they would be able to move into the various divisions of North American Rockwell.

Unfortunately, at the time we started the organization, the aerospace industry in general fell into hard times. Our employment fell from some 100,000 to approximately 30,000 to 40,000 during this period of time. We had to change our plans, and we eliminated, if you please, the training program and tried to come up with an organization that would have a product that the company could sell and that could help in making for a viable organization.

We started it off with many kinds of skills. We ended up with basically two types of skills. I have given to Mr. Ward some products that we produced at NARTRANS, the plastic products, the notebooks, and this has been a very successful program. I have some pictures here that I would like to show you. Here are some different kinds of products, plastic products that our organization makes: cassette holders, tapes, and I have here a picture of our facilities. This represents plastic envelope machines which are being utilized by people within our organization. Here is a rotary press that is used for notebooks and cassettes where the operators are put into various stations and the press rotates around to complete the various operations.

Here is a picture of the operator putting the product into the press as it goes around, and the product comes out. And here is a picture of one of the finished products, one of the tape-cassette type machines, and I might say that these are being sold throughout the country, through Sears Roebuck, Montgomery Ward, and that kind of distribution.

Senator MONTGOMERY. I might say that the Library of Congress is using these cases now in sending cassettes to the blind.

Mr. GAY. Good.

Here is a typical silk screen operation where one of those briefcases such as you have up there can be individualized for individual customers.

Then, here is another big program that represents one basic product line. This has been sponsored and headed by the 8(a) program that I will talk about in a minute, but this is the central unit for the F-100, AIMS program. This is the airborne integrated marker system. As you can see, there is a substantial amount of sheet metal type work and electronics work involved.

Here is a cable harness assembly or harness board that you can see going through and out as a finished product.

And here we have a picture of the electrical assembly area with four of these F-100-D central units in the foreground. You probably cannot see from here, but we have two people here that are, by any definition, the worst disadvantaged that you can have. They are black; they are female; and they are deaf and dumb. They have done an extremely good job under all of these kinds of hardships.

Here is a picture of the sheet metal area in our operation and a closer detail of the sheet metal work on the AIMS program.

When we decided that we would have to go out of the training business and try to get into a viable product sales organization, we got into these two basic product lines.

Back in May of 1970, we were able to work out an arrangement with the SBA whereby we established a divestiture plan to divest ourselves of this organization and turn it over to minority ownership ultimately. The ultimate goal that we had set was 3 years, the middle of 1973.

Our plan was approved, and we were able to get our first SBA contract, first 8(a) contract, for GSA work in January of 1971. That work was for notebook binders, half inch, 1 inch, and so on, the kind of binders similar to the ones that you have up there.

Along this period of time, we were competitively bidding for Government work and commercial work. We started off in 1969 with about \$4,000 worth of commercial work that we were able to obtain competitively. Up to this point in time, North American Rockwell divisions were supporting our NARTRANS operation exclusively.

In 1970, we had extended our commercial work to some \$56,000 and built this up through 1971. During 1971, we have gotten several 8(a) contracts that have provided the seed program, if you please, to make this organization a viable organization.

We have gotten some F-100 AIMS programs and some T-33 AIMS programs.

As the result of the 8(a) assistance to this organization, where we had planned to divest ourselves of NARTRANS in the middle of 1973, it appears to us that it will be a viable organization almost a year earlier than we hoped and that during 1972 we will be able to accomplish our divestiture.

We think that without the 8(a) program that we would not have been able to accomplish this, and it is possible that this organization would have had to have been closed up.

So, we are rather enthusiastic supporters of the 8(a) program.

Senator MONTROYA. I believe you indicated in your statement that you have 108 employees?

Mr. GAY. Yes, sir; 40 percent of our employees at the present time are Mexican Americans, 40 percent are black, and we have three orientals, one American Indian, and the balance are Caucasian.

Senator MONTROYA. Are you not discriminating against the Caucasians?

Mr. GAY. That is possible. Where we are located is in the east-central part of Los Angeles, and just because of the nature of where we are oriented, we feel we have gotten this kind of a mixture of employees.

Senator MONTROYA. Off the record.

(Discussion was had outside the record.)

Mr. GAY. I might say that our management structure at NARTRANS also follows this ratio. We think that we have a very strong management, as a matter of fact.

Senator MONTROYA. I think it is wonderful that your company has oriented one facet of its operation toward helping minorities. That is very commendable. I believe you are the only company to have done this, to my knowledge. I want to hear from McDonnell.

Now, you say that you are divesting yourself of this operation, and through an arrangement approved by SBA you are transferring it to someone else. Now, what is the transition?

Mr. GAY. No, sir; I did not mean to say that. I said that in 1970 we entered into a divestiture agreement with SBA which said that if we could have a viable organization on or before the middle of 1973 that, at that point in time or at some time prior to 1973, we would divest ourselves of the company. What I did say was that with the help of the 8(a) program it appears to us that this will be a viable organization probably sometime next year.

Senator MONTOYA. Well, how will you divest yourself?

I understand "divestiture" to mean that you will rid yourself of the operation.

Mr. GAY. Of ownership.

Senator MONTOYA. Yes. How will you transfer it? And who will you transfer it to?

Mr. GAY. We have not gone into the details of that. We are working with the president of the organization. There appears to be plenty of minority money available to take over. It is just a question that we do not want to let that go until we are certain, in our minds, it will be a lasting organization and that the day after we turn it loose it will not fall apart.

Senator MONTOYA. That is the way it should be.

Now, do you have enough business for this operation now?

Mr. GAY. No, sir. That is why the 8(a) program has been very helpful. We have run, in terms of business--North American Rockwell opened the organization the first year, which was almost a half year, with about, roughly, a half million dollars worth of work out of the North American Rockwell divisions. The next year, we contributed in the neighborhood of a million and three-quarters, and about a quarter of a million we were able to get, as I say, elsewhere, partly from the Department of Labor, contracts for training purposes, and partly for commercial work. This year, we anticipate our commercial work will be in the neighborhood of a quarter of a million dollars. We have Government contracts, and part of those were competitively bid. One contract is for Navy work, in the neighborhood of a quarter of a million--closer to a half million, really; but next year we are anticipating sales of about a half a million commercial and almost a million and a half Government.

Senator MONTOYA. Well, this plastic cassette holder is coming into its own. Were you the pioneers?

Mr. GAY. Our NARTRANS people, themselves, were the ones who developed this, introduced it, made the sales and have made a dramatic inroad in terms of business there.

Mr. FORE. May I add, I think this is a good example of the benefits of the 8(a) program. The plastic notebooks were a product line that the management of the organization decided they should promote. They did get, initially, an SBA non-8(a) award, and, subsequently an 8(a) award. At the same time this was going on they were developing this new product line, and in the year since they first conceived of the cassette holders, they have built that line of business up to a point where it will be approximately a quarter of a million dollars worth of commercial sales.

That is the true benefit of the 8(a) seed contract concept.

It is probably going to be a fair amount of time before they will be able to completely do without this support that they are getting



from the 8(a), but it seems that this is an excellent example of what can be done.

Senator MONTONA. Now, what kind of business management do you have in this special operation for minorities?

Mr. GAY. Go ahead.

Mr. FORE. When we first instituted the NARTRANS program we staffed it almost entirely with North American Rockwell employees of demonstrated ability, both minority and Caucasian.

In the 3 years that the organization has been in existence, there has been a gradual phasing out of the North American Rockwell employees, as we brought onboard either from lower levels of the North American Rockwell organization or from outside sources qualified people to move into the management slots. I would say, from a professional view, that the majority of the people tend to come from the engineering ranks, whether it be minority or Caucasian. The strengths tend to be technological strengths rather than business strengths. Our most recent addition to the organization is a man by the name of Ben Gonzales who has all the desirable traits of a hardheaded controller; this has been one element that has been missing in our organization in preparation for this divestiture. It is his presence that leads me to believe that by mid-1972 we will have completed the divestiture and it will be completely minority manned and operated.

Senator MONTONA. Do you feel that Government is doing enough to promote the partnership arrangement with industry to bring about this kind of minority ownership?

Mr. GAY. Well, in our case, we think it has been very successful.

Senator MONTONA. Have you had adequate cooperation from the Government agencies?

Mr. GAY. Yes, sir.

Senator MONTONA. In view of your experience, what do you think that Government should do and what responsibilities should industry assume to try to extend this example across the broad spectrum of business activity in this country?

Mr. GAY. Well, I do not know that I can add anything.

As far as other organizations are concerned, if they received the same kind of treatment and the same kind of help that we did. I think that is sufficient.

Senator MONTONA. How did you happen to embark upon this, and what kind of help did you furnish by way of seed money and seed talent to get this thing started?

Mr. GAY. As I say, in 1968, we started off with, roughly a half million dollars. In 1969, about a million and a half dollars. In 1970, our contribution was about a million seven hundred thousand, and it will be in that rough range this year.

Senator MONTONA. How much have you recovered of this investment?

Mr. GAY. Well, not recovered. This is an expenditure that we have put out.

Senator MONTONA. But you have had some sales.

Mr. GAY. No, sir; I am speaking only of the North American Rockwell expenditures within NARTRANS and not the commercial sales that we have been able to make to other organizations.

Senator MONTROYA. I am trying to ascertain how much of a return you got back on your investment.

Mr. GAY. None.

Senator MONTROYA. None?

Mr. GAY. None.

Senator MONTROYA. Do I understand you to say that NARTRANS still retains its profit? Or were there any profits?

Mr. GAY. There have not been any profits. That is what my point is. We anticipate that it will become a profitable organization sometime this coming year, probably the middle of 1972. Our initial plan was that it probably would not become a profitable organization until 1973. With the 8(a) business which we had not contemplated and which we have gotten in the past year, well, I should say in the past 7, 8 or 9 months, we feel that it will turn the corner and become a profitable organization sometime next year.

Senator MONTROYA. Well, in view of your experience, do I understand you to say that it is almost impossible to realize a profit before a 3-year experience?

Mr. GAY. I would say "Yes." I think we have done a remarkable job. I am prejudiced, of course.

Senator MONTROYA. Well, then, how can we induce Government to start a business that will take 3 years to make a profit?

Mr. GAY. I think you have to look at it as that is what it does take. Anybody who thinks that it will take a lesser period of time than that, I believe is not being realistic. Now, there may be exceptions and there may be specific instances. I know of very few. I can think of only one, as a matter of fact, that I have known that has started up and has made a profit within a year. A new organization can be profitable in not much less than 3 years, and it is unrealistic to think that it can.

Senator MONTROYA. Well, we are not going to encounter many North-American-Rockwells that will put \$3 million into this type of operation before the operation realizes a profit. That is the point I am trying to make and the alternative that we have is through Government incentives or contract bonuses or more intensive 8(a) activity.

Mr. GAY. Yes.

Senator MONTROYA. But I doubt very seriously whether you can improve upon this timetable even with more 8(a) subcontracting.

Mr. GAY. I beg your pardon?

Senator MONTROYA. I doubt very seriously whether you can improve upon the results that you have realized by more 8(a) contracting activity.

Mr. GAY. If we had had—let me put it this way: It is to be expected and it was natural, that our 8(a) contracts, as with any other type of contract, started off rather small and were rather slow in developing. It has only been within like the last few months that we have gotten substantial volume, and in any kind of a manufacturing organization that is the key to maintaining your operations. If you can get a substantial volume, maintain it over a time, operate efficiently, that is when you are going to break even or make money. And when you say if we could have had more and could have had it faster—which we probably were not ready for—we might have been able to have done better: well, I am saying that realistically I do not think that could have happened.

Senator MONTROYA. Did GSA come into this picture at all?

Mr. GAY. Yes. Our initial contracts were, as I say, for binders, half-inch, 1-inch, 2-inch type binders for some \$600,000 with GSA. That was our initial 8(a) contract.

Senator MONTROYA. What about the Department of Defense?

Mr. GAY. There is the F-100, AIMS program. The first picture that I showed you is the basic unit of the F-100 AIMS program.

Since then we have gotten a T-33 AIMS program very similar to that kind of work.

Senator MONTROYA. Have you been able to take care of these contracts within the time prescribed?

Mr. GAY. We have—these contracts are yet to be completed, but we can say that the very first orders, the first deliveries that were called for, were met on schedule with complete shipments, no shortages or anything, and, as a matter of fact, ahead of schedule.

Senator MONTROYA. And were all of these—

Mr. GAY. So, the answer is "Yes."

Senator MONTROYA. Were all of these contracts 8(a) contracts or were there some set-asides?

Mr. GAY. No, all 8(a).

Senator MONTROYA. Of course, you would not be qualified for the set-asides, as North American Rockwell.

Mr. GAY. No, sir.

Senator MONTROYA. Did you do any work for the private sector?

Mr. GAY. Yes, sir. As I say, the commercial business was only some \$4,000 in 1969. It went to \$56,000 in 1970. This year, it will be over a quarter of a million, and will approach probably a half million this year. Next year, we are anticipating a half million in commercial work, straight commercial work. As I say, these cassette holders are being sold not only through Sears and Montgomery Ward but several of the other big chain stores.

Senator MONTROYA. Well, they are just coming into their own are they not?

Mr. GAY. We hope so.

Senator MONTROYA. Well, the cassette business is just coming into its own now, but the cases for the cassettes are a very new thing. In fact, the Library of Congress just started buying them for shipping cassettes. They are putting much of the material that they used to put in Braille for the blind into cassettes now. The cassettes are now being placed in these plastic cases. So, that means quite an expansion for this particular industry.

Mr. GAY. Yes.

Senator MONTROYA. How do you think Government can help provide proper incentives so that other companies can follow your example?

Mr. GAY. I do not know that I can answer that.

Senator MONTROYA. Have you had any on-the-job training provided by the Department of Labor?

Mr. GAY. Yes, sir. As I said, initially, our initial contracts that we had when we set this organization up were for helping in the excess training cost from the Department of Labor. In 1969, we had a \$321,000 contract, for instance, from the Department of Labor on the MA-2 program.

Senator MONTROYA. Was that training successful?

Mr. GAY. It was successful. Our problem was having trained the people we had no place to put them, because we were laying off people in all of the divisions of North American Rockwell. As I say, we went from some 100,000 to around 30,000 or 40,000 people during this period of time.

Senator MONTOYA. Have you been able to bring them into the new expanded operation, the ones you have trained?

Mr. GAY. No, sir.

Senator MONTOYA. They went into other industries?

Mr. GAY. Yes, some did; some did not. We, during 1968, had seven voluntary—well, we had 24 what we call “departures.” Seventeen of them were involuntary; seven were voluntary. Of these, four were for personal reasons, and three went to other employment.

In 1969, we had 49 that left for personal reasons, and 40 that went to other businesses.

In 1970, 42 left for personal reasons, and 32 were employed elsewhere. We laid off, in 1970, 28 people, and we were not able to place these 28 people anywhere.

In 1971, we had 11 that left for personal reasons, and 11 went to other employment. Thirty nine were laid off, and we were able to place only six of those 39, and, as far as we know, the 33 have not been placed and are unemployed.

Senator MONTOYA. What is the average salary of the ordinary employee? What does he earn on a per-month basis?

Mr. FORE. I cannot put it on a per-month basis, but it would be approximately \$2.25 an hour.

Mr. JONES. Mr. Gay, I think that North American Rockwell's establishment of NARTRANS is quite admirable, and I do not want my further questions to be interpreted differently from that, but I wondered to what extent North American Rockwell in its own contracting has an active program of trying to recruit minorities?

Mr. GAY. Yes, we have a very active program. We have developed a minority business listing which we feel constitutes the most adequate listing in the country.

There are all sorts of different listings, but there is not an authoritative one. I have used the ICBO. I have gotten from the Aerospace Industry Association and other companies, their source lists of minority enterprises, and we have established a catalog of these kinds of companies. As our buyers become aware of other minority companies, they send us the information into a central place and we add this to the listing. Each of our buyers are instructed that they are to concentrate, as well as going along with the normal business program, they are to concentrate upon the minority business enterprises as a part of that particular program.

And at each of our divisions, we have a small business administrator who is assigned for this specific purpose of assisting small businesses and especially assisting minority business enterprises. Any minority business enterprise coming in or that we are aware of, is funneled from this man to the particular buyer that would be interested in that company's product so that he goes straight to him; he does not have to cut through a lot of redtape to get right to the buyer who has the orders to place.

In addition to this, many of our employees are very active in going outside and looking for these companies, rather than waiting for them to come in. We have people assigned at several of our larger divisions who actually spend a lot of their time touring the minority communities and, if you please, knocking door to door, finding out what the capabilities are and then guiding them back into our business.

We are very active in urban affairs. Down in the Torrance-Compton area some of our procurement people are very active in an EDUCOM program, trying to help these people understand what they have to do, how they have to react to get business from not just us but from anybody.

Mr. JONES. Is there anything in the Federal Government that can be done, either through the SBA or otherwise, which would facilitate this activity?

Mr. GAY. Yes, sir. I think one of the big things that could be accomplished would be if you could find the funds and the people to prepare and maintain on a current basis a minority business enterprise list. That would be valuable.

Now, in my case, I am interested in manufacturing concerns only. I am not interested in the retail types of businesses; so, what I would like is a valid listing of minority enterprises with some very short listing as to what their capability is so that I could get this information to each of our buying personnel, and then those individuals, the buyers, will take it upon themselves to validate the capabilities of the company.

I am not suggesting that the Government has to back it but at least if we knew who to contact or who to call, it would be very helpful.

I think this should be broken down by areas so that we would know the people, let us say, in the California area or in the Colorado area or in the New York area and where we have a requirement—and we have plants all over the country—the people that are in a particular locality would be able to know where they could go for what type of product. I think this would be a very helpful thing that the Government could do.

Mr. JONES. Thank you very much, Mr. Gay.

Mr. Rogan, has the McDonnell Douglas Co. been actively involved, as has North American Rockwell, in recruiting minority subcontractors?

Senator MONTOYA. Well, Mr. Rogan is going to summarize his statement, and then we will ask him some questions.

Mr. JONES. All right.

Senator MONTOYA. So, your statement will be made a part of the record at this point, Mr. Rogan.

(The prepared statement submitted by Mr. Rogan reads in full as follows:)

STATEMENT BY  
JOHN P. ROGAN, VICE PRESIDENT-ADMINISTRATION,  
MCDONNELL DOUGLAS ASTRONAUTICS COMPANY  
5301 BOLSA AVENUE, HUNTINGTON BEACH, CALIFORNIA

BEFORE SUBCOMMITTEE ON GOVERNMENT PROCUREMENT OF THE SENATE  
SMALL BUSINESS COMMITTEE  
SEPTEMBER 29, 1971

In September, 1968, MDAC, a Division of Douglas Aircraft Corporation, opened a training center in South Central Los Angeles to hire and train hardcore minority unemployables, principally blacks and Mexican-Americans. In the first two years of operation 318 trainees were hired and trained. Of the trainees hired 17 were transferred to other locations of MDC, 16 found better jobs with other firms and 101 are still employed at the facility, which is now known as AVI Manufacturing (AVIM). The balance quit or were terminated for various reasons. Lack of aerospace work was the principal reason more people were not trained and that many of the employes had to be laid off. The training was principally supported by a two year training contract with the Department of Labor. That contract expired 30 June 1970.

In mid 1970, McDonnell Douglas Corporation and a group of employes at the facility started considering a divestiture plan for the enterprise. Agreement was reached and MDC filed an agreement to form AVI Manufacturing, a California Corporation, on December 1, 1970. A divestiture plan was submitted to the Small Business Administration on 21 October 1970 in order to qualify a new corporation for Small Business Administration Regulation 8A set asides.

MDC holds 49% of the stock, AVIM 51%. The divestiture plan requires MDC to reduce its holdings to 20% in less than 5 years after the initial agreement date. The SBA approved the divestiture plan and qualified AVIM on February 5, 1971.

Total personnel of AVIM as of July 4, 1971 was 101. Estimated sales for calendar 1971 are \$1,428,000.

Potential commercial product lines being investigated by AVIM are telecommunications components, air cargo containers and commercial furniture refurbishment.

The goals and objectives of AVIM are similar to those of other free enterprise companies - profit and growth. The management wishes to develop a viable and versatile company in the South Central area of Los Angeles. A natural adjunct to these objectives will be the employment of people who live in the Watts and Compton areas. It is felt that the status of the employes and their ability to support themselves will be enhanced more in the long run through their profit sharing participation of such an enterprise rather than through simple skills training.

It may be noted that the 8A plan was submitted to the Los Angeles SBA Office in October 1970, but was not approved until

February 5, 1971, and then only through the assistance of Representative James Corman, Van Nuys, California. This, despite many discussions by our staff people with SBA Representatives in Los Angeles, San Francisco and Washington, D.C. and further despite universal praise from SBA personnel in these offices that our plan proposal was the best they had ever seen.

Los Angeles SBA Office personnel in fact recommended that we visit the Washington, D.C. Office to determine the exact cause of approval delay. Our staff man in charge of the plan proposal, Mr. D. J. Garrity and E. E. Barrington, President-AVIM, did discuss the delay with both San Francisco and Washington, D.C. SBA personnel and were unable to obtain any commitment other than "it will be approved within 2 weeks". This occurred almost three months prior to approval, (see Attachment 1.)

Our staff people, Mr. Barrington (a former MDAC employe) and the undersigned have the following candid criticism and recommendations as a result of our experiences:

1. Both SBA and GSA office personnel were most cooperative at all times but were of little assistance in our attempts to set up an approved 8A business. While the SBA has published many fine reports and studies for small business ventures, they have little or no "how to qualify for 8A" literature.
2. There seems to be very little decentralized authority. All decisions seem to go to the regional or Washington, D.C. office. This puts local office personnel in the position of sympathetic advisors without authority to act.



3. There were definite indications of understaffing of qualified, energetic personnel through our inability to make appointments promptly, to get all required information at one time rather than piecemeal as indicated by Attachment 1, and finally, approval of our plan through Congressional intercession. This might be said to add up to typical bureaucratic inertia.
4. Since the 8A approval AVIM has been successful in obtaining two Government contracts. One, we are told, is the largest technical set aside issued to date through the SBA in the amount of \$1,540,000. The Los Angeles office has been most cooperative and helpful in expediting the paperwork involved in the execution of these contracts. AVIM has good prospects for additional contracts in both Government and private industry.
5. Our recommendations, of course, would be that action be taken to remove the problems discussed above. Further, one of the heaviest burdens on a new minority business is that of marketing or finding set aside work for which the business is qualified. In the case of AVIM, management people who should have been in the plant "minding the store" had to travel to some 25 procurement centers at great expense of money, time and plant efficiency. Centralization of Government set aside procurement to one agency with immediate notification to 8A qualified contractors, while difficult to accomplish, would do much to remove this burden upon understaffed and often inexperienced management.

In my opinion, and in the opinion of many businessmen associated with minority business projects, this problem will cause more minority businesses to fail than any operational or financial difficulties.

Respectfully,



John P. Rogan

Attachment 1. Letter E. E. Barrington, President-AVI Manufacturing, to Representative James Corman, January 13, 1971.

**ALLIANCE VENTURES INCORPORATED**

4034 BUCKINGHAM RD. SUITE 206 LOS ANGELES, CALIF. 90008 (213) 296-7873

January 13, 1971

Congressman James Corman  
14422 Victory Blvd.  
Van Nuys, California 91401

Dear Sir:

Alliance Ventures Inc. Manufacturing represents a joint venture between the McDonnell Douglas Corporation and members of the minority community to develop a training facility, formerly operated by McDonnell Douglas, in South Central Los Angeles into a viable manufacturing operation. Success of this venture is predicated upon government support, through the SBA 8 (a) program, to establish a solid base of capability during our first three years of operation. To date the response to our efforts from SBA has been nil. The situation, at present, is critical in that we began operations January 4th and face the possibility of layoffs and financial loss if not given the opportunity to obtain government business. Following is a summary of our experience with SBA:

1. In mid August we met with Mr. Ed Lusk of the Los Angeles Office of SBA to discuss our divestiture plan with McDonnell Douglas and to find out what documentation was required to participate in the 8 (a) program. We were given a model proposal to use as a guide and a summary of requirements.
2. The first week of October, upon consumation of our negotiations with McDonnell Douglas, we contacted Mr. Lusk and gave him three copies of our proposal (see attached Proposal For The Divestiture Of The MDAC-WEST South Central Los Angeles Operation). After examining it he stated that it had all of the required information and that approval would be forthcoming.
3. The middle of October I met with Mr. Ed Odell, Chief, Government Contracts Division, SBA, in Washington, D.C. During our conversation I asked about the status of our proposal. He stated that he had no knowledge of it and immediately called his San Francisco office. After conversing with them he assured me that the matter would be taken care of and that we would

have approval shortly. I left a copy of the proposal with him so that the General Counsels Office there would have an immediate opportunity to review it so that the matter could be resolved in a short period of time.

4. By the first week of November we still had received no notice from SEA so I again contacted Mr. Lusk. He informed me that they needed a copy of the Businessmans Agreement entered into between ourselves and McDonnell Douglas. A copy, signed by Donald Douglas Jr. for McDonnell Douglas, was submitted. (see attachment I)
5. Two more weeks passed and again no notice from SEA. I contacted Mr. Lusk who informed me that approval could not be given until they had a copy of the final agreement between ourselves and McDonnell Douglas. The second week of December we delivered three copies of the final agreement to Mr. Lusk's office.
6. The last week of December Mr. Lusk informed me that Mr. James Hoxie of the local General Counsels Office was holding up approval because he had some questions. I contacted Mr. Hoxie and determined that he needed evidence that the ownership of Alliance Ventures Inc. was controlled by minorities. In addition he questioned the enforceability of the divestiture clause of our agreement. We have attempted to resolve these matters through subsequent telephone conversations and written memoranda between ourselves, our counsel, counsel for McDonnell Douglas and Mr. Hoxie. (see attachments II and III)

In summary, over three months have passed since we first submitted our proposal to SEA. We have attempted to comply with all of their requests and feel that we have been reasonable and patient. The point has been reached, however, where we feel that we can no longer depend upon normal channels to transact business with the government through them. SEA simply has not been responsive. Several government agencies, including GSA and the Air Force, are willing to do business with us immediately upon 8 (a) certification. Recognizing the urgency of the matter your assistance in expediting our request to participate in the program will be very much appreciated.

Sincerely yours,



E. E. Barrington  
President  
Alliance Ventures Inc.

Senator MONTOLA. And, now, you may proceed to try to excell the performance of North American Rockwell, if you wish, Mr. Rogan.

**STATEMENT OF JOHN P. ROGAN, VICE PRESIDENT, ADMINISTRATION, McDONNELL DOUGLAS ASTRONAUTICS CO., HUNTINGTON BEACH, CALIF.**

Mr. ROGAN. Thank you, Mr. Chairman.

I would like to emphasize some specific parts of my submitted statement.

In September 1968, the Astronautic Division of the then Douglas Aircraft Corp., which then moved into McDonnell Douglas, opened a training center in south central Los Angeles to hire and train hard-core minority unemployables, principally blacks and Mexican-Americans. In the first 2 years of operation, 318 trainees were hired and trained. Of the trainees hired, 17 were transferred to other elements of the McDonnell Douglas Corp., 16 found better jobs with other firms, and 101 are still employed in the facilities now known as AVI Manufacturing Co. The balance quit or were terminated for various reasons. Lack of aerospace work was the principal reason more people were not trained. Many of the employees had to be laid off. The training was principally supported by a 2-year training contract with the Department of Labor. That contract expired on the 30th of June, 1970.

If I may excerpt from my submitted statement, I would like to note that the Allied Ventures, Inc., Co., which was essentially the financial supporter of Allied Ventures Inc., Manufacturing and McDonnell Douglas Corp. submitted to the Los Angeles SBA office in early October 1970, an 8(a) divestiture plan. This divestiture plan was not approved until February 5, 1971, and then only through the assistance of Representative James Corman, Van Nuys, Calif. This, despite many discussions by our staff people with SBA representatives in Los Angeles, San Francisco, and Washington, D.C., and further, despite universal praise from SBA personnel in these offices that our plan proposal was the best they had ever seen.

I have assumed here that the Senator has come to San Francisco not for a diet of pabulum but facts.

1. Both SBA and GSA office personnel were most cooperative at all times but were of little assistance in our attempts to set up an approved 8(a) business. While the SBA has published many fine reports and studies for small business ventures, they have little or no "How to Qualify for 8(a)" literature.

2. Within the SBA, there seems to be very little decentralized authority. All decisions seem to go to the regional or Washington, D.C., office. This puts local office personnel in the position of sympathetic advisers without authority to act.

Obviously, we cannot criticize without making some recommendation would be that action be taken to remove the problems discussed in my written statement.

Further, one of the heaviest burdens on a new minority business or any small business is that of marketing or finding set-aside work for which the business is qualified. In the case of AVIM, management people who should have been in the plant "minding the store" had to travel to some 25 procurement centers at great expense of money,

time, and plant efficiency. In my opinion, centralization of Government set-aside procurement to one agency with immediate notification to 8(a) qualified contractors, while difficult to accomplish, would do much to remove this burden upon understaffed and often inexperienced minority management.

I realize this would be a very difficult thing for the Federal Government to accomplish, yet I feel that this problem, plus inexperienced management on the part of the small business managers, minority or not, will cause more minority businesses to fail than any operational or financial difficulty.

I would like to add to my written statement two personal observations. SBA, as a prime contractor, is a very tough negotiator. The price negotiated between the SBA and AVI Manufacturing on a \$1,540,000 contract was 10 percent lower than that price that was estimated by a team of McDonnell Douglas experts as a minimal acceptance price.

Further, in my opinion—

Senator MONTÓYA. Well, let me ask you a question at this point.

Mr. ROGAN. Yes, sir.

Senator MONTÓYA. But the \$1,540,000 contract prevailed; is that right?

Mr. ROGAN. That is correct, sir.

Senator MONTÓYA. What kind of a profit experience did you have from that contract?

Mr. ROGAN. We are not sufficiently far into it, Mr. Chairman.

Senator MONTÓYA. Have you had any indication?

Mr. ROGAN. No indication as yet. We are just in the second month of a 31-month contract.

Senator MONTÓYA. Well, did you have similar experiences with other contracts?

Mr. ROGAN. Most of the work that has been done in this facility, I will say up to 90 percent of the work that has been done in this facility has been either time and material or fixed-price subcontracts, either with the McDonnell Douglas Astronautics Co. or Douglas Aircraft Company which are both divisions of the McDonnell Douglas Corp. Ninety percent of it. AVI Manufacturing now has three Government contracts, the one that I mentioned for \$1,540,000 and two small set-aside contracts that total approximately \$95,000. They also have two commercial contracts that total about \$35,000.

Now, they have not gotten far enough along on any of these contracts for me to really judge, as I am not an active part of the company management, because it is 51 percent owned by minority people, 49 percent owned by the McDonnell Douglas, and I have not gotten into sufficient detailed examination of the work efforts and the financial statements to say whether they are going to be successful or whether they are going to fail. In my opinion, they are going to be successful.

Senator MONTÓYA. What do you do under the \$1,540,000 contract?

Mr. ROGAN. That is the contract from the Army-Missile Command in Huntsville, Ala., to the SBA for a sensor system which goes into the silos of the Safeguard system for the Spartan missiles of the Safeguard system. It is, based on the information I have had from

the SBA, the largest technical contract that has been awarded as a set-aside.

Senator MONTTOYA. And how did you develop the capability to service this type of a contract?

Mr. ROGAN. By the assistance of experts, various experts, in McDonnell Douglas Co., to train the personnel over the course of the operations since September 1968.

Senator MONTTOYA. Did you have a Department of Labor grant for this purpose?

Mr. ROGAN. We trained under our Department of Labor contract, which, as I said before, lasted for approximately 2 years, through mid-1968 to mid-1970, approximately. We trained quite a few minority females in electrical harness work very similar to that shown to you by North American Rockwell and my North American friend.

Senator MONTTOYA. Mr. Gay, do you wish to leave?

Mr. GAY. May I? I have an urgent call.

Senator MONTTOYA. Certainly. Thank you very much.

Mr. GAY. Thank you.

Senator MONTTOYA. Proceed, Mr. Rogan.

Mr. ROGAN. The training under the Department of Labor contract essentially developed the skills for the minority female people to do the great majority of the work that must be done under this sensor kit—the Safeguard sensor kit.

Senator MONTTOYA. What does this involve?

Does this involve any electronic work?

Mr. ROGAN. It involves some very complex testing of some very delicate humidity, water, and temperature sensors, and it also involves manufacturing all of the electrical harnesses and the metal receptacles, junction boxes, if you will, that contain the sensors once that kit is delivered to the Safeguard site. Then, it will be installed either by the Corps of Engineers or by the McDonnell Douglas people into the Safeguard-Spartan silos.

Senator MONTTOYA. There has been a tremendous technology developed in this field because of Vietnam; is that not right?

Mr. ROGAN. Oh, yes.

Senator MONTTOYA. Sensing devices?

Mr. ROGAN. Yes, indeed.

Senator MONTTOYA. So, the problem with you is not in the developing of the technology but rather in manufacturing the finished product?

Mr. ROGAN. I believe, Mr. Chairman, the most severe technical problem on this contract is in the manufacturing of the sensors which will not be done by AVI Manufacturing but will be purchased and tested by AVI Manufacturing.

Senator MONTTOYA. What will they do, then? They will do the testing?

Mr. ROGAN. They will purchase and test.

Senator MONTTOYA. Whom will they purchase it from?

Mr. ROGAN. There are only three qualified contractors in the country. I am sorry I do not have their names with me.

Senator MONTTOYA. That makes my point, then. They are not in the manufacturing business; they are in the testing business.

Mr. ROGAN. They are in the manufacturing business to the extent that they are manufacturing sheet metal parts very similar to the

type of things that Mr. Gay showed you. They are manufacturing electrical harnesses which is principally assembly as opposed to component manufacturing.

Senator MONTROYA. Well, what assurance do we have that there is going to be a continuity of this type of work, because a manufacturer usually provides his own testing?

I am worried about the future of this organization.

Mr. ROGAN. I am not sure I understand your question, Senator.

Senator MONTROYA. If you are not going into the manufacture of hardware in this operation and are merely offering the services of testing, what assurance do we have that there is going to be a followup contract so as to insure the continuity of the operation?

Mr. ROGAN. We are, at AVI Manufacturing, a manufacturing operation to the extent that we procure components, electrical components, electrical plugs, very high quality electrical plugs, very high quality sensing devices, and then raw materials or essentially raw materials such as sheet metal, wire, and you build these into a designed assembly. It is a manufacturing business.

Senator MONTROYA. Then, this company makes the finished item; is that it?

Mr. ROGAN. And this company sells the finished item; yes, sir.

Senator MONTROYA. All right.

Mr. ROGAN. The contract calls for 32 of those kits.

Senator MONTROYA. All right. What do you envision to be the time it would take the company to realize the profit from this operation and any other activities that it might be able to attract?

Mr. ROGAN. Under our submitted divestiture plan which requires that, of course, we reduce the McDonnell Douglas Co., holding in AVI Manufacturing to 20 percent or less within 5 years or less from the date of the organizational agreement, of January 1, 1970, I would expect that AVI Manufacturing, with only minimal support from the McDonnell Douglas Corp., will hopefully be profitable next year, a minimal profit. I would hope that in the third year of that operation that they would produce a profit commensurate to Government contractors' profits.

Senator MONTROYA. Now, under this divestiture plan, the starting point is that the McDonnell Co., owns all of the stock?

Mr. ROGAN. No, sir; 49 percent.

Senator MONTROYA. Forty-nine? Now, how did the minorities buy the other 51 percent?

Mr. ROGAN. The minority provided the other 51 percent through a financing plan, through a company called Alliance Ventures, Inc., who provided a basic amount of initial capital, plus an agreement to supply working capital for a period of 5 years.

Senator MONTROYA. All right. How was this company funded?

Mr. ROGAN. This company was funded by its parent company, the Ralston Purina Co.

Senator MONTROYA. And where does Ralston Purina come in on the profits?

How does it get repaid?

Mr. ROGAN. Yes; they would be repaid through their interest in Alliance Ventures, Inc., which is a minority company which they established, I believe, in early 1968.



Senator MONTROYA. So, the loan from this company is bearing interest?

Mr. ROGAN. That was the original agreement; yes, sir.

Senator MONTROYA. And there is a payment of principal due the company from its operation; right?

Mr. ROGAN. That was the original agreement, but we are now in the process of a legal and financial reorganization.

Senator MONTROYA. But you still have to pay what was advanced to this operation?

Mr. ROGAN. Ralston Purina is giving up their interest in the AVI Manufacturing Co. which had certain interests in the AVI Co.

Senator MONTROYA. Yes; but the AVI Co. has not released its interest in entitlement of the payment to the repayment of the loan?

Mr. ROGAN. They are in the act of doing that, sir.

Senator MONTROYA. They are?

Mr. ROGAN. Because they are unable, any longer, to furnish working capital.

Senator MONTROYA. All right. What is going to happen to the loan, then?

Mr. ROGAN. Certain principals in AVI who are now managing AVIM had a financial interest in AVI, and in return for that financial interest which they personally have returned to AVI, AVI has held AVIM harmless of all its obligations to AVI.

Senator MONTROYA. I do not get it. Let us talk in terms of dollars.

You are talking about interest. Now, let us talk in terms of dollars. How much did AVI provide for the AVIM operation?

Mr. ROGAN. If I may answer your question, Mr. Chairman—

Senator MONTROYA. If you do not know exactly, say approximately.

Mr. ROGAN. Approximately, yes. Approximately \$25,000 in working capital, approximately \$25,000 in a management contract, and the McDonnell Douglas Co. investment in facilities was evaluated at approximately \$49,000.

Senator MONTROYA. All right.

Now, there has been no profit in this operation by AVIM, so if there has been no profit there has been no payment of the principal or interest to AVI or to the McDonnell Co.; right?

Mr. ROGAN. There have been no payment of any kind to AVI.

Senator MONTROYA. All right. And you say that because of the transfer of certain interests that the AVI has now canceled the indebtedness?

Mr. ROGAN. Yes, sir.

Senator MONTROYA. All right. Now, what kind of an exchange of interest took place here?

That is what I am trying to find out.

Mr. ROGAN. The two major principals in AVI Manufacturing were also principals of AVI.

Senator MONTROYA. So, they have received some remuneration of the AVIM operations?

Mr. ROGAN. They have left the AVI operation and given back to AVI their stock interest in AVI in exchange for the initial capital in the initial management contract.

Senator MONTROYA. AVIM?

Mr. ROGAN. Which AVIM gave back to AVI.

Senator MONTROYA. All right.

Mr. ROGAN. It is rather complicated Mr. Chairman.

Senator MONTROYA. Yes, it is; yes, it is. But the reason I am developing this is because this will not necessarily happen with another similar business arrangement of another company or companies.

Mr. ROGAN. It would not have happened, sir, if McDonnell Douglas had not been a 49 percent stockholder.

Senator MONTROYA. Right. So, do I understand you to say that AVIM will be ready to start on the basis of its indebtedness incurred in-house rather than through advancements made by AVI?

Mr. ROGAN. Well, it is a case between AVI and AVI Manufacturing of "all is forgiven."

Senator MONTROYA. Yes.

Mr. ROGAN. AVI Manufacturing now holds three Government contracts.

Senator MONTROYA. And on those contracts, if they lose, they have to assume the responsibility?

Mr. ROGAN. Yes, as a major stockholder.

Senator MONTROYA. Yes; and McDonnell will be a 20 percent stockholder?

Mr. ROGAN. The way that we will transfer the McDonnell stock interest in AVIM is based on the profit earned by AVIM. For every certain number of dollars profit that AVIM manages to put on their books, the McDonnell Douglas will transfer a share of stock to AVIM to be put into a trust account as incentive awards to the employees of AVIM.

Senator MONTROYA. Yes.

Mr. ROGAN. And not just to the officers but to all employees of AVIM. We felt that it was very necessary to create an incentive type of remuneration for all employees of the company.

Senator MONTROYA. Now, on the basis of this arrangement and the McDonnell stock being placed in a trust arrangement, will, in the possible liquidation, McDonnell and the management of the AVIM be better served by such liquidation than the employees themselves who might own some stock?

Mr. ROGAN. That portion of the stock which it has been agreed upon to be put into an employee trust eventually becomes a gift to the success of the employees of the AVI Manufacturing.

Senator MONTROYA. And does McDonnell Douglas automatically come out of the picture, as far as management is concerned, or as far as any claims upon the financial structure of AVIM?

Mr. ROGAN. None, whatsoever.

Well, may I put it this way, Mr. Chairman: Our divestiture plan which was submitted to and approved by the SBA states that in less than 5 years from the date of the agreement, the McDonnell Douglas interest will be 20 percent or less, which is a requirement of section 8(a), as I am sure you know.

Senator MONTROYA. All right.

Mr. ROGAN. Now, we have not made—there is no written agreement or decision as to what happens to that last 20 percent of the stock. I am inclined to think that once AVI Manufacturing becomes successful and totally self-sustaining that we will transfer the balance of that stock to AVI Manufacturing employees similar to the transfer of the previous 29 percent.

Senator MONTÓYA. What kind of managerial surveillance and supervision and control will your company have in the future over AVIM and to what extent?

Mr. ROGAN. Under our written agreement I have and will have until January 1972, a resident advisory manager. He has no managerial power other than being advisory to the management of AVI Manufacturing.

Senator MONTÓYA. Of course, you would expect him to report to you if something were going wrong in the operation?

Mr. ROGAN. He reports to me on a regular basis.

Senator MONTÓYA. And that is the way it should be.

Mr. ROGAN. Our interest, Mr. Chairman, is to create a successful business. Now, we also give them reasonable amounts of free, sometimes McDonnell Douglas paid time, sometimes employee volunteer time, such as I go down there on Saturdays myself to help them out, in addition to which, where they need special fields of expertise such as a specialized electronic engineer, we will transfer to them or loan to them, at cost, that specialized individual.

At the present time, there are five such specialists, one man to be there for a year, and the other four men to be there for periods of from 30 to 90 days, because they do need, because of the technical requirements of this one particular contract, they do need speciality specialists.

Senator MONTÓYA. Do you have a breakdown of the number of employees and what racial groups they comprise?

Mr. ROGAN. Yes, sir. As of the date of my statement, of the employees, approximately 45 percent were black, 45 percent Mexican-American and 10 percent white.

Senator MONTÓYA. How many employees do you have?

Mr. ROGAN. We have 101, and the makeup of that employment is as in the NARTRANS case, largely a product of the south central area of Los Angeles, and, again, as I said before, the basic point in setting up the business was to create employables out of so-called hard-core nonemployables.

Senator MONTÓYA. Have you heard of the plan recently announced by Xerox where they will lend out some of their personnel to go out and work with small corporations?

Mr. ROGAN. Yes, sir. I have read it with great interest and have forwarded it to my corporate headquarters a copy of it.

Senator MONTÓYA. You, of course, have done a lot in this enterprise, particularly, and North American Rockwell has, too.

Mr. ROGAN. If I may volunteer a statement, Mr. Chairman?

Senator MONTÓYA. Yes.

Mr. ROGAN. I have approximately 35 percent who voluntarily are working with minority groups either in terms of teaching or expertise assistance in small business, et cetera, even in competition with my minority, and I use that in the sense of dollars' business. I have one engineer who spends a great deal of time with Southern California Manufacturing who has consistently bid against AVI Manufacturing. But that happens to be his area of interest, and I am happy to see him do it. But we have approximately 35 percent who provide expertise or training on their own time and, of course, we encourage this kind of thing.

Senator MONTÓYA. Yes, sir.

Mr. FORE. Not to be outdone by Xerox, I do not know whether anyone is present from Xerox, but we have approximately 20 employees on leave of absence working for minority firms in management positions from the eastern seaboard to the western seaboard. We arrived at the leave of absence as being the best means of doing this. We provide all the fringe benefits, continuity of employment, in order to provide for adequate retirement plans, and so on, but the borrowing company pays their salaries. Several of the southern California minority organizations have as one of the principal members of the management of their company one of our leave-of-absence employees.

Senator MONTONA. What do you do? Bill them for the cost of that employee to your operation?

Mr. FORE. No. We put them on leave of absence, and they pay the basic salary; we pay the fringe benefits, the insurance, etc.

Senator MONTONA. You do not bill that to them?

Mr. FORE. No; we pay for it. That is part of our contribution. In addition, to the same thing that Mr. Rogan pointed out, and in terms of the several things that Mr. Gray pointed out, employees will dedicate their evening hours. Some reference was made to the Golden Oaks Products this morning. The manager of that enterprise happens to be a North American Rockwell employee on leave of absence. For the technology to get the same amount of tensile strength out of an oak bat as one would get from—I do not know what they make baseball bats out of—hemlock, or something like that, was a technology transfer from North American Rockwell. The manager of Golden Oaks Products is from our Space Division in Downey, where such technology is readily available. In addition to the manager, six to 10 employees volunteer their time on weekends, evenings, and sometimes during the work days if there is a critical problem. There is a mutual understanding of need. The man who needs the help is willing to ask for it, and the man who can offer it is willing to give it. That is the best possible situation. I think that we both, McDonnell Douglas and North American Rockwell enjoy this situation in southern California.

Senator MONTONA. I think that is very commendable. I think that more large businesses ought to do these things.

Do you have any questions?

Mr. JONES. Yes. Thank you, Mr. Chairman.

Mr. Rogan, the problem which AVIM experienced in its certification process took place before the 8(a) program was fully decentralized by the SBA. Are you sufficiently acquainted with the experience of other 8(a) applicants to know whether the experience after the decentralization has been more favorable?

Mr. ROGAN. I was aware of the fact that we had submitted one of the first divestiture plans under section 8(a), and I am not familiar with any other company's experience.

Mr. JONES. I see.

Mr. ROGAN. But it was quite a horrendous experience. Without the skill of the McDonnell-Douglas Corp., staff, I do not know how long it would have taken.

Mr. JONES. Were there problems in the certification process other than those arising out of the divestiture arrangement?

Mr. ROGAN. There were no problems whatsoever. Our original plan as submitted in October was accepted the following February.

Mr. JONES. I mean to ask: Had it not been for the existence of the divestiture arrangement, do you think there would have been any problems in the certification process, or did all of the problems seem to relate to the novelty of the divestiture arrangement from the point of view of the SBA?

Mr. ROGAN. The divestiture arrangement was not novel. It followed all of the requirements of section 8(a). The reason that I make a point of the time involved in obtaining qualification under section 8(a) and therefore qualification for set-asides, had the company, AVI Manufacturing, been wholly dependent upon set-asides, it would have gone bankrupt before the program was ever approved. But, as I pointed out, at that time they were 100 percent operating on McDonnell-Douglas with fixed-price contracts of various types.

Mr. JONES. It took you 4 months after application to become certified?

Mr. ROGAN. Yes.

Mr. JONES. What was your post-certification experience?

How many 8(a) contracts has AVI received?

Mr. ROGAN. Our post-certification experience has been very happy. We have received three set-aside contracts since February of—

Mr. JONES. Of this year?

Mr. ROGAN. Of this year; yes.

Mr. JONES. And how long was it after certification before you received the first contract?

Mr. ROGAN. Approximately, our first contract that AVI Manufacturing received was approximately in late July, which would have made it 4 to 5 months.

Mr. JONES. I see.

Mr. ROGAN. The activity, postapproval, has been wonderful. One of the difficulties, however, is the fact that you must send your best people, your managers, out to do the marketing, and, therefore, they are not there to manage the store. And one of the problems of small business, whether it be minority or otherwise, is lack of experienced management.

Mr. JONES. Well, when you say that you have to send your managers out to do marketing work, do you mean that the SBA itself is not doing an adequate job on obtaining certification for subcontracting contracts?

Mr. ROGAN. Well, you see, Mr. Jones, you must go out and look at the potential Government work that you are capable of doing, and, then, of course, you have to do that at the various Government procurement centers, of which, as you know, there are many.

Mr. JONES. Has it been your experience that AVIM would sign the contract and take it to the SBA, rather than vice versa?

Mr. ROGAN. That has been our experience in the three contracts that we have.

Mr. JONES. I see.

Now, with regard to Mr. Gay's comments on the ways in which the Federal Government might be of more assistance in helping large corporations like McDonnell-Douglas issue subcontracts to minority enterprise firms, do you have anything further to add to that?

Mr. ROGAN. I fully endorse Mr. Gay's comment with regard to helping us get the information on qualified small business contractors.

Senator MONTOYA. May I interrupt there?

I think you are absolutely right in this. I think this is one of the great cases for the lack of rapport between the small business community and the procurement agencies of the Government. Now, what would you suggest by way of a middleman to bring the two together, that is, the procurement agencies of the Government and the 8(a) subcontractor; how do you suggest that this be accomplished?

Now, we can have a list of eligible minority contractors, but that will not do any good. You have got to have a catalyst in the arrangement.

Now, how do you provide that catalyst?

Mr. ROGAN. Well, I believe that the DSA—

Senator MONTOYA. Defense Supply Agency?

Mr. ROGAN. The Defense Supply Agency, with its catalog of items which is made available to anyone that wants to pick up a copy of it, and a rather thorough description of those items, and the prevailing approximate prices is one of the best ways of getting Government procurement requirements to the 8(a) or the small business subcontractor directly. But outside of the kinds of items which the Defense Supply Agency which tend to be the common things which are used across the various units of the Defense Department, outside of that area, procurement centers are very frightening. There are literally, there must be, hundreds of them, the many units of the Air Force, the Army procurement centers, the Navy procurement centers.

When you have a subcontractor who is qualified to do a rather high content of technical work, one who can produce aerospace kind of quality, it is very difficult for him, too, to do anything but go one at a time to these various ominous Army procurement centers and Navy procurement centers of which we have contacted 25, and that is money and time.

And, as I mention in my written statement, Mr. Chairman, I would like to see certain procurements set aside by these procurement centers and directed to the SBA and let the SBA contact those people who are qualified to do that work.

Senator MONTOYA. Well, we have been trying to do this since we enacted 8(a) and since we began insisting that we make 8(a) meaningful. We have had a little problem with the Department of Defense, and I think we are going to have to have somebody else run a little surveillance on the Department of Defense and give them the wherewithal to do a little more prodding.

Mr. ROGAN. In all frankness, Mr. Chairman, each procurement organization is trying to do the best possible procurement job in terms of quality and cost.

Senator MONTOYA. Yes.

Mr. ROGAN. They are probably—in view of their mission, their basic mission—they are probably reluctant to set aside bids that might cost them more money out of their budgets by going through SBA or some other agency.

Senator MONTOYA. Well, are you trying to say—that is the practical point, but are you trying to say, Mr. Rogan, that the 8(a) contractor cannot compete with the big contractor costwise?

Mr. ROGAN. Not in all cases. Well, he cannot compete with the more experienced contractor in all cases. He must prove himself, and it is very difficult to get enough contracts to prove yourself.

Senator MONTROYA. Well, I have had instances where small contractors had been the low bidders and they had the capability and experience to indicate that they knew what they were doing when they submitted such low bids, and some contracting officer or procurement officer would reject the bid unless there is interference from some Member of Congress, and that small contractor would just not be heard. And I have urged reconsideration of quite a few of those bidders, because their rejection was in violation of the law, and, to my knowledge, none of these people had ever lost money by a low bid.

Mr. ROGAN. Well, I have a limited amount of experience in this area.

Senator MONTROYA. Of course, they had the know-how and they had the experience, but they were small.

Mr. ROGAN. But in the particular case with which I am very familiar, AVI Manufacturing, they had the know-how, somewhat through McDonnell Douglas support, and they are very competitive businesswise, but the SBA, in my opinion, did not negotiate a price that they should have negotiated with them, because of the pressure from the procurement agency behind the SBA, if you will.

Senator MONTROYA. Well, as I understand your and Mr. Gay's testimony, what we need first is a catalog of eligible minority contractors who can work under 8(a) or under set-asides?

Mr. ROGAN. Yes, sir.

Senator MONTROYA. And this catalog must become available to all Government procurement agencies and, in turn, their names must appear in the bid lists of all Government procurement agencies?

Mr. ROGAN. I think that would go very far toward curing the problem.

Senator MONTROYA. And then I would go further than that. I would suggest that SBA provide some technical people to investigate, on the basis of the small contractors' availability, the procurement needs of the Defense Department and every other Government agency and determine for itself, with its technical help, whether or not it can siphon some of these contracts through 8(a) to the small contractor and his community?

Mr. ROGAN. I agree with you completely, Senator. I believe only the SBA could be the best catalytic agent, if you would.

Senator MONTROYA. But they must have agents dedicated strictly to this, instead of hodgepodge of expertise which proliferate over the vast spectrum of the DOD spending, and that is what is happening today, a proliferation.

So, can you add any more to this?

Mr. ROGAN. I do not believe so, sir. I would hate to see a new agency created because I believe—

Senator MONTROYA. You must be one of those conservatives?

Mr. ROGAN. I am somehow antibureaucratic. But I surely believe that you have in the SBA the basic vehicle to accomplish this job.

Senator MONTROYA. Well, I do not care whether you call it a division or what, but you must have some individuals who have the capability, dedication, and determination to bird dog this mission.

Mr. ROGAN. You will find that in my written statement, sir.

Senator MONTROYA. All right. OK.

Thank you, gentlemen.

Mr. ROGAN. Thank you very much.

Senator MONTROYA. Mr. Hum, Mr. Tom, and Mr. Williams.

Do you have a written statement, gentlemen?

Mr. HUM. Yes.

Mr. WILLIAMS. No.

Mr. TOM. No.

Senator MONTROYA. For the purpose of identifying you gentlemen in the record, the witnesses now on the panel are Mr. Charles K. Hum, Aerospace Services, Inc., of Oakland, Calif., Mr. Henry W. Tom, of H. W. Tom and S. F. Tom Co., San Francisco, Calif., and Mr. Larry Williams, Nairobi Corp.

So, you may proceed, Mr. Hum.

**STATEMENT OF CHARLES K. HUM, PRESIDENT, AEROSPACE  
SERVICES, INC., OAKLAND, CALIF.**

Senator MONTROYA. You have a written statement, sir?

Mr. HUM. Yes, Mr. Chairman; I have.

Senator MONTROYA. May I have the written statement?

Now, Mr. Hum, for the sake of time we will make your statement a part of the record at this point, and you may proceed to summarize it and comment on it and add to it if you wish.

(The prepared statement submitted by Mr. Hum reads in full as follows:)



COMMENTS BEFORE  
SENATE SMALL BUSINESS SUBCOMMITTEE  
ON GOVERNMENT PROCUREMENT  
SAN FRANCISCO - SEPTEMBER 29, 1971

My name is Charles K. Hum, President of Aerospace Services, Inc., Oakland, California. As President of an active Small Business, and one which has participated in the original 8(a) hard-core type program, I have been asked to appear before your Committee. May I thank you for the invitation to appear, and the opportunity to give you my thoughts on the 8(a) program based on several years of participation.

First allow me to give you a little background on our corporation. It was formed in 1964 by myself and a group of individuals who had worked together on aircraft overhaul and modification programs when the company for which we worked decided to quit the business. The original contract was for T-33 Aircraft overhaul and was bid and won competitively, although since we were a new company it took the intervention of the Small Business Administration and a Certificate of Competence before award was finally made. The first contract was successfully completed and the corporation progressed slowly on competitive contracts until 1968 at which time it was selected as one of the first 8(a) contractors under the original program designed primarily to provide jobs to disadvantaged hard-core untrained personnel. The workload since that time has varied up and down with the availability of 8(a) programs and other programs which could be won competitively. Employment peaked in 1970. We had approximately 150 in June 1971 and currently have dropped back to 94 due to phasing out of contracts. Contracts have always been completed satisfactorily from the standpoint of quality and schedule, and with little or no cost penalty to the government. As was the case with many 8(a) companies there has been no large company sponsorship in our case. I am the majority owner and other employees own the balance. All technical knowhow, equipment and funds for operation and expansion has been generated internally. Banking arrangements were worked out with a local bank and all loans guaranteed personally by the owners.

During this period we have endeavored to expand and diversify so as to become more independent. We operate an Avionics shop performing airline communication, navigational and radar equipment repair and overhaul, and operate a fixed base operation with a small aircraft dealership. We are constantly searching for new avenues to become independent from 8(a) assistance but our ties to hard core employment and high cost location make it extremely difficult in our line of work. I am attaching as part of this written statement some data on our organization as of June, 1971, including total employment and employee breakdown. Note that we employed 21% hard-core and 53% minorities.

Based on our experience I have some constructive suggestions to offer. I think it should be made clear that we feel a properly run 8(a) program is beneficial and has a definite place in our economic system. While information indicated overall 8(a) program may have suffered some bad experiences in the past, we feel ours has been successful, and sincerely hope our experience will be equated along with those who may have been judged as failures.

Now for my suggestions. I feel there should be two types of 8(a) programs.

- (a) Minority ownership per the new concept.
- (b) Hard-core employment as the original concept.

As an example of one who has advanced under the minority ownership concept I can hardly fault that approach. Any program that will assist a qualified (and I repeat qualified) individual to start his own business has to be good for our free enterprise system. If he is a minority or hard-core individual there is an even greater plus factor. There are many capable individuals who can benefit from the administrative and financial support afforded by the 8(a) program. But desire and capability aren't the only factors in starting a business. Don't underemphasize the necessity of business acumen and sources for funds to operate. These are as important as technical know-how and good personnel. Even with knowhow and personnel our own experience shows you can't get off the ground without funds and working capital to meet the payroll. Banks will not lend money without guarantees or collateral. Progress payments and assignment of government contracts are one means of solving this problem. In addition, awarding of a government contract provides both technical and management recognition which will get a new company off on a proper image, and this too is important. One of your biggest problems is simply that you are a new company. It is in these areas of administrative and financial assistance, and in the allied areas of image, integrity, and responsibility that the SBA and 8(a) programs will assist minorities to form and operate companies that will prosper and employ themselves and others.

But while we consider minority ownership a most important factor, I most assuredly do not feel we should abandon the original concept of employment of hard-core and minority personnel -- those less able minority workers who by reason of lack of education or finances are just happy to have a job. While we understand the track record under this old concept was rather poor, our own experience has been good. We think there's a real need for providing meaningful jobs to those hard core individuals who really want to work. Most experience has indicated it is almost impossible to build a viable and competitive firm utilizing such personnel. To some extent this is true. You do have high absenteeism and turnover, lower skill levels and efficiency, less interest in safety and discipline. Admittedly, as a result, even we who have had some success are having continued difficulty in remaining competitive.

On the other hand on those programs we have received under 8(a) auspices we feel little if any cost penalty has been experienced. I understand this has not been the case with all 8(a) contractors. If so, let's still appreciate the program for what it can do in the welfare field. Let's establish a hard-core class of 8(a) work programs and openly recognize them as welfare programs. Then let's establish a fund or other means by which any cost penalties can be paid. For example, the Air Force has many programs which could be so assigned. The big problem in these days of tight funding and squeezing of the defense dollar, is the Air Force procurement people cannot justify nor afford to pay a penalty in cost -- therefore, few 8(a) programs. All right then, if a program is developed which will provide meaningful hard-core jobs, pay the Air Force the cost differential out of a special fund. President Nixon just allocated \$200 million to help unemployment areas by providing jobs in public service occupation. What I am suggesting here we do the same thing for hard-core areas using Small Business and 8(a) programs as a medium. It is our experience minority and hard-core personnel can be found who will and desire to work. If they work they can stay off welfare. At the same time they can maintain personal and family pride. As you well know, the concept of self supporting jobs in lieu of a dole is desired by the majority of Americans.

The third suggestion has to do with the total time period by which SBA will support an 8(a) contractor before they deny support and let him "sink or swim". It is our understanding it has been arbitrarily established at 3 years. We are not sure this is realistic. We feel it more a function of type, location, and employee cost in the business. In our own case we operate in the highly competitive defense area. We compete in a technical field and on a national scale. We compete with low cost areas but actually operate in a high cost area utilizing less efficient help. In a business known as one of the most competitive it is highly doubtful that we or anyone else can consistently remain competitive from a price standpoint. Yet at the end of three years, (and even though our cost penalty has been negligible) we have been told no more assistance in the form of 8(a) contracts will be available. We may well go slowly out of business. On the other hand, I have little doubt some minority owned companies who develop a unique product and have low labor costs and good management may need help for only a year or more. What I am suggesting is that such time determination not be established on the sole basis of an arbitrary limit but on the value of the work being done by the individual company and its overall benefits to the economy and social system. For example a company willing to assume the added burdens of hard core employment would receive extended 8(a) assistance, and if useful enough, even continued assistance so long as it provides hard-core employment.

Now let me emphasize:

1. We owe our continued existence in part to the support of the SBA and 8(a) programs.

2. We think the 8(a) program is a success and has a place in our social and economic system.
3. We feel continued consideration should be given to 8(a) hard-core programs. We would be happy to assist in a consulting capacity.
4. We think the 8(a) program properly administered can be an effective social and welfare tool and provide a significant means of reducing unemployment.

In conclusion, once again let me express my appreciation for the opportunity to appear before you and to pass on my thought on constructive improvement to a worthwhile program. I sincerely hope they will aid you in coming to the best possible solutions.

AEROSPACE SERVICES, INC.AND WESTERN AIRMOTIVE CO., INC. - WHOLELY OWNED SUBSIDIARYPERSONNEL MAKE-UPAS OF JUNE 1971Aerospace Services, Inc.

<u>Program</u>	<u>Total on Program</u>	<u>Total Ethnic on Program</u>	<u>% Ethnic on Program</u>
T-33	66	22	33.3
Pallets	23	22	95.7
Generators	33	24	72.7
Salaried	<u>24</u>	<u>7</u>	<u>30.4</u>
	146	75	52.9%

Western Airmotive Co., Inc.

Production	2	1	50.0
Salaried	<u>4</u>	<u>0</u>	<u>0</u>
	6	1	16.7%

ETHNIC ORIGIN OF EMPLOYEES

Caucasian -----	76
Spanish Surname-----	6
Oriental-----	20
Afro-American -----	43
Other -----	<u>7</u>
Total-----	152

Certified HRD ----- 21%

LIST OF SOCIAL AND WELFARE AGENCIES  
WORKED WITH ON 8(a) PROGRAMS

- A. Small Business Administration  
450 Golden Gate Avenue  
San Francisco, California 94102
- B. State of California  
Human Resources Development  
301 - 13th Street  
Oakland, California 94612
- C. State of California  
Human Resources Development Centers  
(East Oakland - 8924 Holly Street)  
(Fruitvale Branch - 3136 East 14th Street)  
(Skill Center - 1100 -67th Street)  
Oakland, California
- D. Veterans Administration  
49 - 4th Street  
San Francisco, California
- E State of California  
Human Resources Development Center  
Chinatown - North Beach  
661 Commercial Street  
San Francisco, California

Mr. HUM. Thank you, Mr. Chairman.

What I would like to do, Mr. Chairman, is just briefly highlight the discussions we have here in these comments I have.

First allow me to give you a little background on our corporation. It was formed in 1964 by myself and a group of individuals who had worked together on aircraft overhaul and modification programs when the company for which we worked decided to quit the business. The original contract was for T-33 aircraft overhaul and was bid and won competitively, although since we were a new company it took the intervention of the Small Business Administration and a certificate of competence before award was finally made. The first contract was successfully completed and the corporation progressed slowly on competitive contracts until 1968 at which time it was selected as one of the first 8(a) contractors under the original program designed primarily to provide jobs to disadvantaged hard-core untrained personnel. The workload since that time has varied up and down with the availability of 8(a) programs and other programs which could be won competitively. Employment peaked in 1970. We had approximately 150 employees in June 1971, and currently have dropped back to 94 due to phasing out of contracts. Contracts have always been completed satisfactorily from the standpoint of quality and schedule, and with little or no cost penalty to the Government.

This cost penalty we are talking about is a subsidy, added subsidy, cost. As was the case with many 8(a) companies there has been no large company sponsorship in our case. I am the majority owner and other employees own the balance. All technical know-how, equipment, and funds for operation and expansion has been generated internally. Banking arrangements were worked out with a local bank and all loans guaranteed personally by the owners.

We are constantly searching for new avenues to become independent from 8(a) assistance but our ties to hard-core employment and high-cost location make it extremely difficult in our line of work. We would like to have you look at one of the attachments I gave you. Note that we employ 21 percent hard-core and 53 percent minorities.

Based on our experience, I have some constructive suggestions to offer. I think it should be made clear that we feel a properly run 8(a) program is beneficial and has a definite place in our economic system. While information indicated overall 8(a) programs may have suffered some bad experiences in the past, we feel ours has been successful, and sincerely hope our experience will be equated along with those who may have been judged as failures.

Now for my suggestions. I feel that there should be two types of 8(a) programs:

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But while we consider minority ownership a most important factor, I most assuredly do not feel we should abandon the original concept of hard-core and minority personnel—those less able minority workers who by reason of lack of education or finances are just happy to have a job. While we understand the track under this old concept was rather poor, our own experience has been good. We think there is a real need for providing meaningful jobs to those hard-core individuals who really want to work. Most experience has indicated it is almost impossible to build a viable and competitive firm utilizing such personnel. To some extent this is true. You do have high absenteeism and turnover, lower skill levels and efficiency, less interest in safety and discipline. Admittedly, as a result, even we who have had some success are having continued difficulty in remaining competitive.

On the other hand, on those programs we have received under 8(a) auspices we feel little if any cost penalty has been experienced. I understand this has not been the case with all 8(a) contractors. If so, let us still appreciate the program for what it can do in the welfare field. Let us establish a hard-core class of 8(a) work programs and openly recognize them as welfare programs. Then let us establish a fund or other means by which any cost penalties can be paid. For example, the Air Force has many programs which could be so assigned. The big problem in these days of tight funding and squeezing of the defense dollar, is the Air Force procurement people cannot justify or afford to pay a penalty in cost—therefore, few 8(a) programs.

All right, then, if a program is developed which will provide meaningful hard-core jobs, pay the Air Force the cost differential out of a special fund. President Nixon just allocated \$200 million to help unemployment areas by providing jobs in public service occupations. What I am suggesting here we do the same thing for hard-core areas using small business and 8(a) programs as a medium. It is our experience minority and hard-core personnel *can* be found who *will* and *desire* to work. If they work they can stay off the welfare. At the same time they can maintain personal and family pride. As you well know, the concept of self-supporting jobs in lieu of a dole is desired by the majority of Americans.

The third suggestion has to do with the total time period by which SBA will support an 8(a) contractor before they deny support and let him "sink or swim." It is our understanding it has been arbitrarily established at 3 years. We are not sure this is realistic. We feel it more



a function of type, location, and employee cost in the business. In our own case we operate in the highly competitive defense area. We compete in a technical field and on a national scale. We compete with low-cost areas but actually operate in a high-cost area utilizing less efficient help. In a business known as one of the most competitive it is highly doubtful that we or anyone else can consistently remain competitive from a price standpoint. Yet at the end of 3 years—and even though our cost penalty has been negligible—we have been told no more assistance in the form of 8(a) contracts will be available.

We may well go slowly out of business. On the other hand, I have little doubt some minority-owned companies who develop a unique product and have low labor costs and good management may need help for only a year or more. What I am suggesting is that such time determination not be established on the sole basis of an arbitrary limit but on the value of the work being done by the individual company and its overall benefits to the economy and social system. For example, a company willing to assume the added burdens of hard-core employment would receive extended 8(a) assistance, and if useful enough, even continued assistance so long as it provides hard-core employment.

I would like to digress from my comments, Mr. Chairman, if I may, and discuss the thought that you just discussed with the gentlemen from both large companies.

I think greater participation by the Department of Defense and other agencies to channel programs into 8(a) programs should be done. I think this can be probably done by utilizing existing Air Force Defense small business representatives that you now have.

We have found in some instances there is a conflict between it, or an area of conflict between the Small Business Administration representative (PCR's), and the Air Force Defense small business representatives.

I think a closer coordination between the two offices would definitely pinpoint many programs that would go 8(a).

To give you an example, Mr. Chairman, this type of situation is the AIMS kit procurement. Aerospace Services was the successful bidder on the T-33 AIMS kit procurement, and this procurement was set aside for small business only. It was not an 8(a) program. However, due to the interceding of NARTRANS and through the large business pressure brought to bear by North American, NARTRANS receive half of the program. The other half of the T-33 AIMS kit fabrication, and now this completes a circle where an 8(a) contractor like ourselves has become a successful contractor, and then in turn we are competing against other or a portion of our contract was taken away by an 8(a) program which we feel this type of conflict could be definitely determined by the prime depot.

This is what I mean, the coordination between the PRC and the Air Force Defense Small Business representative. Both of them either could be channeled through an 8(a) program or could have been left as small business set-aside. We were the successful bidders, so actually we have two procurements now. NARTRANS has still half of the T-33 AIMS, and we have got the rest. We delivered the prototype kit. We have also installed the prototype kit on a T-33 aircraft which we offered to do for free to the Air Force.

Senator MONTOLA. Do you do complete manufacturing, or do you do assembly work like they do?

Mr. HUM. We do assembly work, which is part of our work, Mr. Chairman. The T-33 program which we have just completed, the T-33 aircraft undergo "Iran" modification and we completely fabricated and installed new electronic and electrical harnesses in the aircraft. The airplanes were completely rewired from stem to stern. We have a fabrication shop where we fabricate the entire wire harness assemblies with the electrical connectors, and this is done by hard-core or disadvantaged personnel.

Senator MONTOLA. When did you organize your company?

Mr. HUM. We organized in 1964, sir.

Senator MONTOLA. And what kind of business do you do now?

Mr. HUM. Right now, at present, as we mentioned in the comments, we operate an avionics shop performing airline communication, navigational, and radar equipment repair and overhaul and operate a fixed-base operation with a small aircraft dealership. We have been branching away from, as I indicated in our comments, from 8(a) assistance.

Senator MONTOLA. Are you diversified?

Mr. HUM. We are trying to, sir, but as we mentioned in our comment, by having disadvantaged and hard-core employees on our payroll we find we are not too competitive, and that is the reason when we found out about this 3-year limitation deal I made a special trip to discuss the situation with the Small Business Administration in Washington. And, Mr. Chairman, I would like to emphasize, too, that the local SBA office here and the management of the local SB office, especially with the gentlemen that are familiar with the 8(a) program, have offered great help to us and assistance through our 3 years with the 8(a) program, and without their assistance we would not be here today speaking to you.

Senator MONTOLA. The time is 3 years and it is 5 years for Indians. You are acquainted with that; are you not?

Mr. HUM. Yes; and that is the reason why I say it would be a different situation now, Mr. Chairman, if we started under the new concept where it is strictly minority-owned business and you can go out and hire any individual you can. But we started under the original concept where it was minority ownership plus the hiring that was imposed upon us was to hire and train disadvantaged, hard-core personnel.

We have these people on our payroll now, and they are less efficient and, therefore, we are finding ourselves not too competitive.

Senator MONTOLA. What was your gross last year?

Mr. HUM. Our gross was combined with the fixed base operation, and so forth, at about \$1.5 million.

Senator MONTOLA. And was it more than that the previous year?

Mr. HUM. No; it is less, a little less, than the previous year because the 8(a) programs have since curtailed.

Senator MONTOLA. Would the 8(a) program help your business substantially?

Mr. HUM. Yes; it is about 90 percent of our business. And also, Mr. Chairman, I would like to comment—

Senator MONTOLA. I notice the concept that you have presented here suggests that any penalty costs incurred because of hiring of less efficient help or hard-core employees, should be absorbed by SBA.

Mr. HUM. Either SBA absorb the penalty costs, Mr. Chairman, or either have the Air Force able to absorb it out of a special fund because that is the reason we feel the reluctance of the Defense Department.

Senator MONTROYA. What kind of a tolerance would you provide?

Mr. HUM. I think the existing rule now allows it to 33 percent, 33 percent differential under regulations at present.

Senator MONTROYA. What do you mean by that?

Mr. HUM. The armed services procurement regulation does allow a 33-percent margin, but I doubt very seriously very many programs have been awarded under these, or under that concept.

Senator MONTROYA. They have abandoned the 33 percent.

Mr. HUM. Yes; they have. I think it is on the books, but whether they actually follow it as a criteria is something that I do not know.

Senator MONTROYA. What would you suggest as a reasonable alternative?

Mr. HUM. I think it should be maintained, Mr. Chairman, in that I think the hiring of disadvantaged, hard-core people does take the people off of welfare, and this is one of our Nation's biggest problems at present.

Senator MONTROYA. Would you think that this was cheaper than welfare for them?

Mr. HUM. I think it is; definitely. In other words, these people become—

Senator MONTROYA. And the kind of help that would give them back their pride?

Mr. HUM. That is definitely true, and to give you an idea, Mr. Chairman, like in our operation, we have only lost in 3 years of operation one paint gun and one drill-motor, and for 3 years of operation, from the loss standpoint, that is a remarkable record. And we find out that among our disadvantaged, hard-core employees we have people that are on parole, ex-convicts, and so forth.

We have had girls that have worked in our shop that we have been asked by the Department of Employment, the Human Resources Department, to put on our payroll to take them off of welfare, to provide jobs for them, and I think this is good; we have had girls that worked with us for about 3 years, and then an electronic firm that is just down the street offered them \$1 to 75 cents more an hour more than we were paying them after they had been trained by us, so I think this proves there is a redeeming feature to this, and especially these people that have come off the welfare rolls. And I think one thing I would like to try to bring up, Mr. Chairman, is the consultation.

We have rendered quite a bit of consultation to other small 8(a) contractors. There was a gentleman this morning, in this morning's session, that we have consulted with and advised him. Their company also received an AIMS, an 8(a) AIMS kit for the T-39 aircraft, and he was having to borrow money from the local bank, all of it, to finance it. So we advised him that there are progress payments available that he should make a request for, and my associates, James A. Thomas, who is vice president and general manager, who is with me today, showed him a letter that we wrote to a contracting officer requesting that such consideration be given.

And this means, Mr. Chairman, additional profit to this company by having it, and once it is allowed by the Defense Audit Department,

the Defense Agency says it is an allowable item, then this means more profit to him.

Senator MONTROYA. Why does it mean more profit?

Mr. HUM. In other words, he did not have to borrow that much from the local bank.

Senator MONTROYA. Paying interest on the loan?

Mr. HUM. That is right. It is a fixed-price contract, and he is committed, and I think this consulting effort, being that we are a small business concern ourselves, we understand and realize the little problems that these gentlemen run into.

There is another company that has come by and asked us to look over an FAA bid with them, and we perform this service without any added cost to them other than our own time, which helps add to the success of 8(a) contractors and minority companies. Everyone that failed is a bad mark against other small business concerns so, therefore, by helping these little, small minority business concerns, the more successes that we realize, we can show the general public that, yes; it can be done.

Senator MONTROYA. Do you feel that there is a lack of counseling available to these small firms?

Mr. HUM. I think the SBA has its hands full. I made the same comment to Mr. Marshall Parker when I visited him earlier this month, is that I think the field men are shorthanded, the SBA is shorthanded in some respects. I think additional counseling could be given if there were more staff at the SBA, more staff, and they had the time to do it.

Senator MONTROYA. Thank you very much, sir. We appreciate your testimony.

Now, Mr. Williams.

**STATEMENT OF LARRY WILLIAMS, NAIROBI CORP., RICHMOND, CALIF.**

Mr. WILLIAMS. Thank you, Mr. Chairman.

Senator MONTROYA. Do you have a statement?

Mr. WILLIAMS. No; I do not have a prepared statement. I have a few items—

Senator MONTROYA. Who do you represent?

Mr. WILLIAMS. Nairobi Corp.

Senator MONTROYA. And what is the Nairobi Corp.?

Mr. WILLIAMS. Nairobi Corp., is, at present, a group of three black individuals that we incorporated in July 1968 with the idea of doing economic development in the lower income, minority communities. When we originally started there were eight of us altogether. All of us had business experience and/or training of one sort or another, and we come together with the idea of pooling this talent, an experience which we felt we had at that time to make a more viable contribution to some solutions to the economic problems in the community.

Over the course of the last 3 years we have dwindled, or attrition has eroded us to the present three. Currently, we operate two businesses individually in California.

Senator MONTROYA. What are the businesses?

Mr. WILLIAMS. We have an offset and printing shop, Prestige Graphics, a job shop doing commercial printing of all sorts.

Senator MONTROYA. What was the gross last year in that shop?

Mr. WILLIAMS. Gross last year would probably be roughly in the neighborhood of, I would say, \$130,000.

Senator MONTROYA. What is the other business?

Mr. WILLIAMS. Pardon me?

Senator MONTROYA. What is the other business?

Mr. WILLIAMS. The other business is Wood Products, which is a wood fabrication plant. We make cargo containers, shipping crates, and other specialized, tailormade, rough wood items of that sort.

Senator MONTROYA. How much did you gross in that business?

Mr. WILLIAMS. Last year, well, our anticipated—we would expect this year, possibly this calendar year, possibly to gross in the neighborhood of \$400,000 to \$500,000 at the present trend of it.

Senator MONTROYA. How much did you gross last year?

Mr. WILLIAMS. Last year it was in the neighborhood of \$209,000. We have fortunately, I would say, doubled our sales each year since we have been in business. Now, however, although we have done that, that does not necessarily mean we have a lot of profit, obviously.

Senator MONTROYA. Did you realize any profits?

Mr. WILLIAMS. We have had periods of profit and of none.

Senator MONTROYA. What was reflected for the whole year profitwise?

Mr. WILLIAMS. We had a net loss.

Senator MONTROYA. You had a loss?

Mr. WILLIAMS. Right, as we are running, attained earnings at this point, are running at \$44,000 loss over the last 3 years, it is running in this rough neighborhood.

Senator MONTROYA. For the 3 years?

Mr. WILLIAMS. Right.

Senator MONTROYA. Do you live off of these businesses?

Mr. WILLIAMS. Yes; we do. We have for the past 3 years, anyway.

Senator MONTROYA. How many of you?

Mr. WILLIAMS. Three of us. We are also recipients of several 8(a) contracts, and I might point out that we would not probably be in business today had we not received those 8(a) contracts.

Senator MONTROYA. How much have you received in 8(a) contracts?

Mr. WILLIAMS. In the print shop we are currently recipients of two contracts which are in a total amount of \$45,000.

Senator MONTROYA. How much?

Mr. WILLIAMS. \$45,000 total. That is over a year. And in the woodshop we recently completed a contract for about \$141,000.

Senator MONTROYA. For who?

Mr. WILLIAMS. For the General Services Administration. We currently have an open-ended contract which is valued at approximately \$60,000 in the woodshop, but currently we do not anticipate that orders will reach that amount.

Senator MONTROYA. What do you do in the woodshop?

Mr. WILLIAMS. We make, for example, in the GSA contract, it was household shipping crates, boxes for shipping household goods overseas, et cetera. We make, for example, in commercial business we make for IBM special shipping crates for their equipment that they send us blueprints and specifications for. We make simple items such as nursery flats where nurseries put their plant material in for storage in the nursery. These kinds of items. It is basically rough carpentry,

although some of it, some of the work requires skill, but it is not a highly polished, finished, fine furniture type of operation.

Senator MONTROYA. What else does your corporation do?

Mr. WILLIAMS. Those are the two operations.

Senator MONTROYA. Are you a holding company?

Mr. WILLIAMS. We are a solely owned corporation by the three individuals.

Senator MONTROYA. And you operate these businesses under different business names, but they are part of the corporation?

Mr. WILLIAMS. The corporation is the umbrella, as it were, and it deviates with the names, the Westwood and the Prestige are deviates for the corporation.

Senator MONTROYA. How much do you have in 8(a) contracts for this year?

Mr. WILLIAMS. Currently in the printshop we are still operating on one small contract which was renewed in April of this year for approximately \$6,000 for the publication of the Navy Newspaper.

Senator MONTROYA. All right; \$7,000, is it not?

Mr. WILLIAMS. Approximately, yes.

Senator MONTROYA. And you have \$69,674 for boxes for the Navy; right?

Mr. WILLIAMS. That is the value of the contract, although as I said it is an open-ended kind of contract. It is not a firm order contract. They order against it, as they need to, so we may or may not realize that out of the contract.

Senator MONTROYA. I see.

Mr. WILLIAMS. The other contract that we have in the printshop is currently in an extended period for the second time. This is one of the complaints that we have regarding some of the problems that we have experienced in the 8(a) program. We have had experiences of very, very limited time to prepare proposals and consider all of the factors involved in putting together a complicated bid for a year's publication of that sort. We have, as you saw, we are in second extension. Now, on the major contract we have, which was valued at about \$40,000 for the publication of the Navy publication, the "Grapevine," and in the Navy Shipyard—

Senator MONTROYA. What is your objection to the extension of the contract?

Mr. WILLIAMS. Well, we object to a number of things. One, the fact we are uncertain at this point as to whether or not the contract is going to be renewed under the 8(a) program. We have attempted to get the specifications for which we can prepare a new bid. One of the items we are particularly interested in on this contract is that as we understand it, the concept of the 8(a) program is to facilitate and make it possible for small businesses to become competitive in the market. And over a period of time you should be able to take advantages of economies that you can introduce into your operation or offer the contractor, or the vendor, or whatever. New improvements in materials, equipment, et cetera.

One of the ideas we have for reducing the costs on our current contract, which is in the extended period, is the acquisition of a new type or new piece of typesetting equipment which will make it possible for us to do in-house the copy preparation for this publication

at a reduced cost over what we were paying out. We estimate, roughly, at this point, without seeing any specifications, roughly in the neighborhood of \$200 to \$300 per issue.

Senator MONTROYA. Well, what impairments are you experiencing now?

Mr. WILLIAMS. Pardon?

Senator MONTROYA. What are the impediments you are facing now in accomplishing that objective?

Mr. WILLIAMS. We cannot get the Small Business Administration and/or the supplier to come to terms on this. In fact, we cannot get the specifications. We have not gotten the specifications in order that we can make the proposals, even though we have made several attempts to do that.

Senator MONTROYA. Are they ready to do it?

Mr. WILLIAMS. I do not know.

Senator MONTROYA. If they are not ready, they cannot, then.

Mr. WILLIAMS. Right. I would assume.

Senator MONTROYA. Would they extend your contract?

Mr. WILLIAMS. That is the question we have at this point. We have had a very successful contract, we have performed on time, we have given them a better quality product.

Senator MONTROYA. Have you received any indication that they will not extend it?

Mr. WILLIAMS. We have no evidence, no indication to that effect. We understand that there is a problem possibly occurring, as occurred originally with the former vendor on this contract, who happens to be a former State senator, and we understand there are some pressures being brought to bear there, as far as renewing this contract.

We also are aware that probably a similar problem is presented as when we initially got the contract. There was a reluctance on the part of the Navy at Mare Island to transfer the contract from a very convenient location to the Richmond operation.

Senator MONTROYA. Do you do any work for the private sector?

Mr. WILLIAMS. Most of our work is for the private sector. We did work for approximately, I would say, a year or a year and a half or 2 years before we even approached the Small Business Administration regarding 8(a) work, because we were of the firm conviction we had to make it on our own, more or less. But, of course, things being as they were, we realized this was another area where we could get some more work.

Most of our work is commercial work. We solicit on our own, and have gotten it on our own, and maintain on our own. We have the government work for the print shop which represents, I would say, less than, probably a quarter of our total volume.

Senator MONTROYA. Are you able to get proper financing for your business?

Mr. WILLIAMS. This has been a difficulty. We are almost 100-percent financed. We, as I said, we did this out of motivation rather than financial backing, and we had to get our complete financial package which is backed and guaranteed by the Small Business Administration. We were underfinanced, in our opinion, at this point partially due to lack of experience on our part, not having that business experience, but we were not made aware of these factors in the process of negotiating the loan.

Senator MONTROYA. Do you have a small business loan now?

Mr. WILLIAMS. Yes, we do. All of our money, the bulk of our money, approximately \$76,000 is small business guaranteed. We have another loan of about \$12,000 which we secured on our own through the Bank of America. That is our financing, basically. As I indicated, this has been one of our problems, and this is particularly one of the issues we raised relative to the way in which the 8(a) program is carried out, is that we are not permitted to include in our proposals for our separation of our proposals, interest expense or sales expense.

For us, of course, this is a tremendous expense, being 100-percent financed, so even though we determine what our overhead is, exclusive of these factors, we still have a major expense item that we are not able to recover.

Senator MONTROYA. Are you current on your loan payments?

Mr. WILLIAMS. Yes. As of now we are current on our loan payments.

Senator MONTROYA. And interest, are you current on your interest payments?

Mr. WILLIAMS. To my knowledge, we are; yes. This is one aspect that I do not personally handle. My other partner handles it. I run the print shop primarily, but this is a major expense item for us, has been a major expense item for us, and consequently we, even though when we put together a proposal, we build all of the other expense factors in this, we still are not recouping the major part of our expenses in doing business under the terms of the contract, and it is one area we feel should be looked at very seriously as far as not putting that kind of restriction on the preparation of an 8(a) proposal. Some of the other problems that we have, if I can continue to allude to some of these, and I will preface all of this, as I said, with the fact that we realize that we would not still be in business, probably, had we not had 8(a) work, but there are some problems that are noteworthy and need to be looked at.

Senator MONTROYA. And you probably would not be in business if SBA had not provided the guarantee for the loans.

Mr. WILLIAMS. That is probably true also.

Senator MONTROYA. They probably helped you quite a bit?

Mr. WILLIAMS. Yes. We owe our existence at this point to the Small Business Administration. There is no denying of that. We feel, however, our existence could have been assisted much more positively.

Senator MONTROYA. If you had more 8(a) contracts?

Mr. WILLIAMS. Well, yes, possibly. We shy away from that, however, because, as I say, we are of the opinion that we should not get locked into any one market or any one source.

Senator MONTROYA. What do you suggest that SBA do?

Mr. WILLIAMS. Well, some of the things, as I said, that we would suggest is that the restriction on inclusion of interest and sales expenses in the proposals for 8(a) contracts be lifted.

We also would suggest, along with, as I said, our understanding is that this whole effort is designed to help the small businessman become competitive in the labor market where he does not need this assistance, so in order to do this one of the areas where there is such help needed is in the marketing area.

I think Mr. Rogan pointed out earlier, being an experienced man, particularly in your craft area, you are not aware of the fact of the



tremendous marketing assistance and effort that is needed. It would appear to me that one of the positive things that could be done is a part of, say, all 8(a) contracts, or part of the financing package that more or less is set-aside part of that package, should be directed strictly at acquiring talented people or expertise in the marketing area so that the business can acquire and maintain a positive sales effort on its own at the same time that we are working on other production problems.

We feel that the 8(a) program, similar to the matter being discussed a few minutes ago, your suggestion of having a separate group of people within the Small Business Administration with a specific purpose of soliciting and/or finding work, which would qualify itself for the 8(a) program, would be a tremendous help. There are many Government organizations, for example—to be specific, the Government Printing Office itself which, of course, we have a particular interest in, and the Atomic Energy Commission, and we understand the Department of the Army.

Some of these do not participate actively or at all in the 8(a) program. We feel that this is not right, an effort should be made to include them in the total package. The only way that can be done is to have a group of people who are specifically responsible and charged with this responsibility.

We feel that the Small Business Administration, under the 8(a) program, can go a long way toward working with the small businessman and his customers, as far as working out problems that may be encountered in the production and lending of technical expertise in the sense of skill expertise, and management expertise.

As indicated, myself and my partners have business training and background so that was not really our problem. Our problem was one of getting assistance in solving some of the tangible production problems, scheduling and marketing problems and things of that sort that require previous knowledge or skill in the particular discipline we were working in.

But, for example, in working with the small businessman and the Government customer to facilitate the implementation of new and better, improved methods which are designed to make these small businessmen more competitive in the marketplace, and also facilitate cost reductions to the Government customer on his contracts, and this is one of the areas.

We think that as part of the financing package, or in some way incorporated in the proposal under the 8(a), that there should be provision for a line of credit, revolving or otherwise. For example, in the case of our woodshop we were faced with a very severe and sincere problem which caused us some of our difficulties today.

When we were awarded our initial contract with household containers, it was awarded in July, and we, of course, had to proceed with the preparations of the prototype on the basis of the specification we had, which we did, and this was ready for inspection and approval in August. At the same time the inspection was made, there was determined to be a deviation, not on our part from the specification, but there was a deviation in the specification. This required approval and clarification, and correction from Washington, D.C., which took 2 months.

In the meantime, we had geared our operation up, staffed it, and were prepared to go into production based on approval of a prototype back in August, and here we sat in the middle in the meantime holding these expenses of maintaining our plant. We also were not——

Senator MONTROYA. Did you not have other contracts in the plant?

Mr. WILLIAMS. This is the point I was going to make. We were ready and we were not able to adequately go out and market other work because we knew we had a major contract coming in and we did not know what time it was coming in, and we would not have been able to carry on a substantial amount of other work and also perform on the Government contract.

So, when the uncertainty caused by not knowing when we would be given the go-ahead on the 8(a) contract, we were not able to maintain our commercial customers.

Senator MONTROYA. Well, as a matter of fact, you had not been designated as the one to do the work yet.

Mr. WILLIAMS. This was part of the problem, we later understood.

Senator MONTROYA. So, therefore, you could not get any financing from a private banking institution, much less from SBA?

Mr. WILLIAMS. We understood that to be a part of the problem later on. So, my point here, in the meantime, of course, raw materials in this case, particularly in the lumber industry, escalated approximately 40 percent during that period of time. Of course, we were locked into a bid we had submitted on the basis of other prices at a lower rate. The contract, of course, was finally awarded under the proposal that we submitted. In the meantime, of course, as I said, expenses increased, raw material costs had increased so we had to absorb that within the framework of our existing proposal.

But, my point about the line of credit is this: That in the case of a small business, as we are, with limited working capital, very tight financing, it is very difficult for us to come up with the required working capital to make the major purchases that are required to even start a contract of this nature.

So, consequently, we ended up entering a trust agreement with a management consulting group that works with us in order that they would make the money available, purchase the material, and that was the way we were able to even start the contract. So, a revolving line of credit of some sort which would permit the contractor or the small businessman to get a loan, based on need or firm commitments, I think would be a very positive kind of improvement in the total SBA concept of packages.

Those are the major points that I had to make regarding some of the improvements. There are obviously other small ones, but this has been our experience, and as I said, we feel that it has been a helpful one and it was crucial to our existence. We are not at this point, I would say, begging for or not really wanting more SBA work, as it were, but we would want more assistance to solve some of the problems that we face that we feel SBA could provide to us.

Senator MONTROYA. Thank you very much, Mr. Williams. That is a very fine statement you have made.

Mr. WILLIAMS. Thank you.

Senator MONTROYA. Mr. Tom.

STATEMENT OF HENRY W. TOM, H. W. TOM AND S. F. TOM CO.,  
SAN FRANCISCO, CALIF.

Mr. TOM. Thank you, Mr. Chairman.

When I was asked to appear before this hearing, this was my first experience with this type of hearing. I do not have a prepared statement as to what I can contribute to the hearing.

Senator MONTROYA. Well, sometimes when you do not have a prepared statement you do better.

Mr. TOM. Well, I was told to tell it the way it is, so that is what I will do.

Senator MONTROYA. Well, that is the way to do it.

Mr. TOM. Now, we have negotiated and completed several 8(a) contracts.

Senator MONTROYA. What do you manufacture?

Mr. TOM. I am a general building contractor.

Senator MONTROYA. Have you had any trouble making bonds?

Mr. TOM. No, sir. Since I have no real comment to make, I just was wondering what I could contribute. Maybe I can at this point commend the people at SBA and the agencies that we have negotiated jobs with, that they are real helpful and have a pleasant way of doing business.

Senator MONTROYA. Have you any 8(a) contracts?

Mr. TOM. Yes; I have. I have completed four 8(a) contracts and I received one this morning, a contract for a \$310,000 Social building.

Senator MONTROYA. Social Security what?

Mr. TOM. Administration building.

Senator MONTROYA. And you have a \$13,000 construction job with the Veterans' Administration?

Mr. TOM. That was the first of the year. I have completed that.

Senator MONTROYA. You had one for \$131,000 for a school addition at HEW?

Mr. TOM. That is about 90 percent completed at this moment.

Senator MONTROYA. And \$25,000 for tile floors?

Mr. TOM. That is going to be completed this Friday.

Senator MONTROYA. You are doing pretty good with the Government. No wonder you do not have any complaints.

Mr. TOM. No, sir.

Senator MONTROYA. What about the financing for these jobs? Have you encountered any difficulty?

Mr. TOM. No. I think there is a reason for that. We have been in business for about 11 years.

Senator MONTROYA. Are you a corporation?

Mr. TOM. No, sir; we are a partnership. By being a partnership we can establish a line of credit with our bank on a personal basis.

Senator MONTROYA. Yes.

Mr. TOM. Of course, naturally they have a hand tied on it, but assigning personal indemnity we can get a lot more money than if we were a corporation.

Senator MONTROYA. Yes; I understand that. But, that is because your credit is good.

Mr. TOM. That is right, sir, and I think the bonding company works on the same basis as far as we are concerned.

Senator MONTROYA. You do not go through SBA for your bonding?

Mr. Tom. No, sir.

Senator MONTROYA. What do you suggest by way of innovations to improve the service that SBA offers to small business?

Mr. Tom. I really do not know, sir.

Senator MONTROYA. You are satisfied with their services?

Mr. Tom. I am. Yes, sir.

Senator MONTROYA. Have you borrowed any money from SBA?

Mr. Tom. No, sir.

Senator MONTROYA. You have just participated in the 8(a) contracting?

Mr. Tom. That is right, sir.

Senator MONTROYA. How many employees do you have?

Mr. Tom. Running between five and 10 on my own payroll.

Senator MONTROYA. What is the ethnic breakdown of your employees, sir?

Mr. Tom. Oh, about 75 percent Chinese, several Japanese, and one Caucasian.

Senator MONTROYA. That is all. Thank you very much, gentlemen.

Mr. McLarnan, would you bring your people up, sir, and we might give the Government 1 more day's work tomorrow. Would you introduce your panel sir?

**STATEMENT OF DONALD E. McLARNAN, REGIONAL DIRECTOR, REGION IX, SMALL BUSINESS ADMINISTRATION; ACCOMPANIED BY HARRY SWINKELS, ASSISTANT CHIEF, PROCUREMENT AND MANAGEMENT ASSISTANCE DIVISION; CHARLES BLACKLEDGE, COMMUNITY DEVELOPMENT PROGRAM; AND CARL WARREN, ASSISTANT CHIEF, BUSINESS DEVELOPMENT PROGRAM**

Mr. McLARNAN. Yes, sir.

On my right is Mr. Harry Swinkels, the Assistant Chief of our Procurement and Management Assistance Division.

On my left is Charles Blackledge, in charge of our Community Development Program. On his left is Carl Warren, Assistant Chief, Business Development Program.

Senator MONTROYA. You may proceed, sir.

Do you have a statement?

Mr. McLARNAN. Yes, sir.

I am Donald McLarnan, regional director of region IX, Small Business Administration, San Francisco, Calif. I am pleased to be given the opportunity to appear before this hearing on the important procurement program, commonly referred to as "8(a)," which has as its goal, giving contract assistance to disadvantaged existing or potential businessmen.

The Small Business Administration has been working very diligently with the various Federal procurement agencies and the record of accomplishments to date within the boundaries of this region will show that it has had my complete backing as well as the concerted effort of my procurement and management assistance staff. As an example, I cite the accomplishments of recently concluded fiscal year 1971 wherein region IX placed 148 8(a) subcontracts, having a value

in excess of \$16.5 million. This dollar figure represents approximately 25 percent of the dollars contracted on this program nationwide for that period. We have in the past and we will continue to contract for all types of procurement including supply, service, and construction contracts.

Region IX includes the States of California, Arizona, Nevada, and Hawaii and these States have experienced a tremendous increase in population. A large segment of these peoples left their former homes because of their dire financial condition and constitute a substantial portion of our disadvantaged population. Accordingly, we recognize our responsibility to assist these people so that they may obtain a part of the ownership of this country's economic life.

Through the various programs of the Small Business Administration, we are able to help these firms secure contract by awarding them some subcontracts; and, we are able to assist them in their financial needs through our lending programs.

Of equal importance, we work with these disadvantaged firms to develop and improve their management capabilities. While substantial progress has been made in this activity during the past fiscal year, we know of the tremendous needs in this area and of the work that must be done and we expect to move further ahead both in dollars awarded as well as number of contracts that will be made during fiscal year 1972.

Again, I thank you for the opportunity to appear before this hearing and present the Small Business Administration's message for this program.

Senator MONTROYA. Thank you very much, Mr. McLarnan. The 25-percent figure which you relate is indeed impressive when compared with the accomplishments in the rest of the country.

Now, what special effort do you direct through your organization, through the regional office here, in order to bring about this 25-percent accomplishment?

Mr. McLARNAN. Well, we have a good staff, we work hard, but we are in a very fertile field. We only need to do more, and we recognize that we have only scratched the surface, we must have more people to do the work. In other words, there is a limit to what a man can do with his two arms and his two legs.

Senator MONTROYA. How many people do you have doing 8(a) work? What are their duties?

Mr. SWINKELS. May I answer that, Mr. Chairman?

Senator MONTROYA. Yes.

Mr. SWINKELS. We have in total in the region of region IX seven people in what we call the business development program, doing 8(a) work. Four of the seven are contract negotiators, two located in San Francisco regional office, and two located in Los Angeles district office.

The other three are what we can project development officers and their responsibility is to try and obtain some of the work that the various Government agencies have available. Two of these project development officers are located in the San Francisco office, or, pardon me, all three of them are located in the San Francisco office.

Senator MONTROYA. Do you have any contact with the procurement agencies here?

Mr. SWINKELS. Yes, sir.

Senator MONTROYA. And what have you accomplished through those contacts by way of information that you can pass on to the small business community?

Mr. SWINKELS. Well, the contact we do have with the various procurement agencies located within our region are such that we have five procurement center representatives that are assigned to the set-aside program. They have additional responsibilities also to try and obtain some of the 8(a) work that may be available from various installations. Of the five procurement center representatives, and one is permanently stationed at the McClellan Air Force Base at Sacramento, Calif. Two are located as liaison procurement representatives in San Francisco, the other two are located in the Los Angeles district office.

Senator MONTROYA. What kind of cooperation or information do you receive from the different Government agencies in this area?

Mr. SWINKELS. We have excellent working relationships with the majority of the Government installations in this area.

Senator MONTROYA. What about Defense Supply?

Mr. SWINKELS. We have no Defense Supply Agency here.

Senator MONTROYA. Where is it located?

Mr. SWINKELS. Well, the Defense Supply Agencies are located back east, we just have a subsistence center.

Senator MONTROYA. There is one in Kelly Field, is there not, a DSA? You do not have any in California?

Mr. SWINKELS. No, sir.

Senator MONTROYA. What about the Department of Defense branches?

What kind of cooperation do you receive from them?

Mr. SWINKELS. Excellent cooperation, the Army, the Navy.

Senator MONTROYA. In this area?

Mr. SWINKELS. Yes, sir.

Senator MONTROYA. Do you receive any information out of Washington with respect to procurement that might be serviced here?

Mr. SWINKELS. Yes, sir.

Senator MONTROYA. Who do you get it from?

Mr. SWINKELS. We get it from the central office, the Office of Business Development. I think Mr. Warren can answer that in a little more detail.

Senator MONTROYA. Mr. Warren, go ahead.

Mr. WARREN. Yes, sir.

Thank you, Mr. Chairman.

We frequently get procurement opportunities represented to us that our central office personnel has learned about through their local efforts at that level. These are primarily national procurements. I mean by that that the procurement opportunity is not formerly bought at field level; therefore, the continuity and contact point is much better realized at the Washington level, so our central offices help us frequently with this kind of a procurement opportunity.

Conversely, we here in the region, if we happen to hear of something that is beyond our own known capabilities of minority companies within our regional boundaries, we automatically refer that to our central office for their perusal and possible award to a minority

firm in some other region. We simply just tell the procuring activity that we do not have the capability to handle it and we will refer that immediately to our central office for screening throughout the other nine regions of SBA.

Senator MONTROYA. Do you have a list of small business enterprises that might be using the set-aside program or the 8(a) program? Do you have a list in your office?

Mr. WARREN. Not a list as such?

Senator MONTROYA. How do you contact them then?

Mr. WARREN. Well, we have approved business plans alphabetically filed.

Senator MONTROYA. You have what?

Mr. WARREN. Our business plans, business plans of the companies that we are dealing with.

Senator MONTROYA. Now, what do you mean by that?

Mr. WARREN. Well, these are business plans that have been presented to us which show projection of the company's planned business operations over the next 3-year period, showing us the amount of 8(a) contract assistance they desire, and how much commercial business they will expect to enjoy during that period of time.

Senator MONTROYA. And then what do you do with the companies?

Mr. WARREN. Well, once we have the approved business plan, we attempt to find them a procurement opportunity. We admittedly cannot do this in all cases.

Senator MONTROYA. I still do not follow. You say you have these business plans on file?

Mr. WARREN. Yes, sir.

Senator MONTROYA. Do you have the names of small business contractors in conjunction with these business plans? Do you have a cross index system?

Mr. WARREN. Yes, sir.

Senator MONTROYA. Now, give me an example of what you do, say, for instance, if there is a demand for nuts and bolts? Now, what do you do, what do you do in your filing system?

Mr. WARREN. Well, we go down through our list to see which companies we have with that type of capability, and look through their business plan file to see if they have the necessary capability to do that specific job opportunity.

Senator MONTROYA. And you have a complete list?

Mr. SWINKELS. We have companies that are registered with us at the present time that have submitted business plans that were approved by our region.

Senator MONTROYA. Yes. You have a complete list?

Mr. WARREN. Yes, that is correct.

Senator MONTROYA. Now, are these the companies who have satisfied your criteria for a certificate of competency?

Mr. WARREN. No, sir.

Mr. SWINKELS. The certificate of competency is a separate program in itself that was established at the time the agency was created. The certificate of competency program is eligible to all small businesses when they are low bidder on a set-aside procurement or procurement that is open competition. The certificate of competency has no bearing on the 8(a) program.

Mr. WARREN. As a matter of fact—

Senator MONTROYA. What about the certificate of eligibility?

Mr. WARREN. Yes, sir, the certificate of eligibility is what I am referring to here in the 8(a) program. The firms in our files are those whom we have approved and consider eligible to participate in the program.

Senator MONTROYA. Well, do you have a separate filing system for those who have a certificate of competency?

Mr. WARREN. Well, sir, I do not, myself, because my particular program is not, as I said, involved with the COC program.

Senator MONTROYA. There was some testimony introduced today indicating that there is a vacuum and that there is no known listing of small business enterprises and their capabilities.

Mr. WARREN. Yes, sir, I recall the testimony. I think this was Mr. Gay from North American Rockwell.

Senator MONTROYA. And I am trying to find out what you have in your office in this particular direction, and is it adequate, is it complete, or should we do something more to implement it?

Mr. SWINKELS. Well, Mr. Chairman, may I answer that? We have in our office what we call a facilities inventory program, which is a program wherein a small business firm can file a form with us, what we call a 166 form, listing their capabilities. Now, this program is open to all small businesses. It is not restricted to disadvantaged or any other type of business. We do have a facilities inventory in our office, but this is on a voluntary basis with the great number of small businesses, nationwide, some 4½ million small businesses under the criteria of the size standards of the small business.

We have no way of listing, nor do we have the staff or facilities to enable us to list everyone of these small businesses. We try and list as many businesses that are located within our region, region IX, and again, this is on a voluntary basis. In order to do that, we continuously mail out these 166 forms. We use all kinds of association books, telephone books if we have to, other publications that are available, to try and get these small firms to register with us in our facilities inventory so that we do have the nucleus of small firms, not particularly for the 8(a) program, but to use as a source of supply for any Government agency or any prime contractor, or anybody else that is seeking a small business source of supply in a particular field.

Senator MONTROYA. But, you do not have any catalog?

Mr. SWINKELS. They are cataloged alphabetically, under an SIC code known as Standard Industrial Classification code.

This is a system set up by the Bureau of the Budget, and everyone in the system of the Government agencies and prime contractors has a four-digit coding system that classifies it under a particular industry so you do not have to look up alphabetically all the time to see if the man is producing an item or what-have-you.

It is broken into a particular category.

Senator MONTROYA. Give me an example.

Mr. SWINKELS. For example, machine shops are under a classification, let us say, of 3599. If we get a request from a procurement agency or prime contractor, let us say, seeking small business sources in a machine shop, the first thing we do is we have the cross index, we look under this four-digit number, and under that four-digit number is



listed the various companies we have. Then we pull their file folder and we review them to determine if this is the type of work they are interested in. It is a cross-index system.

Senator MONTOYA. Now, do you make this list available to procurement agencies?

Mr. SWINKELS. We are in no position at the present time to catalog it and make it available. It is available to them if they so desire.

Senator MONTOYA. Well, the point I am trying to make is I would say that most of the time the procurement agencies will not tell you what they want to buy, locally, and so you are not going to find out, and some colonel in the purchasing office, some retired colonel in the purchasing office might try to favor some one of his close friends.

Mr. SWINKELS. This is the responsibility of the procurement center representative. As an example, the individual that is stationed at McClellan Air Force Base in Sacramento is responsible as such that he review every purchase request that goes through the procurement section, and if there is a requirement that could be set aside for small business and the procurement agency says, however, we do not have sources of supply, it is the responsibility of our procurement center representative to come to us through the facilities inventory or any other known resource that is available to him to try and obtain names of small businesses that may be interested in bidding on this procurement.

Senator MONTOYA. Now, how does it come to you. Does he call you every day?

Mr. SWINKELS. Through a form we use, what we call a source of supply, which is the standard form which lists the item that is involved. If there are some specifications or some nomenclature available, we require it as it gives us as much detail as possible so we can marry the two together.

Senator MONTOYA. Supposing there are 100 procurement items that go through in 1 day, through that procurement office, and your man is there. How is he going to send you 100 different memorandums?

Mr. SWINKELS. He had better; otherwise, he is not doing his job.

Senator MONTOYA. How can he do it? Does he have some help there to do it?

Mr. SWINKELS. He has part-time help, but he can always write it down on the form. It is just a basic, simple form.

Senator MONTOYA. Is that an unusual situation in a bid operation?

Mr. SWINKELS. Yes, sir. What you mentioned, 100 procurements per day, we would not have all 100 of them coming to us. Out of 100, we may have five which he will pick up and perhaps call us and give us the basic information on the phone, and follow up with the form.

Senator MONTOYA. Do all regions in the country use this system?

Mr. SWINKELS. Yes, sir. It is in all regions and cross indexed, also. In other words, when we request the source of supply, we do not request it only from our regional office, but it is requested also from the other regional offices.

Senator MONTOYA. Now, how successful is it?

Mr. SWINKELS. It has been very successful. I can speak only for my own region here, and it has been very successful as far as McClellan Air Force Base is concerned. The statistics, if I may, just for the last fiscal year—

Senator MONTROYA. What about—just a minute now. Let us say the San Antonio area wants to purchase certain items. Now, how do you get that information?

Mr. SWINKELS. The San Antonio office is under the Dallas region and the Dallas region also has procurement center representatives that do the same thing as our men do.

Senator MONTROYA. What if they do not manufacture the particular item in the Dallas region?

Mr. SWINKELS. That man should come to the other regions, including us.

Senator MONTROYA. Does he?

Mr. SWINKELS. Yes, sir.

Senator MONTROYA. He does? How does he do that?

Mr. SWINKELS. The same way, but the use of this one form that we use, and also by telephone, if necessary.

Senator MONTROYA. How many regions do you have in the whole country?

Mr. SWINKELS. Ten regions.

Senator MONTROYA. You mean you circulate to 10 regions, then, all 10.

Mr. SWINKELS. Yes, sir; it circulates the 10 regions.

Senator MONTROYA. Well, I have never heard of that before.

Mr. SWINKELS. As an example, if I may, Mr. Chairman, our procurement center representative up at McClellan Air Force Base, last fiscal year, furnished 1,013 small business sources. Out of that 1,013, 468 submitted a bid. Out of the 468 that did, 92 received awards. These awards were in the total sum of \$1,679,000. And this, again, is through our source of supply.

Senator MONTROYA. Out of how much total, out of how much procurement expenditure?

Mr. SWINKELS. I do not have that figure of the procurement expenditure. The total procurement expenditure at McClellan Air Force Base last year was something like \$250 million.

Senator MONTROYA. So, that is less than one-half percent?

Mr. SWINKELS. Yes, sir. However, we must exclude out of that \$250 million at least \$150 million that is customer directed, like the F-111 aircraft and so forth.

Senator MONTROYA. Do you think that we could do more through SBA?

Mr. SWINKELS. Yes, sir.

Senator MONTROYA. What do you suggest?

Mr. SWINKELS. More people.

Senator MONTROYA. More people in what?

Mr. SWINKELS. In all of our programs. As an example, you asked a little bit earlier how many people we have in the business development program, and I mentioned seven. We have an excellent record in region 9, as Mr. McLarnan mentioned, but it is not totally due to just the seven people. We have had to use other competent people, procurement center representatives and facilities inventory specialist, C.O.C. specialists, and others to supplement the personnel for the 8(a) program. Consequently, when we do that, the other programs suffer, and in order for us to do a better job we must have more people.

Senator MONTROYA. Well, I think that the overall accomplishment in the whole country is rather poor, do you not?

Mr. SWINKELS. Well, I do not care to comment for the rest of the country. I am quite proud of what we are doing here in region 9.

Senator MONTROYA. There will not be any raise anyway so you can answer that question.

Mr. SWINKELS. May I take the fifth amendment?

Mr. McLARNAN. I think it would be helpful if we had a few extra stenographers too. When Mr. Swinkels talks about McClellan Field, there are a lot of centers that we do not have a man there, or we have one there only part time. That is the thing we are talking about. We say we can do better, but if a man is in transit from one place to another, and it takes time to go there, especially out here in the West where we have big distances, it just means we cannot do as much as we would like to do, and that is no criticism of anyone except if you want us to do more, than we will do it, and we will be glad to do it, but we just have to have people to do it.

Senator MONTROYA. Well, my point, the point I am trying to make is that SBA is charged with this program, and if they do not have the adequate manpower to do a fair job on it, and to run surveillance and monitor the purchasing made by these Government agencies, then we are falling down on the job under the intent of the law. I am not blaming SBA for it completely. I think we are all to blame, in the Congress, the administration, and the SBA. I think we should all share some of the blame in this thing. But, I think it is patently clear that something has to be done because small contractors and small manufacturers are not getting their share of the procurement pie. It is going down percentage wise as it goes up dollarwise, so the pie is getting bigger and the percentage gets smaller. I do not have the figures because we have not conducted the hearings this year as to what it was last year, but it has been going down, and this is why we are having this hearing today.

Now, according to your figures you had, there was, I believe, \$16 million for the whole country in the 8(a) contracting, \$16.5?

Mr. McLARNAN. No, that is in our region.

Senator MONTROYA. So, it is in your region and that is for 1971?

Mr. McLARNAN. Yes, sir.

Mr. SWINKELS. The total dollar value in the entire country for 1971 was \$66 million and \$16.5 million was in our region.

Senator MONTROYA. What about the contracting officers?

Mr. SWINKELS. Well, can you be more specific in what you mean by what about the contracting officers, sir?

Senator MONTROYA. Do you have anybody from your agency trying to induce these contractors to give subcontracts to small entrepreneurs?

Mr. SWINKELS. Through the 8(a) program?

Senator MONTROYA. Well, either through the 8(a) or the set aside? Do you have that?

Mr. SWINKELS. Yes, sir. These are our project development specialists, and also procurement center representatives. However, we must bear in mind that large installations, and again I refer to McClellan Air Force Base because that is the largest installation we have in our region, you have a number of contracting officers and buyers and the representative deals with the small business specialist that is located at the installation and works through the small business specialist.

Senator MONTOYA. Who does the small business specialist work for, the SBA?

Mr. SWINKELS. He works for the Air Force, but that does not mean that precludes our representative from going past the Small Business specialist to deal with the contracting officer or buyers if he has some questions. He does have that authority to do that, sir.

Senator MONTOYA. Well, at one time the SBA contracting officer was placed under the Department of Defense, if you will recall, and taken away from SBA, and we changed that, and brought him back to SBA. And now you call him a procurement—

Mr. SWINKELS. A procurement center representative.

Senator MONTOYA. Yes, so, well, is he accomplishing anything?

Mr. SWINKELS. Yes, sir, he is.

Senator MONTOYA. You say you have five procurement center representatives for this region?

Mr. SWINKELS. Five procurement center representatives. The one at McClellan Air Force Base is permanently stationed there, and the other four are our liaison representatives, two in San Francisco, two in Los Angeles, trying to cover liaison on some 48 to 52 installations within the State of California, Arizona, and Nevada—

Senator MONTOYA. What does the small business representative do?

Mr. SWINKELS. Our small business representative or procurement center representative on a liaison basis visits various installations assigned to him to review procurement that were placed on open bid, not the ones that have already been set-aside by that particular installation, because that job had already been done. It is his responsibility to review procurements that were not set-aside for that prime purpose, and if it is the type of procurement, and if it is a repeat item and suitable for small business set-aside, then he can request a joint set-aside on those procurements.

Senator MONTOYA. What do you mean by a joint set-aside?

Mr. SWINKELS. An agreement between SBA and that particular procuring agency. The two parties agree and sign an agreement form that this will be set aside on a joint set-aside basis.

Senator MONTOYA. Do you have any seminars in this region for small business?

Mr. SWINKELS. Yes, sir.

Senator MONTOYA. When did you have the last one?

Mr. SWINKELS. Our 8(a) seminars, we just recently had four. Mr. Warren can answer that.

Mr. WARREN. Yes. Actually the four that were recently held within our region, Mr. Chairman, where the SBA was simply a participant rather than an organizer of them. These were organized by GSA, and by the Department of Commerce. The SBA, of course, was invited to participate from the standpoint that they spoke of the 8(a) program concept. One was held in Sacramento, one in Oakland, and one in San Bernardino, and one in Phoenix, Ariz.

Senator MONTOYA. What kind of response did you have?

Mr. WARREN. Very bad, I will have to say. SBA took a lot of criticism, possibly some of it we deserve, and I think, in my personal opinion, probably most of it we did not. And I think the reason it was leveled on us in the way it was, no doubt, was because the individuals who felt the way they did are the ones that expressed dissatisfaction

probably and did not really understand the entire picture. And you cannot blame a man for at least expressing his views.

Senator MONTROYA. Did you have good attendance?

Mr. WARREN. On all but the Phoenix one. I think the Phoenix meeting was very poor from the attendance standpoint. I would say there were probably 30, maybe 40 people in total there.

Senator MONTROYA. Well, I have conducted quite a few of those seminars, and in quite a few places we have had very poor attendance, and I am not going to blame SBA for not attracting more people. It is up to the people to come as soon as they read the notice in the paper.

Mr. WARREN. Yes, sir.

Senator MONTROYA. But, I think that is where the real fault lies, that small business people do not realize what SBA can do for them and SBA, naturally, with its small manpower cannot go out and seek these business people who can possibly service procurement contracts.

Mr. WARREN. I think, too, another thing too, on these recent seminars the Department—I am not trying to shove the blame on somebody else or other agencies, this is not the point at all—but unfortunately I think the SBA had nothing to do with the press releases on this. They were all handled by GSA and the Department of Commerce. This was a cooperative effort. However, there was no, as I say, no arrows being pointed in any direction. But, these were, I would say, probably as well attended that any that have been held, and I think these four were about, oh, the 45th through probably the 49th meetings being held nationally.

Senator MONTROYA. What has been the experience of SBA here with respect to loans to minority enterprises? Can you give me the statistics on this? How many loans have you made?

Mr. McLARNAN. I was assured by these gentlemen here that you were not going to ask me about the loan program, and I did not bring any figures. But, we are not ashamed of our figures and we can bring them to you.

Senator MONTROYA. If you will.

Mr. McLARNAN. From my recollection, our minority figures are about 45 percent in numbers, and somewhere in the 30 percent in dollar amounts. But, it is certainly a tremendously larger percentage than those people represent.

Senator MONTROYA. Can you give me a breakdown as to that, when you submit these figures, as to how many loans you have made to Spanish-surnamed Americans and black people, black business people? Can you do that?

Mr. McLARNAN. I do not believe that we keep track of them in that manner. We keep track of them as to whether they are minority or not, but whether we have the breakdown as far as loans are concerned about ethnic background, I am not certain. I think we have it, but I will certainly give you every bit of information that you ask for.

Senator MONTROYA. Well, give me the numbers of loans that you have made, and what your experience has been with respect to minority enterprises.

Mr. McLARNAN. Yes, sir, if we can do that, Mr. Chairman, on the part of the minority enterprises.

I might say in general our record in minority delinquencies and collections is two or two and a half, maybe three times more difficult than

our regular 7(a) program, our regular lending program, and this is because we have gone out of our way, we have extended ourselves trying to assist people and we took a greater risk and we knew it when we did it.

Senator MONTOYA. Do you have 10 percent participation in all of these loans, bank participation?

Mr. McLARNAN. Yes, nearly all of ours. We did have a few 100 percent, but most of ours are 90 percent guarantees. Not in the minority, of course. That is strictly SBA money.

Senator MONTOYA. How many of minority have you made in dollars, and how many loans have you made and what is the dollar amount? Would you supply it for the record?

Mr. McLARNAN. Yes, sir.

(The subsequent information was received and follows:)

SMALL BUSINESS ADMINISTRATION  
 LOANS APPROVED TO MINORITIES, NATIONWIDE, FISCAL YEAR 1971

Loan program	Direct			Immediate participation			Guarantee			Totals, by program		
	Number	Gross amount	SBA share	Number	Gross amount	SBA share	Number	Gross amount	SBA share	Number	Gross amount	SBA share
Regular business loan.....	167	\$8,430,000	\$8,430,000	329	\$17,242,300	\$10,499,975	1,627	\$95,820,351	\$84,788,190	2,123	\$121,492,651	\$103,718,165
Economic opportunity loan.....	3,818	51,553,080	51,553,080	49	828,470	660,663	1,584	23,301,725	21,859,206	5,451	75,683,275	74,072,949
Displaced business loan.....	27	1,540,566	1,540,566	3	118,000	91,500	1	6,500	5,850	31	1,665,066	1,637,916
Development company loan.....	154	11,987,820	11,987,820	4	1,146,716	785,444	13	1,767,487	1,565,740	171	14,902,023	14,339,004
Subtotal.....	4,166	73,511,466	73,511,466	385	19,335,486	12,037,582	3,225	120,896,063	108,218,986	7,776	213,743,015	193,768,034
Disaster.....	27,843	89,928,400	89,928,400							27,843	89,928,400	89,928,400
Total.....	32,009	163,439,866	163,439,866	385	19,335,486	12,037,582	3,225	120,896,063	108,218,986	35,619	303,671,415	283,696,434

LOANS APPROVED TO MINORITIES IN THE STATE OF CALIFORNIA, FISCAL YEAR 1971

Regular business loan.....	25	\$2,243,700	\$2,243,700	2	\$165,000	\$123,750	247	\$15,838,045	\$14,128,211	274	\$18,246,745	\$16,495,661
Economic opportunity loan.....	390	6,026,475	6,026,475				310	4,796,710	4,594,860	700	10,823,185	10,621,335
Displaced business loan.....	6	529,000	529,000							6	529,000	529,000
Development company loan.....	7	713,400	713,400							7	713,400	713,400
Subtotal.....	428	9,512,575	9,512,575	2	165,000	123,750	557	20,634,755	18,723,071	987	30,312,330	28,359,396
Disaster.....	620	2,423,200	2,423,200							620	2,423,200	2,423,200
Total.....	1,048	11,935,775	11,935,775	2	165,000	123,750	557	20,634,755	18,723,071	1,607	32,735,530	30,782,596

Note: The following are the lead guarantees to minorities, fiscal year 1971:

STATE OF CALIFORNIA, FISCAL YEAR 1971

	Number	Aggregate amount of rent
Nationwide.....	80	\$9,818,831.20
California.....	56	1,317,600.00

FINANCINGS OF MINORITY SMALL BUSINESSES BY REGULAR SBICS AND MESBICS—FISCAL YEAR  
ENDING MAR. 31, 1970<sup>1</sup>

[SBIC—A small business investment company, licensed by SBA, is privately owned and operated, and provides equity-type capital and long-term loans to small business concerns. MESBIC—A minority enterprise small business investment company that invests only in small business concerns with at least 50 percent of the ownership representing minority persons.]

NATIONWIDE MINORITY FINANCINGS BY SBICS AND MESBICS IN FISCAL YEAR ENDING MAR. 31, 1970

Minority groups (codes 0-5)	Financings reported by—				Total financings by SBICS and MESBICS <sup>2</sup>	
	331 regular SBICS		5 MESBICS		Number	Amount
	Number	Amount	Number	Amount		
0 Blacks.....	59	\$2,317,217	50	\$622,730	50	\$772,110
1 Puerto Ricans.....	13	1,085,401	1	15,000	1	15,000
2 American Indians.....						
3 Mexican-Americans.....	2	105,200	1	2,000	1	2,000
4 Asians.....	10	433,962			2	135,000
5 Eskimos and Aleuts.....						
Total.....	84	3,941,780	52	639,730	54	924,110

<sup>1</sup> Reporting period based on fiscal year April through March. Closeout reporting period for fiscal year ending March 1971 is August 1971.

<sup>2</sup> In California State.

Senator MONTÓYA. What is your feeling about the 10-percent bank participation requirement? Is that not an impediment, an insurmountable obstacle?

Mr. McLARNAN. Of course, it is a mild deterrent, but actually—

Senator MONTÓYA. What do you mean by mild deterrent? Usually it is a very serious deterrent?

Mr. McLARNAN. You know, I am a former bank president myself, and, of course, a bank would like to have a 100 percent guarantee instead of a 90 percent.

Senator MONTÓYA. 110 percent.

Mr. McLARNAN. Yes, or more. But, actually whether it is minority lending or any other kind of lending, it is disservice to a man if you loan him the money where he does not even have a chance of making it. So, the fact that we ask the bank to take a 10 percent piece of the action, that does not stop them. The banks have been cooperative in that regard. We do have instances where people become very incensed because they do not get a loan, but then you cannot explain to them that it would be a greater hardship to them than a help.

Senator MONTÓYA. Well, here is what I am referring to, Mr. McLarnan, that some member of a minority will go to a banker who might be prejudiced, and we have people who are prejudiced in almost any activity in this country. Now, this person may be capable of running a good business and he may be running a good business at the time, but he needs a small business loan and SBA tells him you go to the bank and get a letter from your banker for the 10-percent participation. The banker is prejudiced, or maybe it is because there is not because the banker is prejudiced, or maybe it is because there is not enough interest in participating in an SBA loan. Now, this happens many times, I know. So, what is the alternative? Well, the alternative is that if SBA thinks this man is good, why should they not be able to make a 100-percent loan? I mean, give a 100 percent guarantee on the loan? That is the point I am trying to make.

Mr. McLARNAN. That is a very good point, Senator. The only thing



is that in most cases if we can get him where, as you said, he knows how to run a business, we can usually talk a bank into making that kind of a loan. Now, I do not say we do it in every instance, but we have been very successful in that regard, and we have not had as much prejudice for racial or ethnic cases as we have prejudices where the bank just does not want to take a chance on a man who has a weak loan situation when he knows that at times like this he can loan his money to absolutely safe borrowers. So, it is not an ethnic thing so much as it is just the case that he is going to make the loan to the man who is the safest borrower.

Senator MONTROYA. I have no quarrel with the banker who refuses to make a loan to somebody that patently shows an incapability for repayment. I have no quarrel with the banker like that because he is not supposed to throw the depositors money away. I am referring to the case of pure prejudice.

Mr. McLARNAN. In the case of prejudice, here in California we have an overwhelming number of tremendously large chain banks, and the management of those banks have seen the light as far as this prejudice because of ethnic basis, and in most cases—now I know there are cases of prejudices, and let us not be misled by that, I know there are cases—but in most of the cases we have been able to go to the branch manager and say if that is the reason you are holding out on this loan, you had better get with it because the management, the head of this bank wants to make these loans, as many as they can, if they can reasonably get their money back simply because, for example, some of the banks are going into this MESBICs program, and some because they have seen their civic responsibility. So, with the exception of certain instances where I am sure there are many cases like that, but it is not nearly as widespread as some of the minority people feel, because it does not make any difference whether you are a minority or a Caucasian or what. If you are turned down by a loan you feel bad, you feel resentful, you feel hurt, and as a result, they blame it on a number of things, and, of course, the easiest one is to say I am, and they give their ethnic background and they say they did not make it to me because of that, when as a matter of fact, that might have been a factor in the case, but it is also a factor that he might have had a reasonably weak loan situation.

Senator MONTROYA. I can show you areas of this country where the banks have not made a single loan to a black American, Spanish surname American.

Mr. McLARNAN. I am sure that is true, and I am sure that 10 to 15 years ago it was almost 100 percent true. But, there is quite a program among the bigger banks here to eliminate that sort of thing.

Senator MONTROYA. Do you feel that there should be flexibility given to the SBA administrators whereby if they encounter a situation like this, which indicates a bank arbitrarily refuses and also there is a capability on the part of the potential borrower to repay that particular loan, that SBA should be vested with the authority to make a 100 percent guarantee?

Mr. McLARNAN. I believe that, and also—I do not want to speak for the agency because I mean that is done by our central office, but I personally feel that we ought to have direct funds so that when we run into a situation just like the one you described, where the man can

pay his loan back, and he does not have a bank of account, other than the one where he has been dealing with somebody who is obviously prejudiced, that we have sufficient direct funds in that instance to make that man a loan, so if he cannot get a banker to do it, the SBA will go on the loan.

Now, if we had that flexibility, it would eliminate that problem that you are talking about 100 percent.

Senator MONTOYA. Yes, I think so, and that is the only quarrel I have with the 10-percent requirement. That is the only quarrel I have with it.

Mr. McLARNAN. We like the 10 percent because it encourages the bank to get into the act with us. You see, after all, they are using 100 percent of their money. Until the time comes when we have to buy it back, and that gives us—we can spread our dollars many, many times further than the way it is under that program.

Senator MONTOYA. What does this regional office provide by way of managerial-counseling services to small businessmen to whom loans have been made?

Mr. McLARNAN. Well, the minute that a loan is made one of our SCORE representatives goes out, or a member of our management assistance programs goes out and talks with the borrower, and in many cases he also went out before the borrower got the loan. We try to set up a working arrangement with them, and through the SCORE, and we also have a contact with the society of Certified Public Accountants and other business groups here who will give us people to give aid and guidance to the small businessman, if he will accept it. But, frequently we find that after the man has got his loan he does not want to have anybody coming around advising him or telling him how to run his business. So, this is one of the minor complications that you have in this kind of a situation.

Senator MONTOYA. Well, what do you think should be done under those circumstances? Should we anticipate that a refusal might come and counsel him before the loan is made as a requirement?

Mr. McLARNAN. We not only do that, but we put it in our loan agreement that he will accept this counseling and guidance. But, whether they accept it or not, sometimes is a matter of practical application, and some do and some do not.

Senator MONTOYA. Do you have an arrangement whereby CPA's can render a voluntary service?

Mr. McLARNAN. Yes, sir, and the head of the society in this area was in my office last week working out further details and they are cooperative.

Senator MONTOYA. Do you have a pool of business people here who might volunteer?

Mr. McLARNAN. Yes. We have how many in our SCORE program?

Mr. SWINKELS. We have something like 140.

Mr. McLARNAN. 140 on our active SCORE roster, and we have names of others that we can solicit from time to time.

Senator MONTOYA. Have you been using them?

Mr. McLARNAN. Definitely, we have. I would estimate anywhere from 5 to 10 SCORE men are in our office everyday, and others are out in the field, going out.

Senator MONTOYA. They are volunteers, are they not?

Mr. McLARNAN. All of them, yes.

Senator MONTOYA. Do they pay their own expenses?

Mr. SWINKELS. Yes, sir.

Mr. McLARNAN. If it is within 50 miles, and we have a tenuous arrangement with them over 50 miles that we can give them 10 cents a mile and per diem or something to that effect.

Senator, you asked about some of these courses, and I would like to, if I may, state to you that in management training in the last fiscal year we had 53 courses, eight conferences, 21 workshops, and 11 clinics making a total of 93 courses, conferences, workshops and clinics, and that is just our San Francisco office, just right here in San Francisco. In management assistance for the entire region we had 15,350 interviews, 5,982 counseling cases, and we had a 1,616 management ability evaluations, we had 496 management assistance plans. So, with a staff like you have heard from Mr. Swinkels, you realize that somebody has been working.

Senator MONTOYA. What is your total staffing in the regional office here?

Mr. McLARNAN. For the procurement?

Mr. SWINKELS. The regional office, the entire region?

Senator MONTOYA. The total staff for SBA?

Mr. SWINKELS. The total staff in SBA procurement and management assistance is 28 professionals.

Senator MONTOYA. And the total staff?

Mr. McLARNAN. 267, and I think we are sixth on the list of 10 regions. In other words, there are five other regions who have substantially greater numbers than we have, which is no criticism of them, but it just shows you we are just working with a very limited staff in an area where there is an awful lot of work to do.

Senator MONTOYA. Well, what about some of those regions? Do they have minority problems such as this region has?

Mr. McLARNAN. I think yes. You see, some of the bigger offices like Chicago and New York, and Atlanta, and Dallas, they have not only minority problems but they have other problems.

Senator MONTOYA. Now, do you have any 406 money for consultation services?

Mr. SWINKELS. Yes, sir.

Senator MONTOYA. Do you use it?

Mr. SWINKELS. Yes, sir; very much so. We have one 406 contract here. Well, we have a number of 406 grants but we have one 406 contract with a minority firm down in Los Angeles known as Ultra System.

Senator MONTOYA. Now, what do they do?

Mr. SWINKELS. They offer management assistance to the minority firms.

Senator MONTOYA. Do you make sure that they have the business capability and experience to render this type of counseling?

Mr. McLARNAN. That determination is made in our central office, and until this new Administrator, we did not have any voice in the selection of the grantees. However, our new Administrator has indicated that we will be consulted as to the capabilities and also as to the past record of the grantees. We are very happy about that.

Senator MONTÓYA. Well, I would hope that you would look into this because some of these grants have been made to people who give counseling when they have never been in business themselves, they have never achieved any success in business. They have just set up an organization and applied for a grant, and they have been getting them, too. I think that is a mistake, that is a waste of the taxpayers' money.

What about the surety bond legislation, what has been your experience here with respect to that?

Mr. McLARNAN. We were one of the two offices that carried the pilot program on that, and Mr. Blackledge has been in charge of that. He will answer any questions you would like.

Mr. BLACKLEDGE. Since the inception of the program on April 26, 1971, in Los Angeles as a pilot program, 45 bonds have been approved in region 9. I have no statistics for the other parts of the country.

In August 2, 1971, the authority was delegated to our office to operate throughout our region, and we became the second to be regionwide as a pilot program. During the time since August 2, 1971, we have approved 24 additional bonds, which would be part of the 45 mentioned earlier, for \$1,712,195, averaging \$71,341, as an average contract size.

Now, of the 45 bonds that were approved, that is, applications for a guarantee that were approved, 22 bonds have actually been issued within our region for a total of \$971,392.31. The reason for the lag is twofold. First, all bidders are not low bidders and then secondly, there is a lag. Many times a man is approved on an application to guarantee his bond, but he does not request it for another 15, 20 or 30 days. It takes that long before he needs the bond and actually has it issued to him. So, these two are reasons.

We found one interesting case where after we approved the bond the contracting agency, which happened to be a municipality decided if someone is willing to bond him they no longer require a bond. They required it first, and then found out he could get it. I do not know whether there was something else behind it or not. These were the facts apparent to us. As we go down through our statistics we find that since we have had the program, and we keep closer statistics than before August 2, we have issued 12, actually issued 12 bonds for \$517,676, and the average size of the bonds that were issued was \$43,140.

The breakdown as to size, I think, might be of interest. Since August 2, we have approved the following number of bonds up to \$25,000, five; from \$26,000 to \$50,000, eight; from \$51,000 to \$75,000, two; from \$76,000 to \$100,000, three; from \$101,000 to \$125,000, one; from \$126,000 to \$150,000, one. In excess of \$150,000, four; making a total of 24 bonds that we have approved since we took control of the program.

Senator MONTÓYA. Have you had any defaults?

Mr. BLACKLEDGE. We have had no defaults yet, but we are too new in the program. We do have some maintenance contracts that are yearly, so it is too early for us to evaluate this. We do think that the quality is good. They have been little people, but they have been people who knew what they were doing, and I am very pleased that the ones that are coming seem to be the type of persons for whom the program was proposed.

Senator MONTÓYA. Do you provide bonds for service contractors?

Mr. BLACKLEDGE. Yes, sir; and I think as I look down through my data I believe that probably of the 24, 14 of them represent either serv-

ice or supply contracts which have only a performance bond in connection with them, no labor and material payment bonds.

Senator MONTROYA. Do you think that the present law is adequate for the needs in this particular area, or do you think that implementation is necessary—

Mr. BLACKLEDGE. The statute limits it to only performance, labor, and materials. I do not know. There might be some place to include fidelity and some other types, such as indemnity that many small people might have to come up with.

Senator MONTROYA. Like what?

Mr. BLACKLEDGE. A fidelity bond, suppose a man was a contractor to deliver mail, and he would be required to furnish bond for each of his employees. The present legislation did not envision this. Certain types of indemnity bonds, if you are going to have a contract in which you must put up an indemnity bond agreeing to replace any damage you might do in performing this contract, to other parties, and there might be a place for these two in the program.

Senator MONTROYA. What else?

Mr. BLACKLEDGE. I think these would be the two major ones. So far we have not had any. Maybe because our limit is very succinctly stated to people, and we have not had any request in excess of the \$500,000 for individual contract that is supplied and allowed in the legislation. I do not know whether this means that there are not any larger than that that need it, whether it means they have received the information and just never came to us. I do not know which is the reason.

Mr. McLARNAN. But, we have not had any requests for over \$200,000, so the inference you might think was that the \$500,000 was adequate at that time.

Senator MONTROYA. Do you have any questions?

Mr. JONES. Yes. Thank you, Mr. Chairman.

For the sake of the record I would like to illicit some further information, and perhaps Mr. Swinkels could provide this information. First, how do minority businessmen find out about the 8(a) program? Do you have an outreach program to them or do they typically find out by word of mouth and come into your office?

Mr. SWINKELS. The minority small businessman learns of the program through various types of seminars that we have had recently, through publicity in the newspapers, word of mouth, in contact with some of their competitors or friends. Some of them contact the various installations, seeking government work and the small business specialist at that installation also gives them the information that this 8(a) program is available through the SBA. Quite frankly I do not think we are reaching all that we should be reaching.

Mr. JONES. What further steps might you take?

Mr. McLARNAN. May I say that many of us are giving little talks, two or three times a week to a great many people in all stations of life. One of the disappointing things about this is that we have had meetings, I had over 250 at a meeting down the peninsula area, 4 or 5 months ago, all Spanish-speaking people, all very enthusiastic. I took my top SCORE people, I took my chief of procurement, financial processing, every chief I had, and there were about eight of them sitting up there on the stage. I told in a 20 or 30 minute talk what we could do, and then each chief stood up and was re-

sponsive to any questions that they might have. The audience was very interested, asked a lot of questions, and I do not think 5 percent from that group came in to the SBA office. Now, this is the discouraging thing about working with the minorities. It is true that we get a few that come in and scream and holler and want a lot of money, and have not any assets, and have not any background in a thing, but out in this greater bay area there must be 200,000 black and Spanish-speaking people, and we do not get a half of 1 percent of those people into our front door. In other words, we cannot help the people until we can talk with them, and this is a dilemma that we are in. The same thing is true of the blacks and of the Indians. We have a lot of Indians in this region, and you can go and give your talks, and we appear on radio and television, and we have done these, and you just read off the various meetings that we held, and yet there are people out there that are capable of being helped by the programs that we presently have, and yet we do not get them in the front door in the way that we would prefer.

Mr. JONES. Well, once a minority contractor or minority businessman hears about the program, and applies for this certificate of eligibility, what criteria do you apply in acting upon that application?

Mr. WARREN. Well, there are a number of things, of course, that we have to look at when we are dealing with a man's business plan. I assume this is what you are referring to, Mr. Jones. We look at the length of time in business, his background of experience in the area he wishes to pursue. We look at the financial structure of his business, how much of it is commercial, what types of products does he produce, what are the possibilities based on our own experience, of course, in the past, or the probability of getting him work in the field he is interested in pursuing. There are any number of things like that. There is no one thing, of course, that we say is a requirement. It is sort of dependent a lot on the individual circumstances that he presents, and the way he wants to go about pursuing this. If he has a reasonable approach, and a realistic approach to his business activities, there is really no reason at all why we would not approve his business plan and make him eligible for the 8(a) program. There is no criteria as such other than a percentage of ownership in the case of corporations. We do require that the minority owner have 51 percent control. And in the case of a partnership, 50 percent control.

Mr. JONES. Would it be possible to estimate the average number of man-hours it takes to evaluate an application?

Mr. WARREN. Oh, I really cannot answer that, Mr. Jones, directly. I think that in the general sense, probably, if you want to relate it to hours, man hours of effort, probably 8 to 40. This is quite a range I realize, but there is really no way of telling. It simply depends on what is presented.

Mr. JONES. What percentage of applicants are finally issued a certificate? Do you have any way of telling that figure?

Mr. WARREN. By far the largest percentage are issued. At least 90 to 95 percent.

Mr. McLARNAN. It is not as imposing or difficult as it sounds when he recites it off. They have to tell you the story of their business, and that is about as easy as anything can be. If the fellow

has been in business 2 or 3 years, he sets this information down, and it is not complicated, and as I say, I doubt if we reject more than 5 percent of the plans, if that many.

Mr. JONES. What would be the average time between the application and the issuance of the certificate?

Mr. WARREN. Well, again, this would depend on what is presented. Normally anywhere from possibly 2 weeks to possibly 3 months.

Mr. JONES. And following the issuance of the certificate, approximately how long would it be in the average case before he received an 8(a) award?

Mr. SWINKELS. We cannot guarantee that he receives an 8(a) award. We do not have a magic crystal ball that we can look into and say that we have this plan and give him this job.

Mr. JONES. What percentage of firms that receive certificates, receive awards subsequently?

Mr. WARREN. 75 or 80 percent.

Mr. SWINKELS. About 75 or 80 percent.

Mr. WARREN. Excuse me, may I comment? This does not mean these people who have not received awards may not receive one tomorrow, or the next day. It simply means that they have not yet received one.

Mr. JONES. At the time that this certificate is issued, would it be possible, as was suggested in testimony earlier today from Mr. Angello from the Bank of America, to have a meeting with the banker and businessman and SBA representatives to determine financial limits within which his 8(a) contract perhaps should be, and to arrange a line of credit with the bank against future 8(a) contracts? Is that currently being done, and if not, would it be feasible?

Mr. McLARNAN. Well, we have a revolving line of credit with the Bank of America, and it is possible to set up a revolving line of credit in Angello's bank, and so there is nothing to stop it. In fact, it is being done.

Mr. JONES. One last question about the marketing problem of some of the subcontractors mentioned. Do you think that most of the contracts are, in fact, located by the minority businessman or by the SBA? I mean the 8(a) contract.

Mr. SWINKELS. By SBA.

Mr. JONES. I see. Now, there was testimony from the NARTRANS Corp. to the effect that their contracts had all been located by virtue of their own efforts. I take it that is a very unusual case?

Mr. SWINKELS. Well, they have the staff and the ability to go out and do so in the case of NARTRANS. As the gentleman mentioned earlier, they have their own people that are talking with the procurement agencies, which would not be true of the average small business minority firm where the fellow is actually wearing four hats, and he has not the time to go out there and look for work.

Mr. JONES. Thank you.

Senator MONTOYA. That will be all, gentlemen, unless you have anything else to add.

Mr. McLARNAN. Thank you for inviting us to attend.

Senator MONTOYA. Thank you, and we will be in recess until tomorrow morning at 9:30.

(Whereupon, at 5:45 p.m., the hearing was recessed to reconvene at 9:30 a.m., Thursday, September 30, 1971.)





## SMALL BUSINESS ADMINISTRATION'S 8(a) SUBCONTRACTING PROGRAM—MINORITY ENTERPRISE

THURSDAY, SEPTEMBER 30, 1971

U.S. SENATE,  
SUBCOMMITTEE ON GOVERNMENT PROCUREMENT OF THE  
SELECT COMMITTEE ON SMALL BUSINESS,  
*San Francisco, Calif.*

The subcommittee met, pursuant to recess, at 9:30 a.m., in the Ceremonial Courtroom, Federal Building, 450 Golden Gate Avenue, San Francisco, Calif., Senator Joseph M. Montoya (chairman of the subcommittee) presiding.

Present: Senator Montoya.

Also present: Joseph L. Ward, assistant general counsel; and Keith A. Jones, minority counsel.

Senator MONTOYA. The committee will come to order.

This morning we have scheduled hearings with the following witnesses:

Mr. Emory C. Curtis, vice president, Plan of Action for Challenging Times, from San Francisco;

Also, Dr. Anthony Malo, assistant regional vice president, National Economic Development Association, otherwise known as NEDA;

Mr. Jerry Hutton, representing the Office of Minority Business Enterprise, Department of Commerce, and Mr. Jay Lease, Deputy Director, Office of Minority Business Enterprise, from Washington, D.C.

We will proceed with Dr. Malo and hear what he has to say.

### STATEMENT OF DR. ANTHONY MALO, ASSISTANT REGIONAL VICE PRESIDENT, NATIONAL ECONOMIC DEVELOPMENT ASSOCIATION, SAN JOSE, CALIF.

Senator MONTOYA. Dr. Malo, do you have a written statement?

Dr. MALO. No, just the one I sent to you, as a letter.

I would like, if I may, to give a little background on NEDA.

Senator MONTOYA. Well, will you first tell us for the record what your occupation is and what your connection might be with respect to your testimony.

Dr. MALO. Sir, my name is Dr. Anthony Louis Malo, and I am assistant regional vice president of the National Economic Development Association, and of the regional office which was established in San Jose, March 1971. Our responsibility is as a firm, since we are contractors both of the Small Business Administration and the Department of Commerce, to help in several professional ways to obtain loans

and to start small operations in the marketplace. Now, by this, I mean the jobs that we perform primarily are the preparation of loan applications which is normally called loan packaging. In this process we do some assisting in planning and in forecasting of sales.

Also our responsibility to these firms is to, wherever possible, use available tools such as the 8(a) program to obtain profitable operations. This means that we are going to aid them in obtaining markets for their products and, hopefully, to get them into a profitable position as rapidly as we can.

And in that area, we have come into contact with the 8(a) program.

Now, at the outset, we are working with two types of firms. Although there are many ways to classify them, we simply classify them as start-up firms, new firms, and existing firms, expanding firms.

Our responsibility, as an organization, is to help the Spanish speaking. All of our members are Spanish-Americans. We are all bilingual, and in some instances as much as quadrilingual. Whatever is necessary, we take on at that level. So, we are able to talk with the people, because we are members.

Now, the second thing that I would like to point out in developing the 8(a) program and our contact with the 8(a) program is that when get down to the process of putting before these sources of funds an applicant who is a potential profitable businessman, we are looking for all of the help we can get.

Typically, our client has either been refused by the bankers in terms of his inability to have a bankable loan or present a bankable performance.

Senator MONTOYA. Would you excuse me just a minute?

Off the record.

(Discussion was had outside the record.)

Dr. MALO. As I was saying, in putting our client before the banker or the source of funds, one of the important documents that we prepare with him is his business plan.

Now, an important aspect and an important part of that business plan is a sales forecast.

Now, as you know—

Senator MONTOYA. Do you have an economist in your organization?

Dr. MALO. I am sorry?

Senator MONTOYA. Do you have any economists; do you have any businessmen?

Dr. MALO. Yes, we are all businessmen. As a matter of fact, I, myself, hold a doctorate in business administration and I am currently on the staff of the University of Santa Clara. My vice president, Mr. Rudolph Traveno, has been in the real estate and development business for some 20 years, and I think this in general is true of our offices throughout the country. There are some 14 offices at present.

Senator MONTOYA. That is the point I have been trying to emphasize, that these organizations should have people who are knowledgeable about business problems instead of knowledgeable about how to get a grant.

Dr. MALO. Well, may I expand a little along that?

Our responsibility is to work with those entrepreneurs. And they are really businessmen who are profit-oriented. There is no gift and there is no grant here. Our job is to ferret out those people who have an

opportunity of setting sail for themselves as soon as possible. We are not talking about 3 years; we are talking about 3 months. That is what we would like to do.

I was present at the hearing yesterday, and it seems to me as we went along it became increasingly evident that some of this help is longer-termed than what we consider a start. Our job here is to get them profitable as soon as possible.

And how do we do this? Well, to put them before the source of the funds, but they have to be profitable. Now, there are three things—

Senator MONTROYA. How long have you been in existence?

Dr. MALO. NEDA has been in existence 1 year.

Senator MONTROYA. I mean, in San Jose, your organization?

Dr. MALO. Since March 15.

Senator MONTROYA. And how many applications have you processed?

Dr. MALO. Something in the order of 83.

Senator MONTROYA. How many of these have been successful?

Dr. MALO. About 82.

Senator MONTROYA. That is very good.

Dr. MALO. And the total amount of money we pumped into the economy is in the order of \$3 million.

Senator MONTROYA. How much in loans have you been able to secure for these people?

Dr. MALO. \$3 million.

Senator MONTROYA. \$3 million?

Dr. MALO. That is right.

Senator MONTROYA. What are the sources of these moneys?

Dr. MALO. Well, in general, they are the bankers. The banks have been looking very much toward the 90-percent guarantee from the Small Business Administration.

Senator MONTROYA. Do all of these loans have a 90-percent guarantee?

Dr. MALO. They do not.

Senator MONTROYA. What percentage would you say, of the loans, have the 90-percent guarantee?

Dr. MALO. I would say about in the order of 80 percent.

Senator MONTROYA. Are SBA guaranteed?

Dr. MALO. Are the Small Business Administration guarantees, that is correct. That means to the banker that their exposure is 10 percent.

Senator MONTROYA. How much of these dollars represent new enterprises instead of going enterprises?

Dr. MALO. The new enterprises, I would say, are represented in about a half a million, something in this order, and the remainder are expanding enterprises, those who have gotten started and needed increasing amounts of funds. That would be the mix.

Going back to the 8(a) and our relationship to the 8(a) contract. We have used this, of course, since we are trying to present the applicant to the source of funds in the best most realistic position that we can. We have used the 8(a) as a potential market in the sales forecast.

Now, again, let me underscore the fact that we are primarily directing our applicants toward the commercial market. This is our responsibility. These people have to be profit-oriented and market-oriented.

Now, the 8(a)'s then become an aid only, and at the present has represented a relatively small percentage, not because it is not avail-

able but because it is not yet required. We think as we develop in the San Jose area, since it was only a fledgling operation here, I think we will be using 8(a) more.

Now, the point that I wanted to make is that in these forecasts, where there is a great deal of uncertainty, we attempt to reduce that uncertainty by asking our applicant, wherever possible, to come in with signed contracts, or letters of intent. This is where we depend increasingly on the 8(a) program, where the 8(a) looks like a good possibility.

Now, what we have found recently, as changes in the program that we think are going to be helpful to us, is that we will be dealing with the district offices of Small Business and can get a closer feel for the availability of these contracts.

Now, let me say at the outset that our emphasis is primarily toward commercial business, and the 8(a) comes in as an aid to get things started, and beyond that we have used them a great deal in expansion.

Senator MONTOKA. What kind of businesses are these about which you speak?

Dr. MALO. Those that we are talking about, well, they vary anywhere from a small one-man jewelry operation to electronics firms that have to do with computers. In fact, we found that this combination, where some of the aid we can give them, the small computed companies can do a job and pick up some of this additional volume. Of course, our point of view is getting things into a profitable position and developing the volume further so that profit increases. This is our point of view.

Senator MONTOKA. You are Mr. Leanse and you are Mr. Hutton?

Mr. LEANSE. Yes.

Mr. HUTTON. Yes.

Senator MONTOKA. Now, what kind of a grant does NEDA have from the Federal Government?

Dr. MALO. It is called a 406 grant, and, so far as we are concerned, the moneys that we are using now, since it is a nonprofit organization, are in starting off this, the loan packaging, and the second thing is to develop our own sources of funds; that is, the Spanish-speaking community. And in this area we have been particularly successful in San Jose, as I said, and we have been in business since the middle of March, and we have a legacy from the Los Angeles office. We have been able to almost complete a savings and loan. We have the charter. We are now shopping around for the funds to establish our own source of capital. In the process in San Jose, there are two banks of Spanish speaking, and they are a little less further along. They are getting together the organizers, and they have successfully obtained some funds already.

Senator MONTOKA. Do they have a charter already?

Dr. MALO. No; no, not yet. The S. & L. does; the banks do not.

Senator MONTOKA. Does the S. & L. have a State charter or Federal charter?

Dr. MALO. Federal charter, a Federal S. & L., and they will be operable, hopefully, in November.

Senator MONTOKA. That will be the first one in California; right?

Dr. MALO. Well, no. There is the Banco del Pueblo, but that is a bank, and the San Fernando S. & L.

Senator MONTROYA. The Banco del Pueblo is a bank, and it is in Santa Ana.

Dr. MALO. So, we will be operable fully in November, hopefully, and, as I say, because we can then begin doing the same sort of thing that we do like any other private enterprise, obtaining funds and searching out the sources of funds, and then assisting wherever possible.

The third area, I am delighted to say, which is the area I am most active in, we have established at the University of Santa Clara a course which will be supported by industry not only for the entry of minority groups into the company at the lower levels but for the development of managers for the middle and upper levels. And this is to be started in January.

Senator MONTROYA. Is this a credit course?

Dr. MALO. Yes; it is a credit course, and it is at the graduate level and will be taught by people in the university who have been in industry over a number of years.

Senator MONTROYA. Well, are you going to require any kind of qualifications before a businessman can enroll in that course?

Dr. MALO. Yes; they have to be a minority—whatever “minority” is; and I am not really sure what it is.

Senator MONTROYA. And what about educational qualifications?

Dr. MALO. The educational qualifications are experience and the potential for growth.

Senator MONTROYA. So, anybody can go in there if he has the capability to learn?

Dr. MALO. Exactly; that is right.

Senator MONTROYA. Now, have you had any experience with bank-participation in these loans, with Spanish banks or banks that have Spanish-speaking management and ownership?

Dr. MALO. Only to the extent that we have dealt with the branches, the branch managers who, themselves, are Spanish speaking, and we find that our applicants are attracted to this kind of manager, this kind of environment as it were. We are not really sure why, except that whenever we talk with them we like to deal through their bank, whoever they have been doing their banking with, and invariably, you know, they know somebody personally, because as Latins we tend to personalize a lot of our business, and this is a fact.

Senator MONTROYA. That is correct.

Dr. MALO. And working with this, I think it is important that we have sources of funds that are either managed or directed by people of this same culture.

Senator MONTROYA. Does the university get involved in these minority problems?

Dr. MALO. Yes; they do. I think, as a small university, since Santa Clara has an undergraduate population of some 3,200, there are a lot of programs, especially in the law school, which are primarily for minorities.

Senator MONTROYA. They are mostly legal-aid programs; are they not?

Dr. MALO. No, sir; these are scholarships. In fact, at the minute, at the law school, there are \$40,000 worth of scholarships a year available for this. And beyond that, I think the area where we need additional help, where we are trying to shore things up for NEDA, is in the graduate program because it is fine if you are a professional man

and you are able to perform, and that is a certain level of security, but as you go up the ladder in your organization, as it were, in business, I think this is the area where we have not really been quite so strong as we would have liked to have been, and we are looking for more opportunities at the management level. And the best way to obtain these, we feel, is to have the sponsoring organizations, at the outset at least, get the business people to send minorities who look like they make some real sense, bring them in there, and help them develop; and, then, I think that maybe in the future we will be able to expand some of these programs.

But, more than this, more important than anything I think, we want to get a track record, just as an applicant is evaluated at the outset at least by the track record, and we are kind of proud of NEDA. So, it is with our business people, and I think this is what we want to do.

Senator MONTÓYA. You mentioned a few minutes ago that you had been trying to get some funding for your organization, donations from business people and the community?

Dr. MALO. That is right.

Senator MONTÓYA. How successful have you been?

Dr. MALO. Not yet, we have not been successful at all yet.

Senator MONTÓYA. Have you tried?

Dr. MALO. I will be honest with you: Not so much as we would like, because we are too busy doing the job in getting these people before us. We have some indication of interest, and these people have been the larger corporations in the area, and they are, quite frankly, the people with whom we have talked, and their position is: "Well, we are still not sure this is not a grant operation, a giveaway, and show us a little more, a little performance."

But I think, in general, as we develop we have been able to turn these people around, not because we jumped up and down but simply by performance and results.

Senator MONTÓYA. Well, that is the challenge you are facing, to prove yourself; is that correct?

Dr. MALO. Yes, and we have found that they have, in general in the San Jose area, quite an open mind, and, as we develop the amount or number of people who are going in and being profitable—

Senator MONTÓYA. That is why I am concerned about grants being made to these overnight operations that are set up to get those grants in the names of counseling business people of minorities, and they have been making those grants for quite a few years and many of those people do not have any knowledge of business, and still they pretend to give advice to people who start in business. And that is my greatest concern, because once we experience failures and lack of success in those fundings and those programs, then we waste a lot of taxpayers' money and the people in the community become very critical of all of these programs, and then they do not believe anybody.

Dr. MALO. That is right. We have found that, I think, Ben Hernandez, the originator of our organization, started off, and we are continuing, of course, with the idea that the best contacts for our people in the community are made at a professional level by professionals. We found that banks, for example, some of the banks who were reputedly hard nose—I guess you can use that word—have turned

around very nicely because we were able to show them at a professional level that we were not there to play games, that we were there to perform and that the people who were coming in for loans were, in fact, profit oriented and had a record to prove it.

And they have come along, and we are able now—as a matter of fact, the Bank of America has established seven branches who are primarily directed to work with NEDA for the small business loans for minorities.

Senator MONTOLA. Do you advise these people, when they do not have the repayment capability, that they should not proceed with the loan application?

Dr. MALO. Yes. And that is the most difficult part of our job.

Senator MONTOLA. Yes, but it should be a part of your job; should it not?

Dr. MALO. It is; and we do. For example, we found a very busy machine shop who is doing a land office business, but found that we was running shorter and shorter of capital. So, we came into it; and he asked for a loan. We came in to evaluate it, and we found that his capital was costing more than his return on sales, and it was in the order of  $3\frac{1}{2}$  percent more per year, and the faster he operated the worst he was doing. I mean, the more rapidly he was going down hill. And, yes, we do this. This is part of our responsibility, to say: "Well, look, if you are not viable, there is no sense in proceeding, no sense in getting up your expectations or your dreams, or hocking grandfather clocks. This is the end; there is nothing we can do. Perhaps there are other organizations that can provide seed capital; we do not have any capital of our own." And in this area we have been helped by a number of organizations, ESO, EPA. In San Jose, these do have seed capital. And those marginal ones, we are—

Senator MONTOLA. Who is ESO and who is EPA?

Dr. MALO. Economic and Social Opportunities, and the other is Economic Progress for All, and they are located in San Jose, and they have funds available for seed capital, equity capital.

Senator MONTOLA. How are they organized, under Federal programs?

Dr. MALO. Yes, they are.

Senator MONTOLA. Under what programs?

Dr. MALO. I am not sure. And, so, they have become an adjunct in our efforts, because they have provided some seed capital, and with that seed capital we can sometimes make up the equity requirements.

Senator MONTOLA. What has been your experience with the 8(a) program and with the Small Business Administration?

Now, give us your experience on that.

Dr. MALO. Well, the Small Business Administration has been helpful in these areas. They have first of all—I have worked extremely closely with them, and they with us, from our inception in San Jose. We were a shootoff of the Los Angeles office, and, as soon as we were established in San Jose, the local Small Business Administration man came over to see us, and we sat down and exchanged ideas, and the way we were currently working is that the Small Business Administration is sort of overseeing us in the sense that we have our applications, the ones that we consider acceptable for the Small Business people to obtain funds, and we discuss it with them on an informal basis. This

saves a lot of time in formal proposals and refusals and in moving back and forth, and they are very interested in this.

Now, the 8(a) program which has recently been decentralized to the district level is also extremely pleasing to us. From our point of view, we can talk directly to the Small Businessman, for example, over in Oakland who is operating in this area, and we can talk with him and find out what is available, because, in the past, we have found that while we were interested in this 8(a) contract it took a while to even get to it. There were a large number of applications; there were a lesser number of opportunities, and we were just simply adding to the pile of applications.

So, with this decentralization, we are able to monitor it more closely. So, I think that is the direction that makes some real sense, so far as we are concerned.

Senator MONTÓYA. Well, have any of your clients received any 8(a) contracts?

Dr. MALO. Yes. So far, I know there are two, yes; and they are relatively new, and I cannot give you any results. I wish I could.

Senator MONTÓYA. Have you encountered funding difficulties for these people that have received 8(a) contracts?

Dr. MALO. No. Everyone, so far, that we have dealt with, that is, the financial sources, the bankers or sometimes even the private sector, people who were willing to increase it, they look at it as a support for the profitability. Now, there is, however, a caution—and I think this has been mentioned a couple of times—that when we have been seeking financing, the 8(a) contract has a tendency to stiffen you up—in other words, to lose some flexibility and make you more dependent on Government business. I am not sure that this is necessarily so. I think there could be a tendency because it is a contract, but our protest is, at NEDA anyway, to mix the two with the emphasis on commerce—in other words, at the marketplace on commercial business.

Senator MONTÓYA. This is the way it should be, instead of having businesses become dependent on 8(a) contracts.

Dr. MALO. That is right.

Senator MONTÓYA. That is a very dangerous thing.

Dr. MALO. Our people, when it has anything to do with Government, you know, they are always ready to get involved. Aside from the paperwork, there is a feeling that maybe their independence is somewhat constrained.

We have found that the 8(a) contract, at this point at least, can be used as an adjunct in addition to the primary business which is to get a market for your product or service.

Senator MONTÓYA. How many people are in your organization?

Dr. MALO. In San Jose?

Senator MONTÓYA. Yes.

Dr. MALO. We have three.

Senator MONTÓYA. Are you full time?

Dr. MALO. Yes.

Senator MONTÓYA. All of you?

Dr. MALO. No. We have three of us who are full time, and, then, we have two graduate students from Stanford who are on scholarships from the Morrow Foundation who have been working with us full time in summer but who will be part-time assistants during the rest of the year.



Senator MONTROYA. And are you also teaching at the university?

Dr. MALO. Yes; I am teaching one course in management development; the minority course I was talking about, we are trying to get that going.

Senator MONTROYA. Do you have a textbook on that?

Dr. MALO. No; we use the regular management reading books, and what we then do is bring in special speakers to develop certain areas of interest to the businessman.

Senator MONTROYA. Do you do it in a bilingual way?

Dr. MALO. Why, yes; I think we probably do more teaching outside of class, just sitting around talking about the problems, than we do in class. Lecturing is not particularly an efficient way, and we did not find lecturers who were proficient to the point of getting down to the nitty-gritty. At least, when you have 30 people in a class, it is a little difficult. So, we do this to stir up some more thinking and development.

Senator MONTROYA. Can you comment on the period of time for ending 8(a) aid?

Dr. MALO. Oh, yes. Now, I am going to look at it from the businessman's point of view. I would say that 8(a), in developing a market-oriented corporation or proprietorship, should be ended as rapidly as feasible. We want to use the 8(a) contract as a startup, as a backup, primarily, and not as the main business of the firm. We have found that it is extremely effective in obtaining funds. We hope it will continue as such. We would like, however, to be able to bail out, as it were, though on our own, as rapidly as we could after we become profitable, and I am sure that this is the case as we have been looking at a 3-month period where the applicant is then able to pay back. This is not always the case, and the institutions have stretched a little for us, but these are the goals we are seeking. Hopefully, we can come in profitable at the outset and continue, but that is—

Senator MONTROYA. That is almost impossible; is it not?

Dr. MALO. It almost is.

Senator MONTROYA. Usually. And I think 3 months is impractical; is it not?

Dr. MALO. Well, we have found that the people who are coming through our office in general are looking for that 3-month period, too.

Now, we have been able to hit that. I would not say always, obviously.

Senator MONTROYA. Well, in many businesses you do not realize a profit even the first year.

Dr. MALO. That is right. And in the small businesses, the ones we have been talking about, at least to date, have been people who are quite knowledgeable and are willing, at the outset, to start small but profitably. I am talking about the proprietorship, the small partnership, the service organizations, and that sort of thing, manufacturing, wholesaling. Some of the larger groups, of course, may take a little longer. But, again, to date, our experience there has been expansion.

Senator MONTROYA. What has been your experience in California with respect to ownership of businesses, say, like gas stations and garages by minorities?

Dr. MALO. I do not know, in California. I know this, that in the institution—

Senator MONTROYA. Well, are they coming into their own here in that particular field?

Dr. MALO. In the gasoline stations, in the high-risk areas, we are particularly emphasizing the restaurants; we have a large number of restaurants.

Senator MONTOYA. You have a large number of Mexican restaurants; do you not?

Dr. MALO. That is correct, and in this area.

Senator MONTOYA. What about the franchise area?

Dr. MALO. Starting. To my knowledge, there is no great percentage of participation; no.

Senator MONTOYA. Why not?

Dr. MALO. I do not know.

Senator MONTOYA. Cannot NEDA do something about this, go to the big companies?

Dr. MALO. Yes; I think we can, just as we did to the financial sources. Again, that might be very well something we can do in the future.

Senator MONTOYA. Why not go to the Union Oil and Standard Oil of California, and all of those corporations, and see what they can do?

Now, that is the way to start.

Dr. MALO. There is no reason in the world. Now, we have found in some of the smaller applicants are people who have come in wanting to start in the oil business or gasoline business, gas stations, but they are high-risk business, and the normal, standard sources of funds do not want it; it is too risky. That is also true of restaurants and several others.

Senator MONTOYA. I do not know why it is a high-risk business. I know in New Mexico it is not.

Dr. MALO. It is not?

Senator MONTOYA. No. In fact, in New Mexico, we had a lot of Cubans come in there, and they are running quite a few stations already.

Dr. MALO. It might be an area for development here.

Senator MONTOYA. And they are doing a very fine job. They are taking mechanics from the local vocational schools, and they have a mechanic shop right next to their station and they are doing very well.

Dr. MALO. Well, I am sure it is a potential here.

Senator MONTOYA. The same is true back East with the blacks. Now, they are doing a very good job in the East, so why can you not do it here?

Dr. MALO. I cannot think of any reason.

Senator MONTOYA. And, of course, the restaurants are fine, but there could be too many restaurants, too.

Dr. MALO. Right.

Senator MONTOYA. And that is the most dangerous business of all, running a restaurant.

Dr. MALO. It certainly is. We have found this in San Jose especially, where we have relatively, a large concentration of Spanish-Americans, and there is a turnover, and this is why, at least at this point—and I am speaking for NEDA—I think that part of our job at the moment—and we are certainly not staffed well, but I think that part of our job should be following up.

Senator MONTROYA. I think NEDA could perform a good function, because it is starting out with great dedication and great resolve, and I think they have the competency.

Do you have anything else, Dr. Malo?

Dr. MALO. I cannot think of anything right at the moment.

Senator MONTROYA. Well, thank you very much. You made a very good statement.

Now, we will now listen to Mr. Curtis and Mr. Hutton and Mr. Leanse.

Now Mr. Curtis is the vice president of the Plan of Action for Challenging Times, otherwise known as PACT, Inc., of San Francisco.

Mr. Jerry Hutton is the representative of the Office of Minority Business Enterprise, San Francisco, Calif., and Mr. Jay Leanse is the Deputy Director of the Office of Minority Business Enterprise in Washington, D.C.

So, let us hear from Mr. Curtis first, and then we will take on the Government witnesses.

**STATEMENT OF EMORY C. CURTIS, VICE PRESIDENT, PLAN OF ACTION FOR CHALLENGING TIMES, SAN FRANCISCO, CALIF.**

Mr. CURTIS. Thank you, Senator Montoya.

Senator MONTROYA. Do you have a statement?

Mr. CURTIS. Yes; I have a small written statement?

Senator MONTROYA. Do you have copies of it?

Mr. CURTIS. Yes.

Senator MONTROYA. Well, if you will give us the copies we will make them a part of the record, and then you can go ahead and hit the highlights of your statement, and we will ask you a few questions.

Mr. CURTIS. OK.

(The prepared statement submitted by Mr. Curtis reads in full as follows:)

PACT, Plan of Action for Challenging Times, the firm which I am vice-president of, is a private non-profit organization that has been assisting the minority business community in the San Francisco Bay Area for the past six years. During that period of time, we have been encouraged by the steadily increasing concern that the government has shown for the plight of the minority business community. Unfortunately, we have been discouraged by the inability of the government and the private sector to transform their concern into successful model programs that actually bring about minority economic development on a significant scale.

The reason for the government's failure to effect significant change is that it has been concentrating upon assisting individual minority businessmen. The 8(a) program has been one of the programs operating in this manner. While there is no question that individual successes are necessary to amass a successful business community, there is the question of what is the best way to actually assist these businessmen, by helping them individually or by effectively altering the environment in which they all operate.

For the minority business community to develop, it must gain a reasonable share of the dollars that the U.S. government spends for goods and services. It is no secret that the minority community does not receive a significant share of these dollars now. It seems to us that the 8(a) program has the ingredients to be able to play a much larger role in changing this situation than it has to this day. To accomplish more, however, those establishing policy guidelines for the program must carefully define the 8(a) program as a tool to achieve minority economic development and not as a goal in itself, to be measured by the statistics it produces.

We feel that the 8(a) program should be geared to deliver a minimum fixed percentage of the government's goods and services dollar to the minority business community. 8(a) should be thought of as a tool to assist government

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agencies and the cooperating private sector in providing at least their fixed minimum percentage of business to the minority community. 8(a) should be a tool just as the SBA Management and Technical Assistance Program, the OMBE effort and the efforts of organizations like PACT are employed as tools.

In order to provide minority businessmen with the opportunity to supply a minimum fixed percentage of the government's needs, the responsibility for successfully accomplishing this goal must be placed with the procurement sections of the particular government agency or department that has the contracts to be let. The responsibility must not be placed upon those implementing the 8(a) program.

At the present time, responsibility is divided. The agencies must produce a list of potential 8(a) contracts, the SBA attempts to match the contracts with its list of qualified suppliers, and OMBE is responsible for coordinating and prodding both agencies into action. As a result, each one of the principal actors can, and usually will, perform their role admirably-- but the results are not forthcoming.

Under our proposal, all government installations that purchase more than a fixed amount of goods and services would be required to have personnel responsible for ensuring that at least the fixed minimum percentage of government business is made available to the minority business community. These personnel would call upon all of the available resources and tools such as SBA, OMBE and PACT to assist them in reaching their goal. The 8(a) program would be just one of these tools available to assist these government installations.

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This program would not be unique or revolutionary in any sense. At the present time, all government installations that purchase more than a fixed amount of goods and services must purchase some percentage from small business enterprises, as opposed to large business establishments. As a result, most of these firms have personnel assigned to their procurement operations to assure compliance with the requirements. All that implementing the 8(a) program in this manner would do is make sure that minority entrepreneurs get a piece of the procurement pie that is now being split up primarily among older, more well established white concerns.

By placing the responsibility for minority contractors' involvement in the hands of the individual government procurement officer and by defining the 8(a) program as only a tool to assist these officers in meeting their responsibility, the government would be ceasing to concentrate solely upon assisting individual minority businessmen and beginning to implement the type of easy to introduce program that can effectively change the environment in which the minority entrepreneur operates, thus fostering his development in a highly cost-effective manner..

Mr. CURTIS. Well, I will go through some of the points I made in the statement.

PACT has been working in this game of assisting minority businesses in this area for the past 6 years. During that period of time, we have been both encouraged by the steadily increasing concern that Government has shown for the plight of the minority business community as well as the private sector's concern. Unfortunately, we have been discouraged by the inability of the Government and the private sectors to transform their concern into successful model programs that actually bring about minority economic development on a significant scale.

Now, I will give a comment on a general approach that I think needs to be thought out and needs to be applied. One possible reason we believe for the Government's failure to effect a significant change is that the primary and central focus is upon assisting the individual minority businessman. The 8(a) program has been one of the programs operated in that manner.

Now, while there is no question that individual successes are necessary to amass a successful business community, there is the question of what is the best way to actually assist these businessmen, by helping them individually or by effectively altering the environment in which they all operate.

For the minority business community to develop, it must gain a reasonable share of the dollars that the U.S. Government spends for goods and services. It is no secret that the minority community does not receive a significant share of these dollars now. It seems to us that the 8(a) program has the ingredients to be able to play a much larger role in changing this situation than it has to this day. To accomplish more, however, those establishing policy guidelines for the program must carefully define the 8(a) program as a tool to achieve minority economic development and not as a goal in itself, to be measured by the statistics it produces.

We feel that the 8(a) program should be geared to deliver a minimum fixed percentage of the Government's goods-and-services dollar to the minority business community. "8(a)" should be thought of as a tool for assisting Government agencies and the cooperating private sector in providing at least their fixed minimum percentage of business to the minority community. "8(a)" should be a tool just as the SBA management and technical assistance program, the OMBE effort and the efforts of organizations like PACT are employed as tools.

In order to provide minority businessmen with the opportunity to supply a minimum fixed percentage of the Government's needs, the responsibility for successfully accomplishing this goal must be placed with the procurement sections of the particular Government agency or department that has the contracts to let. The responsibility must not be placed upon those implementing the 8(a) program.

Senator MONTYA. Now tell me what has been your experience with respect to management and technical assistance for 8(a) subcontractors.

Mr. CURTIS. We have been under contract to provide management and technical assistance, and it is an absolutely necessary function. It is one that really should be expanded in more communities in every way. We find that the minority businessman, in walking that treacherous

path, that he needs assistance. He needs assistance that he trusts, and in this way—I mean, just like with us, over the years operating, our programs really focus here in San Francisco; however, we get clients from all over the State—all over northern California.

Senator MONTROYA. How much of a contract do you have?

Mr. CURTIS. Our SBA contract that just ran out is \$100,000.

Senator MONTROYA. And how much has—

Mr. CURTIS. Plus, we have a contract, too—we have an OMBE affiliate office, Office of Minority Business Enterprise, and all of these work together to provide all of the various services.

Senator MONTROYA. How much of a contract do you have with OMBE?

Mr. CURTIS. With OMBE, our contract is \$190,000.

Senator MONTROYA. So, you have approximately \$300,000?

Mr. CURTIS. Right.

Senator MONTROYA. How many people do you have in your organization?

Mr. CURTIS. Under the contract, I think we have about—we have between 15 and 20. And now that includes secretaries, and so forth.

Senator MONTROYA. How many businessmen do you have in your organization?

Mr. CURTIS. Let me go through how the operation goes. We provide a loan-packaging service, and we provide a business-information service, and we provide followup, and we provide what we call a business-climate development program in trying to promote financing opportunities and trying to promote business opportunities for clients. In our loan-packaging service we have three loan packagers who work with the businessmen. In terms of loan packaging, I think that our statistics are something like out of seven who tried to get loans maybe one of them would fit the bill that we would take to SBA or take to the bank.

Senator MONTROYA. Do you counsel them in business?

Mr. CURTIS. Yes; we counsel them in all aspects. The first part of what we try to do for the businessman is—because once he comes there, there is one thing in his favor, that he is trying to get into business—that we try to look at his present position, to look at whether, you know, the possibilities of success are there and what the things are that he needs to put together so that when he finally gets, you know, through the thing, gets the loan packaged, that he does have a high probability of succeeding.

Senator MONTROYA. Yes; but do you have any follow-up counseling?

Mr. CURTIS. Yes.

Senator MONTROYA. That is the part of the duties connected with your grant?

Mr. CURTIS. That is part of the duties connected with the grant.

And let me say that even before we had the grant, we had always tried to raise extra money, because we know that this followup is the next and most necessary thing and that various other services are needed.

Senator MONTROYA. Do you raise extra money?

Mr. CURTIS. We do.

Senator MONTROYA. How much did you raise last year?

Mr. CURTIS. Last year, we were not very successful. We raised about 20 percent of our budget outside.



Senator MONTROYA. That is \$100,000?

Mr. CURTIS. Maybe \$60,000 or \$70,000. We are trying this year—we have done something else, too. During the past year we have noticed the problem that Dr. Malo mentioned, the problem of financing, and we have almost completed putting together a venture-capital fund so that we can have some money that we are free to put into the business in terms of equity.

Senator MONTROYA. How are you going to attract venture-capital contracts?

Mr. CURTIS. How?

Senator MONTROYA. Yes.

Mr. CURTIS. How are we going to attract it?

Well, so far, we have been successful. We have got about three different sources, three different foundations, that have come in with some moneys, and, then, we had a little bit, so we have about \$250,000.

Senator MONTROYA. In venture capital?

Mr. CURTIS. Yes.

Senator MONTROYA. How much have you loaned?

Mr. CURTIS. We are just putting the pieces together now.

Senator MONTROYA. Is that specifically outlined for lending purposes, or is there some administrative expenses to come out of it?

Mr. CURTIS. That is part of our problem. We are going to have to raise some more money for administration. None of it can we use for administration and that is one of the problems.

Senator MONTROYA. So, you have approximately \$300,000 from Government seed money and \$200,000 from grants, and \$80,000 or \$60,000 or \$70,000 from privately solicited capital?

Mr. CURTIS. Yes.

Senator MONTROYA. Is that it?

Mr. CURTIS. I am sorry, I did not quite get your last statement.

Senator MONTROYA. You indicated that you had gone out and raised \$80,000 or \$70,000?

Mr. CURTIS. That is for operating. The \$250,000 is more specifically for venture capital.

Senator MONTROYA. Well, you have got quite a bit of capital there?

Mr. CURTIS. Yes.

Senator MONTROYA. Now, tell me what kind of business-oriented capability do you have in your organization?

Do you have that?

Mr. CURTIS. We are a business-oriented operation; even though we are a private, nonprofit organization, we still have—

Senator MONTROYA. Tell me about your qualifications and your background in business.

Mr. CURTIS. All right. In our organization, the President, Everet Brandon, who is not here, has been running the organization since 1963. It was formed in 1963, and he has been running it since 1963. His executive vice president—

Senator MONTROYA. What are his qualifications in business?

Mr. CURTIS. Business administration, UCLA.

Senator MONTROYA. But he has never been in business?

Mr. CURTIS. In addition to running this organization as a business, Mr. Brandon was the first black stockholder in San Francisco.

Senator MONTROYA. OK.

Mr. CURTIS. Senator, I want to say that from running a nonprofit organization, you have the payroll, you have that whole problem, the normal business problems that a normal business guy would have, the same problems like meeting the payroll, like today.

Louis Barnett, our executive vice president, is a business major out of UCLA also.

Senator MONTROYA. Has he even been in business?

Mr. CURTIS. Yes. In fact, he is one of the five organizers of the first black bank that started—

Senator MONTROYA. Well, before that was he in business?

Mr. CURTIS. Before that he had been in business, in the insurance business, in Oakland.

Senator MONTROYA. In Oakland? How long has he been working for your organization?

Mr. CURTIS. Four or 5 years—5 years.

Senator MONTROYA. How long was he in the insurance business?

Mr. CURTIS. I do not know exactly. I think it was maybe 2 or 3 years, 4 years, something like that.

Senator MONTROYA. All right. Now, the point I was getting is: What kind of followup do you have with these minority entrepreneurs by way of giving them advice as to how to establish accounting procedures and how to conduct inventories and how to establish goals, price-wise and profitwise, within the inventories that they have and the capital that the sales would generate?

Now, what kind of followup advice do you have and what kind of monitoring do you give these minority entrepreneurs through your organization?

Mr. CURTIS. Because we have been operating we have developed very good contact in terms of assistance in the business community in San Francisco, and because we have been operating with the history we have, we have good files on various margins that are required. In this area the Bank of America small business service provides a lot of information to us that we in turn use. We tell the guy that the margins are going to have to be for him to make it in his business. And, in fact, that, in turn, means that when the businessman comes to us with his idea of what he is going to achieve, we have to put it down in realistic terms so that he can see, you know, because we do not want to put him in something he cannot do.

Senator MONTROYA. All right. How many loan applications have you prepared; how many have you processed, and how many have been successful, and what is the dollar representation in the accepted applications?

Mr. CURTIS. Right. Let me do the last first. In the past year, we have secured a little over \$1 million in loans. The numerics as to the number of applicants, I am not sure of that. And there is the ratio. But, you know, requests for assistance in loans to us versus those that we package and turn in are something like 7 or 8 to 1.

Senator MONTROYA. You figure that you have been able to obtain approximately \$1 million in the last year?

Mr. CURTIS. It is a little over \$1 million; yes.

Senator MONTROYA. Well, that is a very poor return on a \$300,000 overhead; is it not?

Mr. CURTIS. It is when you look at it in terms of just that. The other part of it is keeping some of these clients in business.

Let me tell you another thing we are doing with some of the same money. We have seen that problems exist in getting minorities into business, in a poor business climate, in a declining shopping area, in an area where insurance is high, where everything is high. We are trying to see if we cannot do something as a pilot program, do something about changing that attitude, changing that business climate in which they exist. The street where we recently located our office is a minority shopping street; and what we are trying to do is that we are trying to develop what we call a business climate development on the street getting merchants together, getting them to use their leverage to get the city to provide various services to uplift the area and get the city to provide better lighting and police protection. Getting people into business in an area where it is very difficult to do business is really kind of doing a disservice. However, when a person comes to you for this loan, if he can qualify for it, I think we are obligated to get him that so that he has a business.

Well, it ends up that he has a job that he is working 12 hours or 14 hours on and not making much money, but still he has his pride and he has his business, and what we are trying to do also is to change that climate.

That is one thing that—well, maybe it is out of this committee's concern, but—

Senator MONTONA. Well, I think all cities are trying to do that, to provide better lighting in areas where there is constant crime, and I think Washington, D.C., pioneered this, and it is working very successfully in Washington. A well-lighted area is a deterrent to crime.

Mr. CURTIS. Well, we are trying to go much further, much further than that, with the pilot programs we are working on now. We are trying to go much further than that, to improve not only the lighting aspect but to get the business people together and get the property owners together and get them to physically fix their facades up so that they look better. We work with business people to improve their displays—

Senator MONTONA. Do you have a chamber of commerce in these minority neighborhoods?

Mr. CURTIS. In this particular one, we picked just the smallest single section we could handle, and we organized the business community there.

Senator MONTONA. Are they doing anything toward your objectives?

Mr. CURTIS. Yes, yes. We have, through this, just like one thing that is a common thing with us, where a street is dirty with trash, gone to the city to get more trash cans and they could not do it, and the business people went and bought some pretty little trash cans and put them there. That, in turn, triggered a reaction, and some of them have more pride, and some of them are fixing up their places better, and we are getting businesses to come back into an area that before had been dying.

Senator MONTONA. Well, I notice in Watts there are less businesses now, in spite of the enormous expenditures which the Federal Government has made of approximately \$3 to \$4 million. There are less businesses now in Watts than before the riots.

Mr. CURTIS. That is a thing that you can see not just in Watts but in various other places, in our community where the climate for doing

business is just very poor. If you look at that boarded up place, that one with shutters, looking almost like a jail, and some of the businessmen in some of these situations are operating where they keep their front doors locked and what have you, and just let customers in when they come up, and things like that.

Senator ΜΟΝΤΟΥΑ. We have places in Washington, D.C., where the business places are locked during the day, and unless they know the customer they will not open the door.

Mr. CURTIS. That is right. Now, when you get someone a loan to do business in that area, there is something else. You have an obligation to do more than that; you have an obligation to try to do something about that situation he is in, the climate. It is more than just lighting; it is almost a change of attitude to get some hope built back into the property owners and into the business operations in the area.

Senator ΜΟΝΤΟΥΑ. You have to establish community pride.

Mr. CURTIS. Now one of the things that bothers us when we are trying to get HUD or someone else to do something about this is that FACE, the residential FACE program, ought to be—and I think the legislation allowed it to be—used for a commercial area. I think it should be possible to implement an official FACE program just on a strip, just on a business strip, because then economics can come into play and help you. As it is now, we have to sell the property owners in our area on the idea that if you fix yours, we will get the other people to fix up, and so forth, and things will change.

Senator ΜΟΝΤΟΥΑ. Well, you are going to have a hard time doing that.

Mr. CURTIS. That is very difficult.

Senator ΜΟΝΤΟΥΑ. That is the story of America, although it is history, and that is why we have some blight areas in the center of towns, because the local real estate owners were putting the revenue in their pockets and not improving the property, and they went along like that, and that is what has happened to our cities. That is what happened in New York, Cleveland, Chicago, and Los Angeles.

Mr. CURTIS. But there ought to be, just like in the residential area with FACE, the low-interest rate money, with an incentive to the property owners to take advantage of that low-interest-rate money. There ought to be some similar one for these little commercial strips in our areas. There ought to be a similar program like that, and from our experience in working on this pilot program, that is the key. That is the key. If we could turn that key, we could unlock something.

Senator ΜΟΝΤΟΥΑ. Well, I would like to go into it a little more thoroughly, but I think you have covered a vast landscape on this one.

I appreciate your testimony.

Mr. CURTIS. Thank you.

Mr. JONES. Mr. Curtis, I have just a few questions for you. What is the experience of PACT with the 8(a) program?

Mr. CURTIS. We have not processed many 8(a)'s through our office. One of the problems is that there is this matching, you know, of opportunities with clients. OK., I can get a list of possible 8(a) contracts from the Office of Minority Business Enterprise, and Jerry Hutton has done a very good job in providing these listings. Now, that is a potential there. To find them, we will spend a lot of time, and then if we are going to pursue very, very diligently, we will be spending a lot of time just trying to find a possible match out there, and then they will

say we are not really doing anything because we only found one match or two matches that year, and this is why I think there is a divided responsibility. Someone has to have some responsibility just following on that.

Mr. JONES. One of your problems then is that your clients simply do not do the kind of work that the Government ordinarily would be purchasing?

Mr. CURTIS. That is correct; that is absolutely correct. You see, if I had a number of clients that would be easy. Now, there is potential out there to put the clients together, but that would take, you know, some effort in doing that, just focusing on that and that alone.

Mr. JONES. Is there some agency that could help coordinate these Government needs with the needs of your clients, sir, or is this a function that really has to be performed by PACT?

Mr. CURTIS. Frankly, I think the responsibility is for 8(a) and the Government procurement. They would best be put into the hands of the procurement people at the particular agency, because, if you are working as a buyer in a particular agency, you really would not appreciate someone else over here telling you how you have got to buy or who you have got to use, because, after all, if you guys do not come in, then your boss is looking down your neck, and he is not looking over across at another agency. The procurement people of the particular agency that needs products or services should bear the responsibility to get things done; and this is where I would like for them to feel that they can call the SBA or the Office of Minority Business Enterprise or PACT and say "I have got this thing; this guy looks possible, and could you help him to come up to snuff to meet what I need?"

Senator MONTROYA. Do you feel that perhaps OMBE and the SBA could perform more of a formal coordinating function with the primary responsibility for seeing that minority enterprise has a certain fixed share of the Government's business, or should this responsibility rest with the procurement agencies themselves?

Mr. CURTIS. Just like small business. Just like the small business procurement part of Government procurement. From working in larger companies, I know that there is a requirement that 40 percent of the Government contract dollar go to small business, and the large companies do it, give that 40 percent to small businesses. We are going to help find those businesses, you know, and nurture them; and then the small businessman, if he is contacting a particular agency to get a contract, instead of going to SBA and OMBE, he goes somewhere else to get business. He is learning the facts that he is going to have to know to run later on his own. He is at the particular agency where the contract is being let and the goods are being bought.

Mr. JONES. Thank you.

Senator MONTROYA. Thank you very much.

Do you have an application for new funding; do you have funding for this year?

Mr. CURTIS. We have an application in.

Senator MONTROYA. You have not been funded?

Mr. CURTIS. Our contract is up in October.

Senator MONTROYA. What is your application for?

Mr. CURTIS. We have an application of the OMBE affiliate for new funding, the OMBE affiliate for refunding at the same level for October 15. The contract ran out as of the first of July, and we carried the

operation on our funds up until now, and I would think that SBA was slow getting that money; so, we carried the operation.

Senator MONTROYA. The same level as last year?

Mr. CURTIS. The same level.

Senator MONTROYA. You may be excused.

Is Mr. Medina here in the audience?

Mr. Medina is the chairman of the Latin-American Chamber of Commerce, of San Francisco.

**STATEMENT OF GEORGE MEDINA, VICE PRESIDENT, LATIN-AMERICAN CHAMBER OF COMMERCE, SAN FRANCISCO, CALIF.**

Mr. MEDINA. Vice President, Mr. Chairman at the outset, I want to say that I had occasion to talk to Mr. Ward a month ago, and at that time I related to him the only input I could see that I could give here would be by virtue of the past experience and interest that I have had in the SBA, as you well know, and I have traveled extensively throughout the South as a representative of a Spanish-language newspaper. And from this experience, the only thing I could relate to you is in discussions I have had with people, business people, that I come in contract with on a day-to-day basis, one of the common things that keeps coming up is the lack of awareness of the existence of the 8(a) program, and this is one of the points I might be able to make some suggestions about how the knowledge of the existing program can be brought to the Spanish-speaking community.

Senator MONTROYA. Fine. You may do so.

Mr. MEDINA. Well, being in the business; as I say, of representing the interests of the Spanish language newspaper—

Senator MONTROYA. Do you own a newspaper?

Mr. MEDINA. No; I do not. I have an agency that represents the Spanish-language newspapers.

Senator MONTROYA. How many Spanish-language newspapers?

Mr. MEDINA. Eleven.

Senator MONTROYA. Are they all located in the San Francisco area?

Mr. MEDINA. No; they are all from here to Texas.

Senator MONTROYA. OK. Proceed.

Mr. MEDINA. And, as I say; the newspapers themselves are willing to cooperate in any way that they can to bring the awareness of the existence of the 8(a) program to the people, and anything we can do in that regard—well, they are willing to do it, because every small businessman that these people help in the potential areas are potential customers for the newspapers themselves.

Senator MONTROYA. Have you informed SBA about that?

Mr. MEDINA. Not recently. I brought the subject up a couple of years ago.

Senator MONTROYA. Well, would you inform SBA as to the attitude of the newspapers which you represent toward disseminating information?

Mr. MEDINA. Yes; I will do that. To my knowledge, the SBA has relied on contracting the Association of Spanish-Speaking Businessmen. The only one really organized, to my knowledge, in the areas I have worked in is the Mission Contractors Association, here in San Francisco, which is made up of a couple of big contractors and four or

five small ones, and I think that they are going to have to expand their effort.

Senator MONTÓYA. What is the Latin-American Chamber of Commerce?

Mr. MEDINA. It is located here in San Francisco.

Senator MONTÓYA. Is it very active?

Mr. MEDINA. It has been more active in the past year than in the 2 or 3 years before that.

Senator MONTÓYA. How many members do you have in it?

Mr. MEDINA. We have about 49 members with the potential of about 125. But, in regard to the membership, with the exception of two or three people, I do not know that there would be any other potential or prospective recipient of 8(a) contracts, and this is another area that I want to bring up, and that is as to how do we qualify a potential or prospective business for an 8(a) contract.

Senator MONTÓYA. Well, we had a hearing yesterday on that particular point, and if interested businessmen submit an acceptable business plan to SBA, they will put them on a list which they keep in the office and as soon as there is an 8(a) contract available or in the offing they will match that contract with a suitable business firm.

Mr. MEDINA. Yes. This is a point, for example, where you can expand a little on, and, as I say, it would follow in essence the same suggestion about making the information available to the communities through your own media.

Senator MONTÓYA. Well, what about if SBA would print some of this pertinent literature in Spanish and provide films in Spanish?

Mr. MEDINA. This would help.

Senator MONTÓYA. But there is no language difficulty among most of these people; is there?

Mr. MEDINA. Well, there is in some cases; yes.

You see, in San Francisco, for example, the majority of the Spanish-speaking businessmen are other than Mexican-American—they are Mexican-American businessmen, but this is a cosmopolitan Spanish-speaking community, and by and large the merchants and business people are people who have come with skills that are from South American countries, you know.

For example, one of the biggest contractors we ever had was a building contractor, a gentleman that came here from El Salvador 20 years ago, and he used to do some very sizable contracts. But other than him and his brothers, there are only one or two other companies that I know of that would have competency to take any projects of any size.

But one point that I wanted to bring up was the fact that in addition to the lack of awareness of the existence of the 8(a) program at large, there is also a problem that the contracts that are available or the services that are in demand by the various governmental agencies—how do we get this information to the prospective contract recipients?

Senator MONTÓYA. Well, that is what we tried to uncover yesterday. We want to see if we can provide a better method of informing the small business community.

Mr. MEDINA. We will be glad to bring up some suggestions about how this might be done. We can contact the SBA about it. Just from my own experience in talking to people—

Senator MONTROYA. Yes, and if you care to prepare a suggestion in writing, we will incorporate it in the record of this hearing if you send it to us in Washington.

Mr. MEDINA. Two other points I wanted to bring up, Senator Montoya. I do not know whether they would be feasible or practical or even legal, but one of the problems of most businessmen that have been recipients of SBA loans is coming up within the initial payment periods, and as I understand it, it is 90 days, with the first payment.

Now, to undertake a contract of any significance, it is going to require something to defray the initial payments for at least 6 months, in order to give these people a headstart.

You see, a lot of these people have tooling up costs that prohibit them, you know, from successfully carrying out a contract or even a paying one if the projections they have made indicate they are not capable of taking it on, you know.

Senator MONTROYA. Well, that is another problem that we will have to face.

But, usually, if a concern receives an 8(a) contract, they can go to the bank and get some advance funding on that contract.

Mr. MEDINA. Yes; but what money they get, the proceeds of the loan are taken up generally by the costs involved in the starting up of the project.

A lot of these small companies that enter a project of any size have to take on additional people, and that ends up in a lot of money at the outset.

Senator MONTROYA. Well, if the firm has competency, capability, and the prospect of some business, SBA will participate in a loan with the bank. I think the funding can be arranged on that basis, but we cannot prescribe any definite or arbitrary criteria here. Everything has to be judged on the basis of the credit rating and capability of the individual.

Mr. MEDINA. Yes. I know. I was in the consumer loan business for 5 years myself a long time ago, so I have some knowledge in that regard.

I want to bring up a couple of points, like I say, and these are points that have been raised by people I have taken an interest in contacting, and some have been the recipients of 8(a) programs and some of them have not, and, as I understand it, the SBA rendered whatever management assistance they required, either prior to getting the contract and/or during the life of the contract.

Now, some people have suggested the possibility that private business people are in a common field, and successful type people that would have no fear of this person being a competitor until at least some distant time think this person would be a better person, in a better position, to give the technical and management assistance that they would require as opposed to the idea of getting the assistance from the SBA.

Senator MONTROYA. Well, the Office of Minority Enterprise has that capability if they will do it, and the previous witness indicated that he had a very sizable grant for that purpose.

Mr. MEDINA. Well, you know, honestly, Senator, I do not really know. I am aware of not only PACT but other minority type agencies that are in the business of what we are doing, and I really wonder if, by virtue of longtime experience, in being in business themselves, if they really have the level of competency that it takes.



Senator MONTÓYA. Well, that is my great concern, too.

Mr. MEDINA. And these are reservations that I not only have but the business people that have applied for SBA loans—and some have been recipients of SBA loans—also have. And you say that the Office of Minority Business Enterprise has the expertise and the knowledge and the competency to give the counseling, but I wonder if private business people would not be able to do a more objective job?

Senator MONTÓYA. Well, we have the program known as SCORE. I do not know whether you know about that.

Mr. MEDINA. Well, I have been aware of it.

Senator MONTÓYA. In this program executives volunteer to give advice, and I understand that the SBA has approximately 40 in the San Francisco area who come in and do volunteer work with small businesses.

Mr. MEDINA. Well, you can have 400, Senator, but I am wondering about the sincerity and motivation there is to do the job required.

Senator MONTÓYA. Many of these people are very sincere and very dedicated, and they work for nothing. They volunteer, and they want to keep busy during their retirement, and they have been very successful business people.

Mr. MEDINA. Well, in respect to Latin Americans—

Senator MONTÓYA. But I agree with you, any advice imparted to the minority entrepreneur should be advice that comes from an experienced individual.

Mr. MEDINA. Well, people that are actively engaged in a comparable business.

Senator MONTÓYA. Right.

Mr. MEDINA. They could more realistically help these people make projections, you see, because there is no point in a minority taking on an 8(a) contract unless there is some assurance of a reasonable profit.

Senator MONTÓYA. I have been talking about that for two days here. I agree with you wholeheartedly.

Mr. MEDINA. You see, if there is no assurance of a possibility of making a reasonable profit, there is really no point in giving these people contracts. If you just want to whet their appetites, they might use up the entire profits in getting the payroll that they had to undertake to meet the requirements of the project, and, then, what happens? They might go entirely out of business.

Senator MONTÓYA. Well, thank you very much, Mr. Medina.

Mr. MEDINA. I would like to say that the Latin-American Chamber of Commerce is going to expand its membership in the Greater Bay Area for Latin-American businessmen, and we would be glad to use that as a platform or as a means for the SBA and the various departments of the Government that might have contracts available, 8(a) contracts available, to kind of see what we can do to bring them together.

Senator MONTÓYA. I wish you good luck on that venture.

Mr. MEDINA. Thank you.

Senator MONTÓYA. Thank you very much.

Now, we have Mr. Jerry Hutton and Mr. Jay Leanse from the Office of Minority Business Enterprise, Department of Commerce.

**STATEMENT OF JAY I. LEANSE, DEPUTY DIRECTOR, OFFICE OF  
MINORITY BUSINESS ENTERPRISE, U.S. DEPARTMENT OF COM-  
MERCE, WASHINGTON, D.C.; ACCOMPANIED BY JERRY HUTTON,  
REPRESENTATIVE, OFFICE OF MINORITY BUSINESS ENTERPRISE,  
U.S. DEPARTMENT OF COMMERCE, SAN FRANCISCO, CALIF.**

Senator MONTROYA. Who is going to testify?

Mr. LEANSE. Well, we will cooperate on the responses to your questions, Senator Montoya.

Senator MONTROYA. Do you have any written statement?

Mr. LEANSE. We do. I have submitted copies to your office in Washington. Others are being xeroxed now.

(The prepared statement submitted by Mr. Leanse reads in full as follows:)

Testimony of Jay I. Leanse  
Deputy Director, Office of Minority Business Enterprise  
U. S. Department of Commerce  
Before the  
Government Procurement Subcommittee  
Senate Small Business Committee  
San Francisco, California  
September 30, 1971

I am Jay I. Leanse, Deputy Director of the Office of Minority Business Enterprise in the Department of Commerce. I am pleased to have this opportunity to testify on the efficiency and effectiveness of the 8(a) program.

The United States purchases annually goods and services valued in excess of \$50 billion. Of this amount, approximately \$7 billion, or 14%, is purchased from small businesses and only \$100 million has been identified as being purchased from businesses owned by minorities. This is less than 1/20th of one percent of the total Federal market.

In 1968, the Small Business Administration began an experiment with its authority under Section 8(a) of the Small Business Act to accept contracts from Federal agencies which have been set aside for award on a negotiated basis to disadvantaged businesses. In a memorandum dated December 5, 1969, to the heads of all Federal departments and agencies, the President endorsed SBA's program, and requested each head to support OMBE, SBA and the Federal Task Force on Procurement to:

- Provide procurement opportunities.
- Supply management and technical experts.
- Help to set goals to measure progress.
- Name a representative to pursue the program.

OMBE's role has been necessarily secondary to the roles of SBA, which administers the 8(a) program, and the agencies which provide the contract opportunities upon which the program depends. We have acted as an advocate, a stimulator and, in some instances, a critic.

Without apologizing in the least for our achievements, I can attest that the effort has not been easy. Agencies are properly concerned about performance, quality control and delays. Procurement officers are being asked to step from the known to the unknown and to deal with criteria not directly related

to traditional procurement objectives. Businessmen seek to preserve markets on which there has been a hold. Expertise is sought from agencies for purposes not directly impacting on the agencies' missions. These facts of life in the 8(a) program have caused problems and delays. Yet we stand firm in our commitment. The government's achievements on behalf of disadvantaged businesses to date in this effort are:

- In FY 1969, 30 contracts valued at \$8.9 million were awarded.
- In FY 1970, 197 contracts valued at \$22 million were awarded.
- In FY 1971, 811 contracts valued at \$66 million were awarded.
- The number of agencies which have awarded 8(a) contracts has risen from two in 1969 to twenty-five thus far in FY 1972.
- 33 Agency 8(a) Managers have been appointed.
- SBA's authorized staff for 8(a) activities has been raised from 34 to 61.
- 30 regional procurement seminars were held in 1970.
- 41 regional procurement seminars will be held in 1971.

- An \$8 million SBA fund for 8(a) business development expense has been provided.
- Regulations have been promulgated by the General Services Administration to become effective October 18, 1971 --
  - a. to require prime government contractors to use best efforts to give "maximum practical opportunity consistent with efficient performance" to minority owned companies to obtain sub-contracts; and
  - b. in contracts in excess of \$500,000, to require prime government contractors to implement an "affirmative action" program to obtain minority subcontractors and suppliers.
- SBA has set a government-wide goal of \$100 million in 8(a) contracts for FY 1972.

OMBE applauds these gains and the substantial efforts of SBA and the Federal departments and agencies to continue and expand their efforts. The program not only attempts to correct an imbalance attributable in large measure to historical circumstances, but should significantly preserve and increase competition and market choices of the United States and its people, consistent with the objectives of the

Small Business Act. In an expanding market, and given the dollar amounts we are dealing with, there is no threat that small business that is not minority-owned will suffer. In fact, the thrust of the program is to expand the percentage and amount of business done by small concerns generally by (a) breaking down large contracts into components, (b) increasing small business set asides, and (c) enhancing subcontracting opportunities.

To build viable businesses, when all is said and done about capitalization, planning, production, management services, technical assistance, and the like, available and profitable markets are the key building blocks. Without sales, a business cannot succeed. The effort to see that market opportunities are fairly made available to minority-owned firms, and to make a market while disadvantaged businesses get established and develop their own markets, then, is directed at the very heart of the problem in fostering minority business enterprise.

Clearly, there is a grave responsibility for the success of this effort that must be borne by contractors who benefit from 8(a) awards. Their striving to capitalize on available opportunities, to build their competitive base, and to expand their markets is at once the foundation and the justification of the program.

In FY 1972, the Department of Commerce expects to apply additional manpower and financial resources to furnish technical and management assistance to new or expanding businesses, and to bolster the Federal effort to strengthen minority enterprise. We intend to support 8(a) contractors, and in turn, we rely upon the use of 8(a) to supplement the markets of developing disadvantaged firms on a timely and helpful basis.

Here, then, is the core issue. How can the 8(a) awards be made on an expeditious basis, with a minimum of cost (in terms of man-hours, delays, frustrations and dollars) to both the procuring agency and the minority businessman?

I am confident that the program is maturing and that as government officials, businessmen and business development agents come to know and use the program, efficiency will increase. Expansion of 8(a) contracting to \$100 million and beyond is dependent upon the growing experience of each.

In two areas, we are seeking to overcome specific inefficiencies: (1) the Federal Task Force on Procurement, under the Inter-Agency Committee on Minority Business Enterprise, is currently developing a program to educate the field personnel of all Federal departments and agencies about the purposes and procedures of the 8(a) program; and (2) in the area of contract negotiation, the SBA is considering implementing



a procedure where the procuring agencies would initially approve the potential contractor, determine the extent of his capability and negotiate the contract directly with him, subject to SBA approval. We support both of these efforts, as eliminating substantial delaying factors and duplication.

A third requirement -- which is essentially an education process -- is to improve means for identification of potential 8(a) contracts by the various agencies. An organized effort by each agency is essential to (a) increase the number and value of contracts made available to SBA, (b) break up larger contracts where feasible so small companies may perform part, (c) provide ample lead time so a qualified contractor can take advantage of the opportunity and (d) work with the SBA, contractors and business developers to match suitable contracts and contractors, on a timely basis.

Fourth, there is a real need for follow-up support of the 8(a) awards to maximize benefits. To state an example of the ideal, consider a minority-owned business which is founded on the equity investment of its founders and several large corporations, and the debt financing of a local bank

guaranteed by the SBA. Its market is underserved in its locality and is growing. With its own efforts, together with specific assistance as needed from the staff of its corporate investors, or supplied by a local business development organization funded by Commerce, the company develops its production capability to serve initial markets available to it by reason of its start-up and initial interest in the venture. At this point the company's volume makes it uncompetitive, yet it has capacity and ability to compete, provided its market base can be expanded. Here, gentlemen, is the problem in minority business enterprise -- difficulty in the expansion of markets. Fledgling minority companies must prove, and reprove, themselves in the marketplace. The 8(a) program, together with the direct federal procurement program, is designed to assist companies having such potential at the time of their need. Follow up efforts to schedule Federal procurement to facilitate a solid build-up of competitively serviced business, both in the Federal and private markets, are required. We are not trying to develop dependencies. The efforts of all the procuring agencies are needed here, in such areas of working to make contracts timely and helpful rather than burdensome, and making known a contractor's capabilities to other agencies and prime contractors. Commerce intends to

support these efforts with a private procurement program and marketing assistance available through business development organizations and alliances of businessmen committed to the minority business enterprise program.

There is no benefit in diverting business from one small business to the benefit of another: this would only defeat the purposes of the Small Business Act. Also, there is no denying that the best answer for market expansion for disadvantaged firms, or any firm for that matter, is to develop better products and give better service at competitive prices. We believe that the 8(a) program is essential in this development process. The habits of trade, now a restriction to the disadvantaged, when broken down and developed anew, as we hope the 8(a) program can induce, will greatly benefit the Nation and the Nation's disadvantaged in expanding commercial intercourse among people.

Senator MONTROYA. Mr. Leanse, you are the Deputy Director of the Office of Minority Business Enterprise in the Department of Commerce?

Mr. LEANSE. I am.

Senator MONTROYA. How long have you been with this particular office?

Mr. LEANSE. Seventeen months, sir.

Senator MONTROYA. And how many employees do you have?

Mr. LEANSE. Presently, we have 71 staff authorized, professional and secretarial.

We have authorizations for 46 people in the field.

Senator MONTROYA. In addition to the 71?

Mr. LEANSE. In addition to the 71. As to the field staff, they have been affected by the current wage and hiring freeze.

Senator MONTROYA. How many do you have in the field?

Mr. LEANSE. We have five people who are in the process of being brought on the rolls permanently, but they have been suspended temporarily. We are carrying them as consultants presently.

Senator MONTROYA. You do not have anybody in the field now?

Mr. LEANSE. Yes; we have these five people. They are in the process of becoming permanent, but they are working temporarily now.

Senator MONTROYA. Where are they located?

Mr. LEANSE. They are located in Los Angeles and in Chicago, and in Atlanta, and Boston, and in San Antonio. In addition—

Senator MONTROYA. Is this new authorization for new funding just for this fiscal year?

Mr. LEANSE. Yes.

Senator MONTROYA. Did you have any last year?

Mr. LEANSE. No; this came as a supplemental in June of fiscal 1971, and the process of recruiting began then, but it was delayed.

Senator MONTROYA. And you have 71 in Washington?

Mr. LEANSE. Seventy-one in Washington.

Senator MONTROYA. How many blacks do you have in this minority enterprise section?

Mr. LEANSE. The figures as of the 1st of September, there were 18 black men and women as professionals, there were three Spanish-speaking and one American Indian.

Senator MONTROYA. One what?

Mr. LEANSE. American Indian.

Senator MONTROYA. Now, what do the three Spanish-speaking people do?

Mr. LEANSE. Well, each of them are in operating divisions of the Office, and although we are principally a staff operation, in the course of the last 2 years we have developed more and more operational activities as have been required by the demands of the community.

Ramon Romero, who is the Deputy Director of the Business Opportunity Development Division, is concerned with both policy and business resource development within the section.

Moises Carrasco is on a newly created planning staff, having been a member of the community services section during the first year of his employment. He is now playing a role in the development of long-range planning for the Office as it relates to the supplemental which was just requested yesterday and on which hearings will be held starting Tuesday before the House Appropriations Subcommittee.

The third person is a young woman, Elizabeth Sandor, who is my personal assistant and overall program manager. She is a very creative young lady and works as a—

Senator MONTROYA. These are the three that you have out of the entire 71?

Mr. LEANSE. Out of the 71; yes.

Senator MONTROYA. Do you have anybody in the field here who understands the problems of the Mexican-Americans here in the West?

Mr. LEANSE. One of the five people that we have in the field is Spanish-speaking.

Senator MONTROYA. Where is he located?

Mr. LEANSE. Just now he is in San Antonio.

Senator MONTROYA. Do you send him to Los Angeles once in a while?

Mr. LEANSE. He has been in Lon Angeles. We do have another man being recruited for Los Angeles, a gentleman by the name of Vasquez who is being hired to be the link between the field and will have a supervisory relationship between Washington and the Office—

Senator MONTROYA. Would you file for the record the contracts that you have with minority consulting organizations?

Mr. LEANSE. At the present time, the Office of Minority Business Enterprise does not have program funds. The only contractual relationship that we have is as it affects the associate grant administrator of those grants made by the Economic Development Administration within the Commerce Department to these business development or business counseling organizations.

When these organizations become grantees of EDA for the purpose of assisting minority businessmen, they are identified as affiliates of the Office of the Minority Business Enterprise because of our program responsibility.

Senator MONTROYA. And actually the funding comes out of EDA?

Mr. LEANSE. Comes out of EDA.

Senator MONTROYA. What about SBA 406?

Mr. LEANSE. The same thing applies. The NEDA offices are affiliated with the Office of Minority Business Enterprise, even though they have received their funds through section 406 of the Small Business Administration.

So, we have a program design that includes organizations so they may be funded by other Government agencies. We perform a coordinative function, both in terms of program reporting and evaluation. The other parts of the local community design, I would be very happy to discuss with you, because I think it is relevant to the discussions you have had this morning.

Senator MONTROYA. Well, you must have a list of these organizations—

Mr. LEANSE. Yes.

Senator MONTROYA (continuing). Since you are in a coordinating capacity.

Mr. LEANSE. We do have. I can supply that for the record.

Senator MONTROYA. If you will, and the amounts that each receive. And the ethnic complexion of each organization.

Mr. LEANSE. Yes.

Senator MONTROYA. All right.<sup>1</sup>

<sup>1</sup> See information beginning at p. 249.

Mr. LEANSE. Now, the supplemental request that went to the Hill this last week is of a nature that it would provide very substantial funds both for community based business development organizations of the NEDA and the PACT variety.

It would make provision for organizations similar to the association described by Mr. Curtis, that is, a businessman's association in a particular geographic area. It provides funds for organizations of the type described by Mr. Medina as the Latin-American Businessmen's Association that would provide money for administrative functions that would allow these organizations to determine the degree of relevancy to the community.

Senator MONTTOYA. Are you doing anything with respect to these contracts to insure that the grantee organizations will have the kind of capability with which they can properly advise minority entrepreneurs?

Mr. LEANSE. Yes; this is a two-pronged effort, Senator.

Well, first the ability of the minority community to identify within itself those individuals who are qualified, who are qualifiable, who are established, who can utilize the resources that are available from the Federal Government, and, more importantly, those business organizations that could avail themselves and really rely in the long term on the resources that are available in the larger business community: capital in its various forms, market opportunities, and, perhaps more important than any, the business know-how. Now, this is commonly interposed by saying "business know-how," and where you compensate for the lack of business know-how, the lack of business heritage, is by providing management assistance, technical assistance and various types of services.

Well, we have come to what we think is the common-sense approach to what is a difficult problem, but without trying to complicate it and make it something that is inconsistent with normal business practice, we have sought out relationships with organizations like PACT and NEDA and others to arrange with them the function of information and outreach, some feasibility and financial planning and monitoring of the business and/or the client that makes himself known and is sought out by this community-based organization.

Now, this community organization does not have the capacity to, by itself, cause the banks to respond, to cause the Federal Government to respond, to cause appropriate corporations to make contracts, franchises and market opportunities available, or to necessarily commit to a fixed amount of management assistance based on a dollar value for accountants or an hourly commitment for a production manager who might be needed by minority businessmen. So, the community organization really provides the local interface with the minority community.

Senator MONTTOYA. But do they?

Mr. LEANSE. They are, sir.

Senator MONTTOYA. At hearings I held in Watts last year we were concerned with the fact that the Federal Government spends millions of dollars with these consulting organizations, and they achieve few results, and I asked for results at those hearings.

Mr. LEANSE. Well, the process is maturing; and this is not an apology, but it takes time to develop the process and to get the word

out and get initial results which then serve as a basis for validating the processes that are sound and discarding the ones that are not.

Senator MONTROYA. Well, that is the only concern I have, that there be meaningful advice given from a base of knowledge rather than a base of theory.

Mr. LEANSE. Yes. The other part of this local design, the other component and the one we feel is extremely important, is to coalesce the private sector—the business community, the business know-how, the market potential and its money both in terms of venture working capital and other forms of credit—coalesce these interested people and these necessary sources of involvement. We are moving to create what we call “business resource centers” which would, in effect, function as a wholesaler, and in the major population centers at this country where there are minority populations of significance, where the established business community, the business power structure is, if you will, coming together to commit itself to make available these resources and, in turn, to respond to the needs that have been demonstrated by the community organizations.

Now, it is not intended that this business resource center would supersede the community-based organization that is managed by members of the ethnic group in which the organization is located but rather would have a good working relationship so when a realistic business opportunity was available that the wholesaler business resource center would let it be known to the community organizations, just as we would expect at the Federal establishment level through the presence in the community.

Now, the Minority Business Opportunity Committee, which is a committee of the Federal executive board or Federal executive association where they are located, is the peer group where the members of the Federal Establishment should know what 8(a) contracts are available, who should be able to program their needs over a period of time, who should be able to make their needs known to the community organizations and minority businessmen and to SBA so that there is a reasonable chance that the goals that have been set will be attained.

And it is interesting—

Senator MONTROYA. What efforts have been made by your office to try to get this resource pooling concept going?

Mr. LEANSE. Well, we have been in the process for the last 6 months of auditing our services or inventorying the services and commitments that are available in cities across the country. This is really—

Senator MONTROYA. It is usually the big corporations that offer help of some kind, is it not?

Mr. LEANSE. Yes; but the national commitments that were guaranteed during the first year of the existence of the Office of Minority Business Enterprise could not be utilized or localized in an effective manner, and where there is great deal of interest—and there are a number of outstanding cases where major corporations have assisted individual businesses, but these frequently are businesses that are high visibility and they do not necessarily offer applicability to numbers of people in the community.

So, we are at a stage now where the coalescence of this effort in the business community can be launched. We have one that has already been funded and two others in the process.

Senator MONTROYA. How have they been funded?

Mr. LEANSE. The first one is funded through the Economic Development Administration.

Senator MONTROYA. And where does it exist?

Mr. LEANSE. In Los Angeles.

Senator MONTROYA. And to what extent has it been funded?

Mr. LEANSE. It was funded on a preliminary 6-month grant which commenced in March and will be renewed—actually will be reformed, because we have improved on the concept in the 6-month period, and we will insist that more services are made available out of this grant than were originally contemplated in the first grant. This organization will provide full-time aid, professional consultants to minority businesses throughout community organizations through MESBICs and through banks.

Senator MONTROYA. What is the name of this particular group?

Mr. LEANSE. The management assistance component is called MECLA, Minority Enterprise Coalition of Los Angeles.

The principal grantee is the Management Council of Los Angeles which is the business establishments' organization to insure the availability of capital, market opportunities, and management and technical assistance. They have subcontracted—in fact, all of the money that was received by the Management Council goes through to MECLA, the Minority Enterprise Coalition, because the coalition group provides the technical assistance through its paid staff, but the Management Council's role is one of—

Senator MONTROYA. Have you checked the composition of the personnel to determine whether they have the proper type of technical know-how?

Mr. LEANSE. Yes. If I can recall correctly, there are 11 people. There are five public accountants, one certified public accountant, an attorney and the other men have business specialties, but I am not certain what they exactly are or what exact specializations they have.

Senator MONTROYA. Are they permanent employees?

Mr. LEANSE. They are permanent employees. Now, that is one part of the system also. We must utilize volunteers.

Senator MONTROYA. What about SCORE?

Mr. LEANSE. SCORE is good in some cities; not so good in others.

Senator MONTROYA. Are you correlating your work with what SBA is trying to do?

Mr. LEANSE. Yes. SBA, Senator, is but one of the resources, and in terms of its design we look upon SBA as being a banker, we look upon them as being a source of management assistance through the volunteer set-up.

The 406 funds are so limited that they really cannot buy too much technical, full-time technical, staff; so, we recognize we have to leverage the resources that are available.

Senator MONTROYA. How about the role of the university?

Mr. LEANSE. That is an important component.

Senator MONTROYA. Do they come into this picture at all?

Mr. LEANSE. Yes. One of the two communities in which we are negotiating for a BRC presently in a city where there is an alumni club made up of MBA's from Stanford, Harvard, and Wharton's School in Pennsylvania. These people volunteer. They have a small paid



staff, but both the professional people and the alumni cooperate in assistance to minority businessmen.

Senator MONTROYA. That is a good way for them to get practical experience; is it not?

Mr. LEANSE. The alumni are all seasoned people. We have a requirement that people must be at least 30 years old and at least 3 years in business before they are allowed to take a place.

Senator MONTROYA. Now, what are you doing through your office to try to perform the role of catalyst with respect to 8(a) contracts for minority small business enterprises?

Mr. LEANSE. It is through the Interagency Committee for Minority Enterprise which was established pursuant to the Executive order of March of 1969. That Interagency Committee was established shortly thereafter. A task force on procurement was established in December 1969, headed by Administrator Kunzиг of GSA.

The administration of the 8(a) relation was determined to be the most valuable statute on the books, without looking for new legislative authority.

From that time to this, the record of the improvements in 8(a) placements is very substantial. For the first year, some \$8 million in funds and nine contracts were made available. In the past year, they were \$66 million-plus in contracts and over 811 individual contracts, some 550 minority firms being the recipients of those contracts.

Senator MONTROYA. Do you think that is adequate?

Mr. LEANSE. Adequate? No; it is not.

Senator MONTROYA. What do think should be our goal?

Mr. LEANSE. Well, I would say as much business as the minority community can absorb ought to be our goal. I am not qualified to say what that should be at this point, because we do not know what the capacity is. In fact, the census that was recently completed allows for the first time a statistical base setting for the companies, their location, the services and industries in which they operate, the ethnic mix, and so on, and we are just at a point where we are utilizing that knowledge coupled with the experience of the last 18 months or 2 years in developing it. There is a goal. I do not mean—

Senator MONTROYA. What you have now is a list of the existing businesses?

Mr. LEANSE. Yes.

Senator MONTROYA. You have them categorized as to what they can do?

Mr. LEANSE. We have two types of information. We have this minority census which was just completed—and I can supply that for the record if you would like.

Senator MONTROYA. Are you in a position to provide a proper catalog for these procurement agencies?

Mr. LEANSE. We are not, but in most of the cities in which there are—

Senator MONTROYA. Why can't the Census Bureau do that?

They have already conducted an inventory of these businesses.

Mr. LEANSE. Well, the base period was 1969, Senator, and we are operating now at a time when through normal attrition and through business startups, the base market may not be adequate. We have to update it now, and this is being done in the following manner: The

minority business opportunities committees are developing catalogs in their communities in cooperation with the community organizations, and, finally, there are a couple of firms which are for profit that are developing catalogs of information.

In addition to that, and as an overview, the General Services Administration is putting together lists of companies that have been compiled as a result of procurement conferences.

Senator MONTROYA. Why cannot all of this work be integrated?

Mr. LEANSE. It can.

Senator MONTROYA. Why isn't it?

Mr. LEANSE. Because the development of the information is really a local requirement because of the range in it and the necessary updating.

Senator MONTROYA. Why can there not be a central clearinghouse to develop the catalog?

Mr. LEANSE. We are the clearinghouse, and they bring us the information. Since we have not had program funds we have not been in a position to request specific types of information be made available or a particular form of data collection be utilized, and we are finally at a point where we can set down a standard method of data collection that would allow for free interchange between field and central office.

Senator MONTROYA. How about computerizing this effort?

Mr. LEANSE. Again, it is a question of funds.

Senator MONTROYA. Well, you have a lot of funds here; \$40 million, did you say?

Mr. LEANSE. We are hoping to get \$40 million.

Senator MONTROYA. That is a lot of money.

Mr. LEANSE. Yes.

Senator MONTROYA. In fact, the Senate just approved it yesterday, I believe.

Mr. LEANSE. Well, I would hope so. I know that Congressman Rooney was going to hear it on Tuesday.

Senator MONTROYA. Now, what kind of groups, advisory organizations, do you have representative of the entire country under the Office of Minority Business Enterprise?

Mr. LEANSE. Well, the commitments that we have received during the past couple of years have proven to be effective from the American Institute of Certified Public Accountants.

Senator MONTROYA. You have a national board, do you not?

Mr. LEANSE. Are you referring to the National Advisory Council on Minority Enterprise?

Senator MONTROYA. Yes.

Mr. LEANSE. Yes.

Senator MONTROYA. How many members do you have on that?

Mr. LEANSE. Eighty-five.

Senator MONTROYA. How many Spanish surnames do you have on that board now?

Do you have a list?

Mr. LEANSE. I do not have a list with me, but I can supply that for the record.

Senator MONTROYA. Well, you had three, about two or three, at the inception.

Mr. LEANSE. Two or three at the inception. And, originally, there were 64 members, and 21 were added, and of the 21, I believe five or

six were Spanish speaking and all of the 21 were minority-group people.

Senator MONTROYA. Would you furnish a list?

Mr. LEANSE. Yes, I will.

Senator MONTROYA. Now, your statement has been made a part of the record, and if you will please proceed and highlight parts of your statement.

Mr. LEANSE. Yes. I would like to make note of the fact that \$50 billion is spent annually for goods and services by the Federal Government. Approximately \$7 billion of this amount or 14 percent is purchased from small businesses, and this past year less than \$100 million—actually \$66 million has been identified as being purchased from minority-owned businesses. This is less than one-twentieth of 1 percent of the total Federal market.

Senator MONTROYA. One-twentieth of 1 percent?

Mr. LEANSE. Yes. In the past year, two major problems have been identified as being a deterrent to effective utilization of the 8(a) process, and attention is presently being given to these through the Interagency Committee on Minority Business Enterprise.

The first is to communicate the policies and directives that are necessary to implement the use of 8(a) at regional offices and district offices of the SBA and of the participating agencies and departments. There are some 25 agencies and departments that are currently participating in this effort.

Senator MONTROYA. Is it your intention to try to get these field representatives into the procurement agencies to see what they can do on behalf of minority enterprise?

Mr. LEANSE. The field people of the Office of Minority Business Enterprise?

Senator MONTROYA. Yes.

Mr. LEANSE. Well, the role of OMBE—and in it Mr. Hutton plays this role very effectively, and we should highlight the work being done in San Francisco by him as the executive secretary of the Minority Opportunity Committee, the meeting place of all the Federal executives in the various cities, and this is the place where local information is disseminated, goals are set, and pressures are brought to bear. Mr. Hutton is a national hero. Twenty-five percent of the 8(a) contracts that were awarded in fiscal year 1971 were awarded in region 9.

Senator MONTROYA. Right here?

Mr. LEANSE. Right here. And it has been because he has been both salesman, cajoler, adherent to bring people to the awareness of the opportunities that are here.

Senator MONTROYA. Well, you must have a very good working relationship with SBA then?

Mr. HUTTON. Indeed, we do.

Mr. LEANSE. We would hope, Senator, that two things be given attention in the next few months.

Senator MONTROYA. Maybe he ought to move the Office of OMEE from Washington to San Francisco.

Mr. LEANSE. I think we have learned a lot from what has happened here, and we hope to generalize this experience. In fact, we started a meeting on Monday where OMBE field representatives and the chairmen of these business opportunity committees will be meeting

to exchange ideas and learn from one another the experiences over the last few years.

Senator MONTROYA. How many people do you have in the San Francisco region? Do you have any, except for field representatives?

Mr. LEANSE. No. Mr. Hutton, he is only interim. He is a Commerce field representative who was loaned to OMBE until our recruiting can be completed.

Senator MONTROYA. Well, we will hear from him now.

Mr. HUTTON. Since sitting down here this morning, Mr. Leanse and I have worked out a joint arrangement. He has a formal statement that he will submit for the record, and I have some observations that I would like to share with the committee.

Senator MONTROYA. What is your background, sir?

Mr. HUTTON. I have been in the Federal civil service for 20 years. I have a B.A. in economics and political science and an M.A. in public administration.

Senator MONTROYA. What was the job you had before you came to OMBE?

Mr. HUTTON. I have been with the Commerce Department as a business specialist for a year and a half. Prior to that, I was a personnel specialist for the Federal Aviation Administration, and prior to that I was a radar and computer technician for the Federal Aviation Agency, and I got out of school about 3 years ago.

Now, since time is short, I would like to be blunt, brief, and to the point.

I have about three pages that I would like to read.

The analysis of the 8(a) program in terms of its administration by the Small Business Administration implies that it is a program that is routinely and easily implemented. Such is not the case. Every action is fraught with value judgments, political considerations, policy issues, and other subjective factors. In addition to these variables, there are the usual hardnosed business elements that deal with the structure, competency, solvency, and viability of the firm.

It will be assumed, in these comments, that the use of the 8(a) mechanism can be a powerful tool in bringing minority firms into the mainstream of American business. With this stipulation in mind, I shall proceed to an examination of those factors which inhibit program implementation.

Before getting into program obstacles, it is important to note that a significant and positive progress has been made in the program to date. In fiscal 1970, 253 contracts for \$22 million were awarded to minority firms. In fiscal 1971 these figures had climbed to 811 contracts and \$66 million.

Now, as to the program obstacles. As I see it, the biggest problem in expanding the 8(a) program is the failure of the Federal agencies and departments at the local level to identify sufficient 8(a) requirements to the Small Business Administration. If the agencies fail to identify 8(a) candidates to SBA, then SBA has nothing to administer.

Cooperation from the Post Office Department has been very sparse in our region during fiscal 1971. Certain military installations have been reluctant to participate in the administration's program in a meaningful way. Other civilian agencies have also been slow to respond.

Detailed data on our experiences with these agencies and installations is readily available in our office.

Another problem area is the short leadtime that is frequently attached to a contract that is being offered.

With respect to the Small Business Administration itself, there are, as viewed from the perspective of the minority entrepreneur, a number of problem areas. For example, what is the dividing line between a disadvantaged firm and a firm that is competitive? At what stage in a firm's development should 8(a) contracts be terminated? What size contract can a particular firm perform satisfactorily? Should not SBA help to develop large, viable minority firms? Most minority entrepreneurs feel that SBA takes a very conservative posture on each of the above questions.

#### RECOMMENDATIONS

In our area, Western United States, the SBA has many minority firms with approved business plans on its rolls for which it can find no contracts. This comes about, as alluded to before, because of the unwillingness of the contracting officers to get involved with new and unknown firms when he can continue to deal with known and proven firms. The best way to change this situation is for the regional director or the commanding officer to become an advocate of the President's program on minority business enterprise. More specifically, each agency head at the local level should be held directly responsible for the success of the program with respect to what his agency can contribute. This situation can come about when the Washington headquarters' offices provide clear and definitive guidelines to their field personnel.

I might remark that in the past 3 or 4 months I have visited almost every single agency in northern California, both military and civilian, and even at this late date I find not only regional directors and commanding officers but contracting officers that are not familiar with the provisions of the 8(a) program. Of course, it is not the duty or responsibility of the regional director to be familiar with the intimate details of it, but there is still a lot of unfamiliarity with the program.

If maximum and orderly business development is to take place, contracts must be identified with sufficient lead time so as to permit the formation of corporate instruments which are capable of contract performance. This will necessitate the identification of these requirements at the programming of engineering level. Many contracts have been turned down by the Small Business Administration because they have been handed to them with just a few days lead time. Others have not been offered because the offering agency feels that SBA cannot process it in time. This is a problem area that needs special attention.

A frequent statement by Federal agencies is that they can find no minority firms who can perform on the types of contracts that they have to offer. This problem—if it is a problem at all—can be alleviated by the use of the knowledge and expertise to be found in community organizations such as the Urban League, NAACP, OMBE affiliates, local development corporations, minority business and trade associations, the National Business League and other groups involved in minority economic development.

And what I am suggesting here is that if an agency has a particular job and they do not know of anybody who can perform on it, they might get in touch with the different community-based organizations to see if they know of entrepreneurs who have this sort of productive capacity.

Specific contracts for the 8(a) program are identified by SBA and the offering agency coming to an agreement on a specific requirement that they think the minority business community can handle. It is widely felt by the minority business community that neither the Federal agency or the SBA has a good picture of the productive capacity within this community. Consequently, many contract opportunities are never offered.

In my business, to many agencies the stereotype offerings are the ones that are usually advance janitorial, ground maintenance, whereas, in fact, they have a lot of productive capacity in other more sophisticated areas. I might say that these are offerings made in good faith but we do know of other capabilities.

#### OTHER OBSERVATIONS

There has been a lot of publicity given to the 8(a) program by the U.S. Department of Commerce and the General Services Administration. This has generated a great deal of interest in the minority business community. At the same time, there is a widespread feeling that local Federal officials have not gotten behind the program. The measure of this failure to support the President's program is the paucity of 8(a) requirements that these local officials have identified to the SBA. Many agencies have no active 8(a) contracts in force.

The net result of this failure of local officials to implement the provisions of the Presidential memorandum of December 5, 1969, is to undermine the efforts of the administration as it goes about the task of making it possible for small disadvantaged firms to enter the mainstream of American business.

My basic position is that we can do a lot more with existing resources if local Federal officials would give wholehearted support to the program.

Senator MONTROYA. You have made a very fine statement.

Mr. HUTTON. Thank you.

Senator MONTROYA. And I think you are a very dedicated public servant. You have worked very hard, from what you tell us here.

Now, you mentioned that the Federal officials at the local level are not cooperating.

I think it is patently clear they are not cooperating, to the extent that they should, because the share of the procurement pie is very small.

Now, the Department of Agriculture, in rural development, has a task force and they call it "TAC," and they go out and take inventory of the rural areas and the resources, and they come up with an economic plan.

Now, why cannot we have sort of a TAC approach in procurement, whereby all of the procuring agencies have one representative on a local TAC board to make sure that minority enterprise is getting a share of the procurement pie in these agencies and try to alert the

commanding officers of the military installation of the Presidential memorandum and their responsibility in this field?

Now, this is the only way that we are going to get out of this business of one-twentieth of 1 percent.

Now, we might consider this as a recommendation to the Congress and to the administration, and I hope you can evaluate this and see if we can come up with something.

Mr. LEANSE. This is a very good suggestion.

Senator MONTROYA. Have you encountered difficulties in ascertaining the capabilities of minority enterprises in this particular region in which you serve?

Mr. HUTTON. This was a slippery ball of wax for us a year ago. We think we have pretty good handles on it now, and we would hope, as Jay suggested a little while ago, the limiting factor in our acquisition of contracts should be our productive capacity rather than what we have got now.

But, in response to your question as to the identification of potential here, the Federal Executive Board, or the Minority Business Opportunity Committee of the Federal Executive Board, has just come out with a directory of minority vendors. This is not retail—this directory—but it is industrial and commercial firms, businesses who do business with other firms, and we have some 220 or 230 entries there. Each firm has a whole page devoted to itself. It lists the officers, legal structure, when incorporated, productive capacities, and other data that a contracting officer or purchasing agent would need to know.

Senator MONTROYA. Is this for the Pacific coast?

Mr. HUTTON. Just for the San Francisco Bay area.

Senator MONTROYA. Are you doing that in other areas?

Mr. LEANSE. This is one of the efforts that has been completed.

Senator MONTROYA. Is this a pilot program?

Mr. LEANSE. Well, each of the minority business opportunity committees was given the charge to create such a directory. There are only 10 or 12 of them out of the 40 cities, but community organizations are doing it in some places.

Senator MONTROYA. Have you furnished this to the SBA?

Mr. LEANSE. They just came off the press.

Mr. HUTTON. We are going to print 4,000 copies, and they will be directed to every contracting officer in every public agency, to all purchasing agents in the private sector in addition to SBA.

Senator MONTROYA. Has any effort been made to get the contracting officers into a meeting?

Mr. HUTTON. I belong to a number of groups where—one group in particular—we have a contracting officer and small business specialists, and we meet monthly.

Senator MONTROYA. I mean the contracting officers in the particular respective procurement agencies such as the different military installations here.

Mr. HUTTON. Yes. And as a matter of fact we had a meeting just 3 days ago, but the problem is really bigger than the contracting officer. This problem has to be shared by our management, regional director, and a commanding officer and Washington counterpart. It is hard to put this responsibility on the shoulders of the contracting officer. This man is legally and technically narrowly trained, and his behavior is

not going to be changed with a memo. However, if he gets support from his superiors, this changes things and change comes about.

I would like to give you an example.

The National Park Service, in their fiscal 1972 offering gave SBA their entire offering for eight, some 44 contracts at \$4.2 million and gave this to SBA, and we had a lot of lead time on all of these contracts. OK. This is an example of 100-percent participation, and if we could get just 5 percent of this kind of cooperation from all of the other agencies, the program would really be off and running.

Senator MONTGOMERY. You would be in tall cotton, then.

Mr. HUTTON. We sure would. But we have other agencies in the bay area that do \$50 million, \$100 million worth of work locally from whom we do not have any contracts.

Senator MONTGOMERY. Well, thank you very much, gentlemen.

Mr. JONES. With your permission, Mr. Chairman, I would like Mr. Hutton to elaborate just a bit further on his statement, if he would.

Mr. Hutton, you stated that the biggest problem in expanding the 8(a) program is the failure of the Federal agencies and departments at the local level to identify sufficient 8(a) requirements to the Small Business Administration.

A little bit earlier this mornnig, Mr. Curtis of PACT suggested that perhaps if the procurement agencies were themselves made responsible for insuring that fixed percentages of the procurement requirements would be satisfied by minority business firms, that this problem might be alleviated.

Do you have any comments on that?

Mr. HUTTON. Yes. I would like to react to that. First of all, if we had enough Federal contracts to fill the capability out there, probably SBA would not be able to handle it with its present workload. The SBA is working night and day in this program, and it is very apparent that they have a very bold and imaginative and aggressive program.

As I go about, from Federal agency to Federal agency the one thing I hear—and I will not earn any “Brownie” points with SBA by saying this—but many of the contracting offices will suggest that if they had control over the program they could expedite it and do their own selecting and they do think they could do a much larger volume of business. I am not so sure this is so.

Mr. JONES. What additional information would the procurement agencies need if they internally set a goal?

Why could they not try to achieve it under the present circumstances?

Mr. HUTTON. Well, what the suggestion is that maybe at this time this is not really the basic problem. The basic problem is just the unwillingness to venture into this new area.

Mr. LEANSE. Mr. Jones, yes, I think that both of these statements are correct. They are not mutually exclusive. The Federal agencies are setting goals and the goals will be substantially increased this year over the last. Many of the agencies are asking for the opportunity to expedite their own processes by prior selection of minority vendors and taking the initial steps in the procurement process, and then asking SBA to ratify it, especially if it involves the use of the premium contract accounts.



Mr. JONES. I understand that, informally at least, the goal of \$100 million for 8(a) contracts has been set for the current fiscal year?

Mr. LEANSE. That is correct.

Mr. JONES. Do you feel that establishing a goal of this kind is going to be effective, or is there a possibility that contracts which might otherwise have been let to minority firms anyway might simply be transferred into the 8(a) program?

Mr. LEANSE. You mean competitive contracts?

Well, I think it is possible, but I really do not know that there is the possibility now of really identifying minority contractors through the normal bid process.

Mr. JONES. I see. I think one of the problems Mr. Curtis was addressing himself to was the general procurement requirements and not just the 8(a) procurement requirements, and I think he would be in favor of setting a general goal for minority procurement and not just 8(a) goals. Has such a general goal been established?

Mr. LEANSE. No, there is no goal established, but the need for stimulating minority businessman to bid, either through Small Business set-asides or Government contracting opportunities in general, is one of the items for discussion. It is something that we have not talked about this morning, that under the \$2,500 purchase category, this is an area where some of the areas are beginning to use activity, especially at the local level, opportunities for concessions on Government installations is another initiative that is underway. The directory of minority consulting firms which has just recently been published by our office and has been distributed throughout the country provides another source of information to possible contract opportunities.

Mr. HUTTON. I would like to make this observation while we are going along in this vein, and that is that I am in favor of establishing goals, and those goals should be measured in terms of contracts awarded.

Mr. JONES. How? In numbers of contracts or dollar value?

Mr. HUTTON. Well, dollar value. Let us put it that way. Right now, a lot of our goals or efforts are measured in terms of seminars held, brochures given out, and other general things.

This is a necessary and preliminary stage, but I think we are past that now and we are ready to deliver.

Mr. JONES. Well, who is responsible for achieving this \$100 million goal?

Is the responsibility parceled out among the procurement agencies or is it simply a responsibility of the SBA and OMBE?

Mr. LEANSE. The goal was established through the procurement task force and the Interagency Committee, and various agencies have obligated themselves to make offerings available, and SBA, in turn, has agreed to staff up to be able to handle this workload.

One of the limitations—

Senator MONTONA. Let me ask you this question: If the agencies got together and collectively established a goal of \$100 million, was there a parceling out of percentage responsibility to each of the agencies represented there?

Mr. LEANSE. Well, if what you are asking, sir, is: Were some agencies told they were not doing enough?

Senator MONTROYA. Yes. For example, now, what did the Department of Defense commit?

Do you know what GSA's commitment was, and so forth? Did they commit anything?

Mr. LEANSE. Yes; yes.

Senator MONTROYA. Now, have you got a record of it?

Mr. LEANSE. I do not have a record of it.

Senator MONTROYA. Who has? That is the way to gage them next year.

Mr. LEANSE. Yes. Of course, without measurements, the goal really does not have any effect.

Senator MONTROYA. Will you furnish that?

Mr. LEANSE. I will attempt to get it, sir. I cannot promise. I have never seen that. All I have seen is the goal itself, but I will endeavor to find it.

I would like to mention, too, that there is another limitation. In the last 2 years each of the agencies who made 8(a) opportunities available indicated a willingness to pay a premium for those goods and services—if it was necessary, that is, in SBA's judgment to do so. This past year, with the congressional action on a \$8 million fund to allow SBA to pay the differential, the agencies are now absolved of that responsibility, and, as a consequence, the \$8 million nets, almost nets, contracts in substantial excess of \$100 million this year. In fact, in the first 60 days compared with the first 60 days of fiscal of 1971, there are more than twice the number of contracts in dollar value that have been negotiated, so the process is working. It has been institutionalized, and the momentum should carry it very substantially.

Mr. JONES. Mr. Hutton, you, in your statement, also mentioned that the SBA has many minority firms with approved business plans on its rolls for which it can find no contracts.

Yesterday, witnesses from SBA testified that they were able to find contracts for approximately 80 percent of their certified firms.

Are you questioning the accuracy of that figure?

Mr. HUTTON. Yes. I had certainly noticed that variance in our testimony, and—well, we will have to get together with SBA on that amount of difference that we have.

But SBA is on our Minority Business Opportunity Committee here, which is a Subcommittee of the Federal Executive Board and they are very persistent, and their continuous complaint is that they have a large number of qualified 8(a) firms on their list and not enough contracts, and they have specifically and directly urged that the MBOC exert its coordinative function and moral influence to induce other agencies to participate in the program. So, maybe our differences are just a matter of that, but I am under the impression they do have a large number of 8(a) contractors who do not have contracts.

Mr. JONES. Mr. Chairman, could we ask Mr. Hutton to see if he could supply more definite information on this for the record?

Senator MONTROYA. If you will.

Mr. HUTTON. I certainly will be happy to.

Senator MONTROYA. Thank you, sir.

Mr. JONES. Thank you.

Senator MONTROYA. Thank you, gentlemen. You may be excused.

(The subsequent information was received and follows:)

U.S. DEPARTMENT OF COMMERCE,  
OFFICE OF THE SECRETARY,  
Washington, D.C., November 11, 1971.

Hon. JOSEPH M. MONTOYA,  
U.S. Senate,  
Washington, D.C. 20515.

DEAR SENATOR MONTOYA: During the hearings held by the Select Committee on Small Business in San Francisco on September 29th and 30th, you asked Mr. Jerome O. Hutton how many firms in Region IX had approved business plans filed with the SBA, and how many of them have current contracts under the 8(a) authority.

Mr. C. D. Ryan, Chief of the Procurement and Management Division, of the San Francisco SBA Office, advises that 158 business plans have been approved in Region IX and that 68 of the companies approved do not presently have a current active contract under the 8(a) program.

Sincerely,

DAVID S. BROWN,  
Chief Counsel,  
Office of Minority Business Enterprise.

Senator MONTOYA. We have Mr. Hernandez, Mr. Ramirez, and Mr. Taylor here.

You may proceed, and we will try to finish with you.

Let the record show that Mr. Hernandez is with the D. and H. Wood Products Co. of San Jose, Calif. Mr. Ricardo D. Ramirez is with R. D. Ramirez Construction in South San Francisco, Calif., and Mr. John T. Taylor is with Tayko Industries of Sacramento, Calif.

Now, do you gentlemen have a written statement?

Let us start with you, Mr. Hernandez.

**STATEMENT OF MIKE HERNANDEZ, D. & H. WOOD PRODUCTS,  
SAN JOSE, CALIF.**

Senator MONTOYA. How long is your statement?

Mr. HERNANDEZ. Just one page.

Senator MONTOYA. All right. Your statement will be made a part of the record, and you may proceed to highlight it.

Mr. HERNANDEZ. As an 8(a) contractor, I feel that the program has been very effective in getting me started in business, but the sustaining work needed to continue the business has been too difficult to obtain.

In other words, we started with an 8(a) contract, and our object is to keep working, but after finishing the first contract, we had to cut back.

It is my considered opinion that 2 to 3 years of sustaining 8(a) support is required to create a stable business, and while I have been successful in obtaining private sector business on a competitive basis, and have been awarded two other supply contracts resulting from open advertised bids, the volume of business that is set aside for 8(a) is too small and too spotty to maintain a productive plant.

My business requires a minimum of \$15,000 a month to support the facility and any meaningful working force. This volume of private sector work takes time to develop.

Our only 8(a) contract allowed us to employ a working force of 20 Mexican-Americans for approximately 5 months, and then we were forced by lack of business to cut back to an average of less than six employees. In the past 4 months, since completion of the 8(a) con-

tract we developed \$51,000 in other sales which is 21 percent of our volume. The 8(a) contract amounted to 79 percent of our work.

Our overall profit on the 8(a) contract was much less than we anticipated due to a sharp rise in lumber prices during the contract delivery period, so that we were not able to build any substantial profits into the business. We need more work and have been constantly calling our contact at SBA and at the same time pursuing both private sector and Government bid work.

The fact that we have developed a substantial volume of work from the private sector shows that we have become efficient and competitive. We do have a small pending-contract proposal with SBA for 8,010 pallets, but this is too small to make our business stable; it is to be spread out over 4 months and is less than 1 month's work for our shop.

The 8(a) program needs more work available to the contractors, and at D. & H. where we have hired hard core labor, every layoff means that our employees must fall back on some other Government supported program such as welfare, where no productive work is accomplished for the money spent.

D. & H. has only been in operation since January 1971, and with less than 9 months in business, it is of course not stable enough to be considered a viable business, but we are making progress and are looking forward to becoming a successful business in a few years.

I want to stress the help given to us by Mr. Ryan and his staff at SBA, who made it possible for us to enter into this business which we feel will become very successful in a relatively short time.

Senator MONTROYA. Mr. Hernandez, what kind of work does your firm do?

Mr. HERNANDEZ. We are in woodwork, and we have been mostly producing pallets for the Government and for the private sector, warehouse pallets and different types of wood pallets.

Senator MONTROYA. And what else do you produce?

Mr. HERNANDEZ. We also produce some cabinetwork and some prefab cabinet doors, special type doors.

Senator MONTROYA. Are you performing any work for construction firms?

Mr. HERNANDEZ. Not right now. We have one contractor that we do a little bit of work for but not substantial amounts. Very little.

Senator MONTROYA. What kind of cabinetwork is it; is it high grade, sophisticated cabinetwork?

Mr. HERNANDEZ. We will take whatever comes along.

Senator MONTROYA. You have the capability to do it?

Mr. HERNANDEZ. Yes. We will take anything, apartment buildings, or whatever.

Senator MONTROYA. How long have you been in business?

Mr. HERNANDEZ. We have only been in business a little over a year.

Senator MONTROYA. And during the course of the last year 79 percent of your work was from 8(a) contracts?

Mr. HERNANDEZ. Yes; one 8(a) contract that we got from the General Services Administration.

Senator MONTROYA. Do you have an SBA loan?

Mr. HERNANDEZ. No, sir.

Senator MONTROYA. You operate with your own capital?

Mr. HERNANDEZ. Yes, sir.

Senator MONTROYA. Are you a corporation, partnership—

Mr. HERNANDEZ. There is a partnership of two of us.

Senator MONTROYA. What is your capital structuring?

Mr. HERNANDEZ. You mean by that, the facilities?

Senator MONTROYA. Yes; what is the value of your equipment, and so forth?

Mr. HERNANDEZ. Well, we have a shop that is valued at about between \$45,000 and \$50,000 with equipment and material.

Senator MONTROYA. And your automatic equipment is included?

Mr. HERNANDEZ. Yes, that is included, and the only automatic equipment we have is actually just the air guns and the rest of the machines and saws and compressors.

Senator MONTROYA. And you are operating under an 8(a) contract at the present time?

Mr. HERNANDEZ. No, sir.

Senator MONTROYA. You have no contracts?

Mr. HERNANDEZ. No, sir.

Senator MONTROYA. Is it up in the air?

Mr. HERNANDEZ. One is in the process for 8,010 pallets but we have not received it yet.

Senator MONTROYA. You have had to discharge 14 of your 20 employees?

Mr. HERNANDEZ. Yes.

Senator MONTROYA. Do you feel that GSA is in a position to give you the work now so that you can develop a continuity of operation?

Mr. HERNANDEZ. Yes; I believe we could obtain some more work from GSA and that we could keep the rest of the crew busy.

Senator MONTROYA. Would you contact SBA, Mr. Hernandez, about the problem and see what they can do, and I hope they will do something for you.

Mr. HERNANDEZ. Thank you, sir.

Senator MONTROYA. Now, you mentioned that 8(a) should be resorted to for approximately a 3-year period. Do you feel that you can develop the kind of stability under 8(a) contracting over a 3-year period and then go on your own?

Mr. HERNANDEZ. I believe, 2 or 3 years. It depends on the size of the contract. If we were to get another contract the same size as the first one we got, which is \$185,000, I am pretty sure we could go out on our own, but if we get a small one, \$8,000, we could produce that in 1 month's time, and it is really not sufficient.

Senator MONTROYA. What else can they give you by way of an 8(a) contract?

Mr. HERNANDEZ. We are constantly bidding on open contracts with General Services Administration and other agencies, but since we are not set up with the highly automatic equipment, we sometimes cannot compete with the other companies.

We are just a little bit higher, always, than the rest of the pallet manufacturers around the area.

Senator MONTROYA. Do we have a GSA man here?

Would you come forward, Mr. Ireland?

Mr. IRELAND. Yes, sir.

Senator MONTROYA. Are you acquainted with this contract?

Mr. IRELAND. I think Mr. Snodgrass is more acquainted than I am.

Senator MONTROYA. Bring up all the angels here. We want to talk with them.

Is there any way that you can give this man a little continuity in his operation and give him 8(a) breathing?

Mr. SNODGRASS. We have a problem with respect to woodworking and palletmaking—woodworking in general and palletmaking in particular. We have the problem of three firms making pallets in the bay area, Mr. Hernandez' firm being the third firm. And if my information is correct, the business was started, initiated, on the GSA contract.

I had a personal reluctance, when we were dealing with SBA regarding the contract, because of the fact that we had two pallet manufacturers in the area, and, in addition to that, we had two pallet manufacturers in the Los Angeles area.

Now, at the time the 8(a) program started, quite a few firms started out with woodmaking, shipping crates, boxes, and pallets. That was 3 or 4 years ago. We buy the pallets on demand from using agencies. The majority of them use woodworking materials, and the pallets in particular were used for shipping to Vietnam. Now, as our activities in the Far East taper off, so do our requirements for materials to go over there.

Senator MONTONA. Are you overstocked with pallets now?

Mr. SNODGRASS. I would say there is no question about it.

Now, I do not know why Mr. Hernandez—you mentioned that you are presently looking at 8,000 pallets out of our office?

Mr. HERNANDEZ. Yes.

Mr. SNODGRASS. I can find out what the status of that is.

Senator MONTONA. But if he has assurances from your agency for 8,000 pallets, it is just a problem of when he produces them this year and if it helps him immediately; and if your requirement over a year's period is such that you need them, then perhaps you can have a meeting of the minds.

Mr. SNODGRASS. I am sure of that. If the negotiation is already in progress, it is a question of time, of when.

Mr. IRELAND. I think I can do something about that.

Senator MONTONA. Yes.

Well, is there any other work that you can give to his firm which would fit into his capability under 8(a)?

Mr. IRELAND. Well, let us take a look at it.

Senator MONTONA. Yes; I wish you would, and I would sure appreciate it if you would look at the other enterprises around here and see if you can 8(a) more of your work.

Mr. IRELAND. We will certainly do that.

Senator MONTONA. Thank you.

Mr. SNODGRASS. If I may interject a point? The pallets are offered to SBA.

Senator MONTONA. What is that?

Mr. SNODGRASS. Our 8(a) contract requirements in most cases are offered to SBA, and in most cases, with the exception of construction, SBA determines who gets the contract.

Senator MONTONA. Well, the SBA people are here, too, in the room, and they are listening to this. I would sure hate to see a small minority enterprise discharge its employees when the Government through procurement can insure some kind of continuity and retention of those employees, and that is all I am pleading for.

Thank you very much.

Mr. SNODGRASS. We can pay attention to Mr. Hernandez.

Senator MONTÓYA. Yes. Thank you.

Will you be in touch with these gentlemen, Mr. Hernandez?

Mr. HERNÁNDEZ. Yes, sir; I certainly will.

We will keep in constant contact with them so we can see what the progress is with the 8(a) contracts.

Senator MONTÓYA. Yes. All right. Mr. Hernandez.

Mr. Ramirez?

**STATEMENT OF RICARDO D. RAMIREZ, R. D. RAMIREZ  
CONSTRUCTION, SOUTH SAN FRANCISCO, CALIF.**

Mr. RAMIREZ. Well, I do not have a written statement.

Senator MONTÓYA. You do not need a statement.

Just start telling us your story.

Mr. RAMIREZ. Well, I would like to say that I think the 8(a) program in the construction industry, like I am engaged in, is very helpful, and I think it is one of the best things I think that has happened to minority contractors.

Senator MONTÓYA. What kind of contractor are you?

Mr. RAMIREZ. Well, I am a general engineering contractor. We do underground work, and earthwork, and concrete structures, anything to do like that—culverts, and so forth.

Senator MONTÓYA. Well, you state here “electronic equipment repair, overhaul calibration and testing service.”

Mr. RAMIREZ. I beg your pardon?

Senator MONTÓYA. I am reading the wrong statement.

Pardon me. It is “drainage, wood repair, grading.” Is that what you do?

Mr. RAMIREZ. Yes, sir.

Senator MONTÓYA. In other words, heavy equipment work, construction work.

Mr. RAMIREZ. Yes, sir. I think that as far as procurement, it is an area I think could be improved on in the 8(a) program. For example, I have done three 8(a) projects.

When you talk about procurement, maybe you have to go back a little bit further and talk about my work with the SBA. I have had, I think, the people that I worked with and found very willing to work with me, but I think that they are not really—

Senator MONTÓYA. Getting all the work that is available. Is that what you are trying to say?

Mr. RAMIREZ. No, I do not think they are competent to understand the construction industry enough to be able to procure the jobs from individual contractors. For example, when you say “engineering contractor,” you could say “a road work contractor,” and that is all he does is road work—a drainage-type contractor, or he does pipelines, but he does not do paving, for example.

Senator MONTÓYA. In other words, they do not have any individuals there who can discern what applicability or capability exists among small business enterprises to do the work; is that right?

Mr. RAMIREZ. I will give you a good example. I have done three 8(a) projects. Now, in my firm, I have most of the people that work for me Mexicans. We do pipelines, and I have done three 8(a) projects, and for all of the three 8(a) projects I have done paving. This has

done several things for the company. No. 1, I have to employ other people than what I have, and they do not become Mexicans, they become whatever I can get to do the job. And the equipment I have is not fit for the job.

Senator MONTOYA. So, you have to go out and rent it?

Mr. RAMIREZ. Therefore, I have a rental factor. The profit is not as great or the equity in the equipment that I do have is not exercised, nor do I obtain any more. I think this is one area that should be improved, and I think the only way it can be improved is to get somebody in the procurement end of it that is aware of what one company specializes in or what he can do.

Senator MONTOYA. Well, do you feel that there is work that can be "8(a)-ed" to you within your capability?

Mr. RAMIREZ. There must be. I mean. I know of a few jobs.

Senator MONTOYA. How did you get these 8(a) contracts? Through SBA?

Mr. RAMIREZ. Yes, sir.

Senator MONTOYA. And they are the ones that picked you out?

Mr. RAMIREZ. Yes, sir; I met one fellow.

Senator MONTOYA. Have you contacted the procurement officers in the Federal agencies?

Mr. RAMIREZ. Yes. I have had one example or one case that did a little bit of squawking, and I guess this is what brought about these other jobs which I have not got as yet; I have not got the plans for them yet, but I am supposed to get them in the near future. I had a job that I did on myself for the Navy, and I was the subcontractor on that job, and I had problems with the job, and I went to the base to see what I could do to solve the problem. While I was there I met a fellow by the name of Montoya—who was the procurement officer for construction.

Senator MONTOYA. What Montoya was it? What was his full name, Larry Montoya?

Mr. RAMIREZ. Lieutenant Commander Montoya. I do not know the first name. Anyway, he told me about a job. He asked me if I was a 8(a) contractor, and I told him "Yes," that I was, and he told me about a job that was coming up that could go 8(a).

Well, I asked him if I could get this job, and he told me that it was too complicated for 8(a) contractors, which was not so. He got this opinion from, I guess, various talks or associations with the SBA. So, I think there could be a little bit more of an improvement in the procurement end of it, although I think, as a whole, the intent of the 8(a) program is really one of the best programs.

Senator MONTOYA. That is what we are trying to do and that is why we are having these hearings, to try and develop a better coordinated effort to insure 8(a) contracting to minority enterprises.



Mr. RAMIREZ. I might say one thing more, Senator. I guess everybody is aware of this, at least contractors, that the volume of the work that the contractor does pertains to his best livelihood, but 90 percent of the minorities, whether they are Mexican or other, whatever they are, there should be a little bit more effort into this.

In other words, if a minority firm has, for example, a \$50,000 a year from 1 year, and all of a sudden, because of an 8(a) program, the volume of work that he has picked up and he has been able to boost it up to \$300,000, then the management, being able to efficiently manage that volume of work and efficiently put it through an accounting system is very important.

For example, you can get a guy that does \$50,000 worth of work and he is barely making it, but maybe he can get \$100,000, but then all of a sudden he gets a few 8(a) jobs for \$500,000, and he could go broke because he had too much work and could not handle it. I think there also should be a program set up for contractors or any businessman that schools them in management and makes them aware of how important accounting is, and this SCORE is no good as far as I am concerned. It may be in other areas, but not where I have had dealings with them.

Senator MONTOYA. How do you get your advice?

Mr. RAMIREZ. Well, I was very fortunate. I received through the Merrill Foundation. It is a program that—I do not know, but it is a Palo Alto, and I received a student from Stanford, which is from the accounting department, from the business school, and he is in there taking care of the books, and he handles it very well. But I have also created a pretty good friendship with large contractors in the area where I am at, so when I have management problems or questions, I can go to them and they help me. But there is nobody—I would like to say this—there is nobody that can answer those questions for me at the SBA.

Senator MONTOYA. Well, I understand what you mean.

Mr. RAMIREZ. This is something where, if you give a fellow too much work, he is going to go busted if he does not handle it right.

Senator MONTOYA. Thank you very much, Mr. Ramirez.

Mr. Taylor?

Mr. TAYLOR. I do not have a prepared statement, Mr. Chairman. I do have a copy of a synopsis of the last 2 years work.

(The document follows:)

# TAYKO INDUSTRIES

- ELECTRONIC EQUIPMENT REHABILITATION
- FIELD ENGINEERING SERVICES
- INSTALLATION AND MAINTENANCE SERVICES



8604 ELDER CREEK ROAD  
SACRAMENTO, CA. 95828  
916 / 383 - 1377

TAYKO Industries, located at 8604 Elder Creek Road, Sacramento, CA, is a sole proprietorship organization, specializing in electronic equipment repair, overhaul, calibration and test services to either U.S. Government or commercial customer accounts. TAYKO Industries is owned and operated by its founder and proprietor, Mr. John G. Taylor, of Mexican descent.

Operating from its base of specialized services to the electronics industry, TAYKO is also capable of remote location, field engineering efforts, involving installation, operation and maintenance at customer installations.

In addition to the above capabilities, TAYKO has the necessary skills to administer and implement any Government contract containing strict requirements in the auxiliary functions of quality control, property administration, security, and contract administration. TAYKO has extensive experience along these areas since their key personnel, together with the founder, were successfully administering large dollar value Government contracts for a large defense contractor prior to the "spin-off" to form TAYKO Industries. In this regard, TAYKO Industries possesses a current Defense Department Facility Clearance rating of SECRET and has Government-approved Quality Assurance as well as Property Control programs.

The following contracts have been performed by TAYKO Industries as a first-tier subcontractor for Unitec Industries, Inc.

<u>Gov't. Agency</u>	<u>Contract No.</u>	<u>Period Covered</u>	<u>Total Dollar Amount</u>
SMAMA	FO4606-68-D-0542	69SEP05-70MAY14	\$ 44,363.18
SMAMA	FO4606-68-D-0607	69SEP05-69NOV21	\$ 5,109.00
SMAMA	FO4606-68-D-0623	69SEP05-70MAY18	\$ 15,065.00
SMAMA	FO4606-68-D-0626	69SEP05-70JAN21	\$ 5,205.00
SMAMA	FO4606-68-D-0617	69SEP05-69OCT27	\$ 3,470.00

<u>Gov't. Agency</u>	<u>Contract No.</u>	<u>Period Covered</u>	<u>Total Dollar Amount</u>
SMAMA	FO4606-68-D-0630	69SEP05-70NOV27	\$ 51,566.50
SMAMA	FO4606-68-D-0641	69SEP05-70NOV27	\$ 23,733.25
SMAMA	FO4606-69-D-0375	69SEP05-70MAR09	\$ 16,240.00

The following contracts are being/have been performed by TAYKO Industries as a prime contractor.

<u>Gov't. Agency</u>	<u>Contract No.</u>	<u>Period Covered</u>	<u>Total Dollar Amount</u>
SMAMA	FO4606-70-M-0687 Lamp, Hi-Intensity	69OCT01-69DEC17	\$ 593.82
SMAMA	FO4606-70-D-0103 Repair of Relay	70FEB09-71AUG11	\$ 26,274.20
SMAMA	FO4606-70-C-0690 Mod Kit for FRT-49	70FEB13-71APR14	\$ 20,053.87
SMAMA	FO4606-70-M-1870 Lamp, Hi-Intensity	70APR08-70MAY14	\$ 529.34
SMAMA	FO4606-70-C-0863 Target, Radar	70APR21-71APR14	\$ 7,514.50
SMAMA	FO4606-71-M-0480 Lamp, Hi-Intensity	70SEP23-70OCT27	\$ 724.86
SMAMA	FO4606-71-M-0694 Spring, Hel. Tension	70OCT23-70NOV27	\$ 108.64
SMAMA	FO4606-71-D-0080(8a) Overhaul of Auxiliary Power Plants (V32D-2) 1 year	70DEC03-	\$ 393,393.88
Mather AFB	FO4612-71-C-0252 Repair of Sewage Treatment Plant	71JUN18-71SEP24	\$ 14,948.00
SMAMA	FO4606-72-D-0043 Overhaul of Generator Sets (MB-15, -16) 3 years	71SEP14-	\$ 936,259.52

TAYKO feels their past experience qualifies them to participate in gas, diesel engine, or motor-driven generator repair/overhaul contracts to include rigid testing to contract specifications. Contract No. FO4606-71-D-0080 is for the overhaul of Auxiliary Power Plants used in aircraft and has been awarded for

one year with two one-year options for FY72 and FY73. The estimated dollar values are \$393,393.88 for FY71, \$263,423.72 for FY72, and \$260,562.68 for FY73.

TAYKO's facilities are located in a modern industrial complex and consist of a 1600 sq. ft. office and a free-standing 12,000 sq. ft. shop building, featuring all-steel construction, two high-capacity overhead trolley cranes, 440 volt 400 ampere industrial wiring and an unobstructed, drive-through capability. These prime units are located on approximately five acres of rock-surfaced property, allowing adequate room for future growth.

TAYKO currently has 32 employees, ranging in skills from certified mechanics and welders to electronic technicians, machinists, engineers, and packaging specialists. Several of our employees are highly qualified in fields other than their present position requires at this time.

**STATEMENT OF JOHN G. TAYLOR, OWNER AND PROPRIETOR,  
TAYKO INDUSTRIES, SACRAMENTO, CALIF.**

Mr. TAYLOR. I would like to start out by saying that I agree wholeheartedly with Mr. Ramirez and his determination that perhaps there are not enough sufficiently qualified personnel in SBA to deal specifically with the type of firm that has a specialty.

Senator MONTOYA. SBA is a lending agency primarily, and they have a very meager funding for entering into contracts with consulting firms who, in turn, are supposed to give advice. I have been trying to find out about the competency of some of these consulting firms during hearings in this committee and the Subcommittee on Economic Development and I am very much dismayed by the competency of some of these consulting firms.

Mr. TAYLOR. Yes, sir. But to go just a step further, SBA in one respect obtained the contracts for us, and this particular competency begins at the very inception or stage of the negotiations for that particular award.

At that particular time the competency comes in, because there is no other competition to determine a fair contract price. Most procuring agencies will want to establish a so-called reasonable price for that particular effort or that particular work. In order to establish the reasonableness of this particular price, firms are usually subjected to an audit from various governmental agencies. On the other hand, a lot of procurement people from the procuring agency or customer misunderstand a reasonable price for the so-called lowest possible price. When you get down to the actual negotiations, sometimes there is no actual basis for establishing this particular reasonableness of price, and at this time SBA should be conversant enough with the procurement regulations to at least provide some contingency for either wage or material escalation or any other contingencies that may arise during the course of the contract.

Senator MONTOYA. In other words, what you are trying to say is when you go to the contracting officer to try to negotiate a price you are strictly at their mercy because you want that contract so badly?

Mr. TAYLOR. In one respect, yes, sir; because I think they have a tremendous amount of leverage they can apply. A firm may have been waiting for this particular moment for months, and—

Senator MONTOYA. And you want the SBA to have the kind of competency where they can stand in between you and the contractor and say what is reasonable and what will insure you a reasonable profit?

Mr. TAYLOR. That is correct. Although in our past experience we had a very competent negotiator, the fact is that the groundwork prior to our particular negotiation required an audit from three different agencies. They came in and quite frankly stated that we were adversaries and they also regarded SBA as an adversary. They were about to disapprove the determination of our shop overhead and other so-called nonallowable costs, and when they got through with their red pencils we, really, did not have much margin for profit when you discount or allow for interest expenses. We pay just about 10 percent for our business loans, and we are only allowed a so-called 10 percent profit, and it does not leave much more for contingencies.

Senator MONTOYA. Do they now allow interest expense as a matter of policy?

Mr. TAYLOR. It is not an allowable cost, no; no way.

Senator MONTROYA. It is a policy; is it not?

Mr. TAYLOR. Right, under Federal procurement regulations advertising and other so-called expenses that other commercial businesses normally incur, are prohibited.

Senator MONTROYA. The only place they allow it is in cost-plus contracts?

Mr. TAYLOR. That is correct, but, again, SBA, it seems to me, ought to have some other authority to determine the type of contract to be negotiated.

The thing we are concerned with is the fact that a lot of times these so-called allowable costs are not made available to the prospective subcontractor to put down when he establishes his shop overhead. The big boys have the experts on their staffs, and so on, in this particular field. For instance, advertising is not an allowable cost, but if you advertise for job positions and so on, it is an allowable cost. These are not particularly loopholes except that they do provide a more realistic picture of the costs that you are going to incur during the length of the contract.

Senator MONTROYA. I think you have brought out a very important point that has not come into the hearing up to now, and that is, that SBA should be the advocate for you.

Mr. TAYLOR. I believe we did very well at the actual negotiation table, for we had very staunch support. In the meantime, though, we were locked into a so-called fixed price in our particular case for 3 years, and we had to provide our own method to take care of any possible material escalations, and so on, and we had very little help from SCORE or public accountants, or anything, because our business is so specialized in this particular field. We are overhauling auxiliary power units to aircraft specifications, and there are a lot of changes, amendments, and modifications that result after the contract has been awarded.

All we normally get from SBA, after the award of a contract, if a particular specification is being changed, is a form letter from SBA, together with about 10 copies, saying in effect, "Read the actual modification of the contract, if you find no error, sign it and return it within 10 days." Nowhere in the form letter does it say "Read it and if you think it is a disadvantage to you do not sign it; let us renegotiate." It is a very auspicious-looking document, and they give you 10 copies to sign in 10 days. Once you sign, you may have whittled away your profits for the next 2 or 3 years.

Senator MONTROYA. You have been doing very well with the Government agencies, have you not?

Mr. TAYLOR. Yes. We were fortunate enough to have had previous experience as a subcontractor. Most of our staff, including myself, have managed contracts of this type for larger businesses.

Senator MONTROYA. What is your educational background, Mr. Taylor.

Mr. TAYLOR. Mostly night school at college—I have been in electronics since I was 18, I was with RCA, and then with a larger firm in middle management before finally going to this. It was primarily all Government-oriented.

Senator MONTONA. Well, thank you very much, gentlemen. We appreciate your coming over.

We will now recess until 1:30.

(Whereupon, at 12:25 p.m., a recess was taken until 1:30 p.m., this same day.)

AFTERNOON SESSION

Senator MONTONA. The committee will come to order.

This afternoon we are going to hear from a panel of people in the procurement agencies of the Government.

If you all will, come forward, gentlemen.

First is Col. Robert W. Cochran, Director, Procurement and Production, Sacramento Air Material Area, McClellan Air Force Base, Calif.; also Mr. Robert A. Allstead, Chief, Procurement Division, Office of Deputy Chief of Staff for Logistics, 6th U.S. Army, Presidio of San Francisco, Calif.; Capt. D. G. Aitken, Supply Corps, U.S. Navy, Officer in Charge, Naval Regional Procurement Office, Naval Supply Center, Oakland, Calif., and Mr. Robert J. Ireland, Regional Director of Business Affairs, General Services Administration, San Francisco, Calif.

Have you designated any lead-off witness?

You may lead off, if you will. And will you identify yourself for the record?

**STATEMENT OF CAPT. DOUGLAS G. AITKEN, SUPPLY CORPS, U.S. NAVY, OFFICER IN CHARGE, NAVAL REGIONAL PROCUREMENT OFFICE, NAVAL SUPPLY CENTER, OAKLAND, CALIF.; ACCOMPANIED BY ROBERT M. GILBERTSON, SMALL BUSINESS SPECIALIST; AND LT. COMDR. RAY N. BEEMAN, JR., DIRECTOR, PURCHASE DIVISION**

Captain AITKEN. Yes, sir. I am Captain Aitken, Officer in Charge of the Naval Regional Procurement Office at Oakland.

I believe you have my lengthy statement, Senator, and at your discretion I will be pleased to either read it or incorporate it in the record.

Senator MONTONA. It will be made a part of the record at this time, and you may proceed to highlight it, sir.

(The prepared statement submitted by Captain Aitken reads in full as follows:)

Statement of  
Captain Douglas G. Aitken, Supply Corps, USN  
before the  
Select Committee on Small Business  
United States Senate  
at  
San Francisco, California, 30 September 1971

Mr. Chairman and Members of the Committee:

I am Captain Aitken, Officer-in-Charge, Naval Regional Procurement Office, Oakland, California. I am pleased to have this opportunity to meet with you and submit a statement concerning our efforts and accomplishments in behalf of small business and the related matters in which you have indicated an interest insofar as they are applicable to my office. While we note that the emphasis and thrust of this hearing is directed toward the 8(a) program, we feel that it would be of interest to the committee to know something of our over-all small business effort. To this end, we have available certain statistics regarding our purchase volume and small business participation for fiscal years 1970 and 1971.

My responsibility includes carrying out the objectives of the Navy's Small Business Program. I am assisted in this by my Small Business Specialist, Mr. Robert M. Gilbertson and by my Director of the Purchase Division, Lieutenant Commander Ray N. Beeman, Jr., both of whom are with me today.

It has been our policy to increase the participation of small business in our procurements by all available means. We will outline these efforts and results for you and be pleased to discuss related matters at your discretion.



We provide purchase support over \$2,500 for Pacific fleet ships and overseas bases, and shore activities in the Twelfth Naval District. Our office generally is a quick-response type activity, buying materials, equipment, and services of a wide range and nature for immediate and nonrepetitive needs. We buy few items for stock and have infrequent research and development requirements. Examples of our purchases include:

- (1) Repair Parts for a generator on a Military Sealift Command ship which sails tomorrow.
- (2) Special Sand for sandblasting ships in drydock.
- (3) Special Steel in small quantities for Mare Island Naval Shipyard projects.
- (4) Overhaul of 12 large winches of a Navy supply ship.

Our first chart today (Table I) is our total procurement picture in millions of dollars for fiscal years 1970 and 1971.

During FY 1971, our total procurement business dropped slightly, to \$28.4M. Our total awards to small business was virtually unchanged, thus slightly increasing our percent of award dollars to small business. Our small business set-aside awards decreased only \$.1M, which is comparable to the decrease in total awards, thus resulting in identical percentage of set-asides for the past two years. We are proud to have more than achieved our assigned goal of small business participation for both FY 1970 and 1971.

In the area of small business subcontracting, all of our prime contracts over \$5,000 contain the mandatory "Utilization of Small Business Concerns" clause. Our opportunities to participate through major contracting in the Small Business Subcontracting Program including make-or-buy determinations

are virtually nonexistent due to the small size of our contracts.

Our next chart shows our awards by claimant program as applicable to our office. These figures are available only for contracts over \$10,000. As you will note in all claimant programs but A-3 our percentage to small business dropped. However, the drop in actual dollars to small business was virtually offset by the large percent and dollar gain to small business in the A-3 program. There is a two percent overall difference.

We have an excellent working relationship with the San Francisco Regional Office of the Small Business Administration. I have personally visited with many representatives at that office and Mr. Gilbertson, my Small Business Specialist, has been there many more times. Mr. Walter Dorn, the Procurement Center Representative (PCR) of the SBA visits our office at least every two weeks for several hours. All are most helpful in assisting with our Small Business Program by providing sources and determining whether sufficient small firms are available for a given commodity or procurement to warrant class, joint, or unilateral set-aside actions. We have cooperated fully in the Section 8(a) Program for subcontracting through SBA to minority-owned firms.

Our present program for identifying a possible 8(a) purchase consists of finding repetitive requirements that can be directed toward the goal of developing and sustaining a business while it gains the skills and strength to become fully competitive. To date, this has taken the course of annual type contracts such as the printing of station newspapers, the construction of special type wooden crates, and key punch services. We have awarded fixed price contracts for reupholstery services and for machine shop work, but we have not had the repeat type requirements for these services that would give continuing support. The next chart shows our record in this regard. Some of these contracts were initiated by us; but whatever the source, we have had outstanding cooperation with the SBA. We are constantly working with them to locate new opportunities for the Section 8(a) Program.

In cases where we have repetitive purchases of the same or similar material or services, we consider making class set-asides. For example, packing and crating of household effects is a class set-aside and currently we are getting sufficient small business competition in our geographic area to warrant continuance. We also have a class set-aside for special boxing and crating; for repair and renovation of classroom electronics instruction equipment; for care of remains; for work benches and minor steel construction; for ships brows on rental basis; and for several others. Most class set-asides are jointly made with SBA, but some are unilateral.

We can recall no cases in FY 1970 or 1971 of small business nonresponsibility determinations based upon lack of tenacity, perseverance, or integrity.

For your information, our Small Business Specialist devotes full time to the program and reviews every proposed procurement for Section 8(a) possibility, unilateral small business set-aside determination, or the addition of small business firms to the solicitation.

We make full use of the Department of Commerce Business Daily to publicize our solicitations and awards. We maintain a bid room with a display of current solicitations, Commerce Business Dailys, and abstracts of previously opened bids. Bids are opened here and the Small Business Specialist has his office here.

Our buyers and Small Business Specialist visit small business and Section 8(a) contractors to become better acquainted with available facilities. We have participated in Small Business Symposiums and Conferences to make our requirements and purchasing procedures known.

We believe we have an active and multi-faceted Small Business Program but one always subject to improvement. We are ready for your questions, comments and suggestions.

PROCUREMENT IN THE UNITED STATES BY THE  
 NAVAL REGIONAL PROCUREMENT OFFICE  
 OAKLAND, CALIFORNIA

FISCAL YEARS 1970 - 1971  
 (in millions of dollars)

	<u>1970</u>	<u>1971</u>
Total Awards to All Firms	\$29.2	\$28.4
Total Awards to Small Business	\$12.1	\$12.0
Percent of Small Business to Total	41.4%	42.4%
Small Business Set-Aside Awards	\$ 3.4	\$ 3.3
Percent of Set-Asides to Total Awards	11.6%	11.6%
Small Business Goal	31.5%	40.1%
Actual % Accomplished	41.4%	42.4%

NOTE: "Total Awards to All Firms" does not include intergovernmental purchases, purchases from nonprofit institutions or contract modifications less than \$10,000

TABLE I

## CLAIMANT PROGRAMS

FISCAL YEARS 1970 - 1971  
(in thousands of dollars)

	1 9 7 0		1 9 7 1	
	Total to All Firms	Percent to SB	Total to All Firms	Percent to SB
A-3 Ships & Equip.	\$11,675	11.9	\$10,945	24.8
A-7 Electronics & Communications	1,016	62.7	1,998	33.8
S-1 Services	3,581	71.7	2,768	59.1
C9E Other Material	6,737	66.6	4,491	58.4
All Other Programs	921	46.2	693	42.9

TABLE II

SECTION 8A PROGRAM AWARDS TO  
SMALL BUSINESS ADMINISTRATION

<u>Fiscal Year</u>	<u>Number of Contracts</u>	<u>Total Value</u>
1969	1	\$ 18,305
1970	5	\$133,300
1971	7	\$201,904*

Material or Service

Special Crates For Aviation Parts	\$ 69,673
Data Processing Key Punch Service	33,400
Special Crates For Supply Center Shipping	35,925
Station Newspaper for Shipyard	39,216
Bus Transportation	9,401
Machine Shop Services	16,090
Station Newspaper for Naval Station	<u>7,600</u>
	\$201,904*

TABLE III

Captain AITKEN. Thank you, sir. As is evident from the procedure and from the witnesses who have proceeded me, it is quite evident that your emphasis is on the 8(a) program alone, so I would be pleased to discuss certain portions of my statement which relate to the 8(a) program.

We have charts here, which I will flip quickly to the 8(a) portion thereof, showing our accomplishments at the Naval Regional Procurement Office at Oakland.

As you can see, we have a number of 8(a) contracts during this past fiscal year, 1971, and a few in 1970, and in 1969.

Senator MONTOYA. Would you state what the total procurement under your jurisdiction was in 1969, 1970, and 1971?

Captain AITKEN. Senator, I do not have those figures on that chart, but in 1971 we had \$28 million, and our total for the 8(a) awards during 1971—

Senator MONTOYA. Just a minute.

For the record, I want to state that the total awards to all firms for 1969 were \$58.6 million; for 1970, \$29.2 million, and 1971, \$28.4 million.

Captain AITKEN. Yes, sir.

Senator MONTOYA. Is that correct?

Captain AITKEN. Yes, sir; that is correct.

Shall I proceed, Senator?

Senator MONTOYA. Yes.

Captain AITKEN. Those figures that you just read from the chart are the total awards to all firms by my office during those 3 fiscal years.

Senator MONTOYA. Yes.

Captain AITKEN. And the other chart which we have displayed on the 8(a) program represents the total dollars awarded in the 8(a) program.

Senator MONTOYA. Now, may I read that into the record?

In 1969 it was \$18,305?

Captain AITKEN. Yes, sir. In 1970, the total was \$133,000 and in 1971 it was \$201,000.

Senator MONTOYA. That is quite a small percentage of that pie; is it not?

Captain AITKEN. Yes, sir. It represents about three-quarters of 1 percent of our total dollars during the year 1971, and I have not computed it for the past 2 fiscal years.

Senator MONTOYA. Why is the sum so small?

Captain AITKEN. Well, we are getting started in the 8(a) program. I think we have a good start, Senator, and we are proud of that record as well as we are proud of the 42 percent that we awarded to small business generally during this past fiscal year.

Senator MONTOYA. Well, in 1969, you took one step; in 1970, you took five, and in 1971 you took seven. Is that what you call progress in the Navy?

Captain AITKEN. That is progress; yes, sir. And we believe in the coming fiscal year we will have many more of the 8(a) contracts.

Senator MONTOYA. Well, I am disappointed at the progress you have made. Have you had any seminars with your contracting officers?

You are the contracting officers; are you not?

Captain AITKEN. Yes, sir. We have contracting officers in our office. I am one, and Commander Beeman, our director of the purchase divi-



sion, and Mr. Robert Gilbertson also, from my office; we have a number of contracting officers in our office.

We do have meetings with industry, and Mr. Gilbertson, our small business specialist, has taken part in some of these and has talked to and interviewed many of both small business and 8(a) personnel, and while they are interested, we have not had a great deal of them calling upon our office to look at our bid boards, however. We have encouraged—

Senator MONTROYA. Have you established any meaningful liaison with the Small Business Administration?

Captain AITKEN. Yes, sir.

Senator MONTROYA. To apprise them of what 8(a) potential exists in your contracting?

Captain AITKEN. Yes, sir; we certainly do. We have regular meetings with the Small Business Administration PCR man who comes to our office frequently and reviews our requirements and, together with our Small Business Specialist, selects certain of our contracts for 8(a) performance.

Senator MONTROYA. Well, to what do you attribute the smallness of the total number of contracts and the total of dollars in those contracts?

Captain AITKEN. The nature of the business we have in our office, Senator, I believe, is the best answer to this. We buy a wide variety of materials and services of a one-time nature, mostly on a quick-response-type request from shipyards, ships and overseas base, and they are generally of a nonrepetitive nature. I believe it is the repetitive business which is needed in the 8(a) contractor's field.

Senator MONTROYA. Do you have janitorial and building maintenance services contracted out under 8(a)?

Captain AITKEN. We do not contract for that, Senator.

Senator MONTROYA. You use your own in-house personnel?

Captain AITKEN. No, sir. But those services are contracted for by another office, not ours.

Senator MONTROYA. Well, do you have supervision over that type of contract?

Captain AITKEN. No, sir.

Senator MONTROYA. Do any of you gentlemen?

Who is that contracted out by? GSA?

Captain AITKEN. No, sir. That is done by our construction facilities, Navy personnel.

Senator MONTROYA. Well, then, they are probably letting that out outside of the orbit of 8(a)?

Captain AITKEN. Actually, Senator, I do not know who gets those contracts, and I do not know whether it is 8(a).

Senator MONTROYA. Well, if those contracts were 8(a) they would be reflected here?

Captain AITKEN. No, sir; these are only from our office and would not reflect there if they were 8(a) from another office.

Senator MONTROYA. What do those contracts reflect; what kind of contracts are they?

Captain AITKEN. Well, on the lower part of the chart there, the material and services, the seven that we had during 1971 are listed and all of those, with one exception, are repetitive type requirements. For example, they are all annual contracts existing for 1-year periods

except for the one-machine-shop service contract; like the special crates for aviation parts, any special crates which are required during that 1-year period, are made by that 8(a) contractor. And the next we have is data processing and keypunch services. Any keypunch service which we have for that particular organization is done by that 8(a) contractor during the 1 fiscal year.

Senator MONTOYA. Then, let me ask you: Do you have any other type of repetitive needs in your organization that are not reflected here?

Captain AITKEN. Yes, sir; we do.

Senator MONTOYA. How much would you say in terms of dollars?

Captain AITKEN. There are another—oh, two or three items that are being analyzed and will have been discussed with the Small Business Administration through this fiscal year as a potential increase to our program. We have more of these annual requirements.

Senator MONTOYA. How many of the requirements have you referred to SBA which are not reflected here in these awards?

Captain AITKEN. I believe that all we have discussed and offered to SBA and that we have worked out with them are reflected here with one exception. They were unable to find an appropriate 8(a) contractor to provide service, and it was not therefore contracted. But most everything we have offered them have been reflected here.

Senator MONTOYA. Do you participate in any meetings, seminars or other types of sessions with other Federal agencies with respect to 8(a) contracting?

Captain AITKEN. No.

Mr. GILBERTSON. I will answer. I participated, just last month, in one in the city of Sacramento and one in Oakland.

Senator MONTOYA. Had you participated before?

Mr. GILBERTSON. I have participated in one before in San Francisco about a year before.

Senator MONTOYA. And had you—

Mr. GILBERTSON. My predecessor did several of these. I do not recall just where they were.

Senator MONTOYA. What was the nature of that meeting?

Mr. GILBERTSON. These were a seminar set up by, I think the last one, I think—by General Services Administration, and all branches of the Federal Government were participating and had people there to answer questions and to get information out to those minority business people that came to these meetings, answering their questions and trying to guide and steer them into ways of getting 8(a) contracts or in getting Government contracts, period.

Senator MONTOYA. Did you have any executive sessions among yourselves to establish a plan of operation as to how you could best recognize these people?

Mr. GILBERTSON. Well, at these particular meetings; no, sir.

Senator MONTOYA. Have you at any time?

Mr. GILBERTSON. No, sir; I have not.

The Small Business Council meeting of northern California, we did enter into this area and discuss problems generally that have to do with small business and the 8(a) program.

Senator MONTOYA. But within your organization, have you sat down with your contracting officer, with your procurement people and established any goals with respect to the 8(a) contracting or with respect to letting small business have a share of the procurement pie?

Commander BEEMAN. Yes, sir, Senator. Every requirement that comes into our shop. And I might add that we are unable to predict what is going to come in because we are regional, a big office, and every requirement is screened by Mr. Gilbertson, and if he recommends that it either be a small business setaside or a 8(a) contract, then he comes to me and we all discuss it and determine whether or not it is applicable.

Senator MONTROYA. Do I understand you to say that the \$201,904 represented for the year 1971 constitutes the amount of recommendations made by this gentleman?

Commander BEEMAN. Yes, sir. I emphasize again that these are annual contracts and all of them do not expire in the same month. As they expire and are for renewal we look at them. We have some 25 categories listed that are going to expire in the next few months that we will be referring in to the SBA.

Senator MONTROYA. Has he turned in any recommendations that you did not accept?

Commander BEEMAN. No, sir.

Senator MONTROYA. This is the extent of his recommendations?

Commander BEEMAN. It takes the three-man review board to overrule his recommendation.

Senator MONTROYA. Has he ever been overruled?

Commander BEEMAN. No, sir.

Senator MONTROYA. So, I take his total recommendations amounted to \$201,904?

Commander BEEMAN. For this preceding fiscal year; yes, sir.

Captain AITKEN. Plus one referred to SBA for which there was no suitable contract.

Senator MONTROYA. Do you notify SBA of your prospective requirements in advance, or do they have to come to you after you announce, perhaps, that you were going to put out for bids certain things by way of procurement needs?

Captain AITKEN. No, sir. We announce to the SBA considerably in advance of the time we go onto the street with our requirements. In other words, before we go out for bids we consult with the SBA on these requirements and those which we are generating in the annual contract fields to determine if they can find a suitable contractor. I might add that some of these 8(a) contracts have been at our own instigation and some of them were on a cooperative basis with SBA. We enjoy a very fine relationship with them.

Senator MONTROYA. What kind of technical instruction or education do you make available to small contractors with respect to your requirements?

Captain AITKEN. We have no means of informing the local populace directly of our total requirements. However, all of our requirements—

Senator MONTROYA. I do not mean that. I mean—first of all, let me ask this question: Do you have a list of the small contractors in the area?

Captain AITKEN. Yes, sir.

Senator MONTROYA. Do you have a list catalog by capability?

Captain AITKEN. By what they produce and what they can do? Yes, sir; those who have indicated an interest in Government business.

Senator MONTROYA. All right.

Have you, in the course of outlining your procurement needs, ever notified the particular individuals with specific capabilities that they can come in under section 8(a) and become involved in such a contract?

Captain AITKEN. Our bidders' list, as it is known, comprises of going firms who are already in business, and they are solicited for our requirements as we generate them. We do not have a list of 8(a) organizations who are potentially businessmen or who are attempting to establish businesses.

Senator MONTGOMERY. Then, your answer is confined to a list of the small business capabilities rather than those who might have 8(a) eligibility?

Captain AITKEN. Yes, sir; that is right, in our office. However, we do rely on the SBA to assist us in locating the SBA firms or, I mean, the 8(a) firms.

Senator MONTGOMERY. But you testified a few minutes ago that the only thing you have referred to SBA is the \$201,904 in contracts and the other one that they could not find any capability for.

Captain AITKEN. Yes, sir. But I should enlarge by saying that the SBA representative who visits our office frequently reviews, at his discretion, any and all of our procurements before they go to the street for bids.

Senator MONTGOMERY. All right, now, let us be frank about this without having this interpreted as being critical.

Now, you enter into many types of contracts and you have many types of procurement needs. Now, does the SBA man know everything there is to know with respect to his duties concerning every type of procurement need that you service as a contracting officer?

Captain AITKEN. Yes, sir; in general, he does. We have many requirements, of course, which we receive the request for today and awards are made tomorrow, for the repair part of a ship to prevent disruption of overhaul, or sailing date, and this sort of thing. We have requirements for which we must purchase immediately, but these are one-time requirements for parts for a particular generator, or something else for which an 8(a) contract is just not suitable.

For our ongoing annual type repetitive needs, such as these here and the others which we mentioned as referring to SBA for this fiscal year and in the process of doing now, the SBA representative is aware of; he knows of our requirements. He knows which ones these are. Now, I do not know as he has seen everyone of them. I cannot state to that. But he knows generally what our requirements are.

Senator MONTGOMERY. Well, are you in a position to determine with complete candor and objectivity what kind of profit a small entrepreneur can realize from a contract you are willing to award to him under the 8(a) program?

Captain AITKEN. Not precisely. We know approximately what price contracts should be awarded normally, because of past history. Most of these things we have bought before, for several years, and we know about what the price should be.

Senator MONTGOMERY. Do you take into account the inflation that is taking place?

Captain AITKEN. Yes, sir. Generally, the price increases slightly each year but not necessarily.