

STATEMENT OF JON H. SEYMOUR,  
ACTING ASSISTANT SECRETARY FOR ADMINISTRATION,  
OFFICE OF THE SECRETARY, DEPARTMENT OF TRANSPORTATION,  
BEFORE THE SUBCOMMITTEE ON SBA AND SBIC AUTHORITY  
MINORITY ENTERPRISE AND GENERAL SMALL BUSINESS PROBLEMS  
HOUSE COMMITTEE ON SMALL BUSINESS  
MAY 15, 1985

MR. CHAIRMAN, MEMBERS OF THE COMMITTEE:

I AM JON H. SEYMOUR, ACTING ASSISTANT SECRETARY FOR ADMINISTRATION  
IN THE OFFICE OF THE SECRETARY, DEPARTMENT OF TRANSPORTATION.  
SECRETARY ELIZABETH DOLE AND DEPUTY SECRETARY JAMES BURNLEY SEND  
THEIR REGRETS THAT SCHEDULE CONFLICTS PROHIBIT THEIR APPEARANCE  
BEFORE THIS COMMITTEE. WITH ME TODAY ARE RAY A. BARNHART,  
ADMINISTRATOR, FEDERAL HIGHWAY ADMINISTRATION; RADM DONALD C.  
THOMPSON, CHIEF OF STAFF, U. S. COAST GUARD; AND FRED E. GILMORE,  
DIRECTOR, ACQUISITION AND MATERIEL SERVICE, FEDERAL AVIATION  
ADMINISTRATION.

THE DEPARTMENT OF TRANSPORTATION APPRECIATES THE OPPORTUNITY TO  
APPEAR BEFORE YOU TODAY TO DISCUSS OUR EXPERIENCE UNDER THE PILOT  
8(a) PROGRAM. WE BELIEVE THE DEPARTMENT HAS AN OUTSTANDING  
RECORD IN OUR DIRECT PROCUREMENT PROGRAM IN AWARDING CONTRACTS TO  
SMALL DISADVANTAGED BUSINESSES, BOTH ON A PRIME CONTRACT AND  
SUBCONTRACT BASIS. WE REQUIRE EVERY PROPOSED PROCUREMENT ACTION  
TO BE SCREENED FIRST FOR POSSIBLE PLACEMENT IN THE 8(a) PROGRAM  
BEFORE IT IS CONSIDERED FOR A SMALL BUSINESS SET ASIDE OR  
UNRESTRICTED COMPETITIVE PROCUREMENT. WE RECOGNIZE THAT SMALL  
DISADVANTAGED BUSINESS ENTREPRENEURS HAVE BEEN TRADITIONALLY  
UNDERREPRESENTED AS OWNERS AND MANAGERS OF AMERICAN BUSINESS. THE  
SECRETARY AND DEPUTY SECRETARY ARE COMMITTED TO PROVIDING THESE  
COMPANIES A FAIR SHARE OF THE DEPARTMENT'S PROCUREMENT.

THE DEPARTMENT'S DIRECT CONTRACTING WITH MBE'S HAS INCREASED SINCE 1978, AS FOLLOWS:

FISCAL YEAR	TOTAL PROCUREMENT	TOTAL MINORITY*	8(a) PROCUREMENT	% 8(a)**	TOTAL % MINORITY***
1978	1,125	112.2	34.2	3%	10.0
1979	1,152	93.8	50.4	4%	6.2
1980	1,401	148.3	89.1	6%	10.6
1981	1,736	133.2	87.5	5%	7.7
1982	1,447	150.9	97.2	7%	10.4
1983	1,564	208.7	150.0	10%	13.4
1984	1,663	235.7	174.2	10%	14.2

\* INCLUDES DIRECT AWARDS TO MINORITIES OUTSIDE THE 8(a) PROGRAM, AND SUBCONTRACT AWARDS.

\*\* GOVERNMENT-WIDE PERCENTAGE IN 1984 WAS 1.4%

\*\*\* GOVERNMENT-WIDE PERCENTAGE IN 1984 WAS 3.6%

SOURCE: MINORITY BUSINESS DEVELOPMENT AGENCY, FY 1984 REPORT "FEDERAL AGENCY PERFORMANCE IN MINORITY BUSINESS DEVELOPMENT."

I HAVE ENCLOSED THE DETAILED INFORMATION YOU REQUESTED ON EACH OF THE PILOT 8(a) PROCUREMENTS AND WILL NOW ADDRESS SPECIFIC ISSUES POSED BY THE COMMITTEE IN YOUR LETTER OF APRIL 22, 1985.

THE DEPARTMENT HAS NOT WORKED WITH SBA TO DEVELOP ANY SPECIFIC CRITERIA TO EVALUATE THE SUCCESS OF THE PILOT 8(a) PROGRAM. IN GENERAL, WE BELIEVE THE SUCCESS OF THE PROGRAM SHOULD BE MEASURED BY EVALUATING WHETHER THE PILOT 8(a) CONTRACTORS DELIVER THE GOODS AND SERVICES CONTRACTED FOR IN ACCORDANCE WITH THE TERMS OF THE CONTRACT, AND WHETHER THE PILOT CONTRACTS CONTRIBUTED TO THE GROWTH OF THE 8(a) FIRMS. OBVIOUSLY THESE ARE SUBJECTIVE JUDGMENTS, AND AN OVERALL ASSESSMENT CANNOT BE MADE UNTIL THE PILOT CONTRACTS ARE AT OR NEAR COMPLETION. IN THE CASE OF A

NUMBER OF LARGE, MULTI-YEAR PILOT PROJECTS AWARDED BY THE FEDERAL AVIATION ADMINISTRATION, IN IMPLEMENTING ITS NATIONAL AIRSPACE SYSTEM PLAN, IT WILL BE ABOUT 1990 OR LATER BEFORE THE FINAL RESULTS CAN BE EVALUATED.

WE BELIEVE OUR OVERALL PERFORMANCE UNDER THE PILOT PROGRAM HAS BEEN GOOD CONSIDERING THAT WE HAD A VERY SUCCESSFUL 8(a) PROGRAM IN PLACE PRIOR TO BEING NAMED AS THE PILOT 8(a) DEPARTMENT BY THE PRESIDENT ON SEPTEMBER 30, 1983. WE STRUCTURED OUR PROGRAM ONLY AFTER A DETAILED REVIEW OF THE ARMY'S EXPERIENCE AS THE FIRST PILOT AGENCY, THE GAO REPORT EVALUATING THAT PROGRAM, AND THE TRANSCRIPTS OF CONGRESSIONAL HEARINGS ON THE SUBJECT. WE FINALIZED THE PILOT AGREEMENT WITH SBA QUICKLY, HAD STRONG SUPPORT OF THE PILOT PROGRAM FROM THE SECRETARY AND DEPUTY SECRETARY, AND INVOLVED THE SBA STAFF AND DEPARTMENT PROGRAM AND PROCUREMENT PERSONNEL EARLY ON IN IDENTIFYING REQUIREMENTS FOR THE PROGRAM. IN COORDINATION WITH SBA, WE JOINTLY DEVELOPED THE FOLLOWING CRITERIA FOR THE PILOT 8(a) PROGRAM:

"SELECTED REQUIREMENTS MUST CONTRIBUTE TO THE OVERALL DEVELOPMENT OF THE FIRM AND MEET ONE OR MORE OF THE FOLLOWING CRITERIA:

- ° NEW PRODUCT REQUIREMENT(S) WITH SUBSTANTIAL GROWTH POTENTIAL, OR
- ° NON-TRADITIONAL, HIGH TECHNOLOGY REQUIREMENT(S) WITH PROPRIETARY/COMMERCIAL POTENTIAL, OR
- ° INITIAL HIGH (OR MODERATE) DOLLAR VALUE REQUIREMENTS WITH SIGNIFICANT FOLLOW-ON REQUIREMENTS POTENTIAL, OR
- ° RESEARCH AND DEVELOPMENT REQUIREMENTS WITH HIGH DOLLAR VOLUME POTENTIAL. "

WE ALSO ENCOURAGED 8(a) FIRMS TO SELF-MARKET PILOT PROGRAM OPPORTUNITIES WITH DOT, AFTER APPROPRIATE COORDINATION WITH THE LOCAL SBA DISTRICT DIRECTOR, AND WE PUBLICIZED THIS POLICY TO THE 8(a) CONTRACTING COMMUNITY. TO DATE WE HAVE AWARDED 6 CONTRACTS TOTALING \$7.8M UNDER THE PILOT 8(a) PROGRAM. A TOTAL OF TWELVE REQUIREMENTS TOTALING ALMOST \$200M HAVE BEEN RESERVED FOR THE PILOT 8(a) PROGRAM. BECAUSE THE DEPARTMENT ALREADY HAD A VERY SUCCESSFUL 8(a) PROGRAM, MANY CONTRACTS THAT WOULD HAVE GONE INTO THE PILOT 8(a) PROGRAM IN ANOTHER AGENCY WERE CONSIDERED FOR THE REGULAR 8(a) PROGRAM IN DOT. AS A MATTER OF FACT, WHEN WE INITIALLY SCREENED PROGRAMS FOR THE PILOT 8(a) PROGRAM WITH SBA, WE REJECTED ELEVEN PROSPECTS ESTIMATED AT MORE THAN \$50M WHICH MET THE CRITERIA FOR THE PILOT PROGRAM. WE PLACED THESE PROGRAMS IN OUR REGULAR 8(a) PROGRAM SINCE WE HAD INITIATED DISCUSSIONS WITH SBA ON THESE PROGRAMS PRIOR TO SEPTEMBER 30, 1983, WHEN DOT WAS SELECTED AS THE PILOT 8(a) DEPARTMENT BY THE PRESIDENT.

THE DOT OPERATING ADMINISTRATIONS HAVE NOT BEEN INSTRUCTED TO ESTABLISH SEPARATE GOALS FOR THE PILOT 8(a) PROGRAM. INSTEAD, EVERY PROCUREMENT IS REVIEWED TO DETERMINE IF IT CAN BE PUT INTO THE 8(a) PROGRAM, AND WE SEE NO BENEFIT TO DIFFERENTIATING BETWEEN GOALS FOR THE PROGRAMS.

INITIALLY, THE OPERATING ADMINISTRATIONS SUBMITTED THEIR CANDIDATE 8(a) PROGRAMS TO THE OFFICE OF THE SECRETARY FOR APPROVAL. SOME CANDIDATES WERE APPROVED FOR THE PILOT 8(a) PROGRAM; OTHERS WERE DETERMINED TO BE MORE APPROPRIATE FOR THE REGULAR 8(a) PROGRAM AFTER DISCUSSIONS WITH SBA. ALL SUBSEQUENT PILOT PROJECT

DESIGNATIONS HAVE BEEN COORDINATED WITHIN THE OFFICE OF THE SECRETARY, BOTH WITH THE SPECIAL ASSISTANT FOR MINORITY AFFAIRS AND THE DIRECTOR OF THE OFFICE OF SMALL AND DISADVANTAGED BUSINESS UTILIZATION (OSDBU), AS WELL AS MY STAFF.

UNDER THE OPERATIONAL PROCEDURES WE ESTABLISHED FOR THE PILOT 8(a) PROGRAM, THE OPERATING ADMINISTRATIONS OR SBA GENERALLY IDENTIFIED THE REQUIREMENTS FOR THE PILOT 8(a) PROGRAM. THE OSDBU OFFICE PROVIDED A GENERAL OVERSIGHT OF THE FUNCTIONS, AND NORMALLY DISCUSSED THE SUITABILITY OF THE PILOT 8(a) CANDIDATE WITH APPROPRIATE OPERATING ADMINISTRATION PERSONNEL. THERE HAVE BEEN NO "DISPUTES," BUT IF ONE SHOULD OCCUR, IT WOULD BE RESOLVED THROUGH THE NORMAL MANAGEMENT PROCESS. ULTIMATELY, THE SECRETARY OR THE DEPUTY SECRETARY WOULD MAKE THE FINAL DECISION IF THE ISSUE COULD NOT BE RESOLVED AT A LOWER LEVEL.

WE CONSIDER THAT THE PILOT PROGRAM HAS BEEN FAIRLY TESTED, PARTICULARLY IN VIEW OF DOT'S ACTIVE AND SUCCESSFUL 8(a) PROGRAM. WE BELIEVE THAT, IF THE PILOT 8(a) PROGRAM IS CONTINUED, THE PILOT AGENCY SHOULD HAVE THE OPTION TO AWARD PILOT 8(a) CONTRACTS COMPETITIVELY. SUCH COMPETITION, LIMITED TO 8(a) FIRMS, WOULD ALLOW A MORE OBJECTIVE SELECTION OF CONTRACTORS INSTEAD OF THE PRESENT MORE LIMITED EVALUATION OF THE CONTRACTOR'S CAPABILITY. IT SHOULD ELIMINATE MUCH OF THE CONCERN OVER THE SELECTION OF MAJOR CONTRACTORS. MOST OF THE HIGH DOLLAR PILOT AWARDS HAVE GONE TO THE LARGER, MORE ESTABLISHED 8(a) FIRMS. IF THESE FIRMS ARE GOING TO BECOME VIABLE, THEY MUST BE FULLY ABLE TO COMPETE AMONG

THEMSELVES. FOR THIS REASON, WE SUPPORT COMPETITION AMONG PILOT 8(a) COMPANIES AND BELIEVE THAT COMPETITION SHOULD ALSO BE CONSIDERED IN THE REGULAR 8(a) PROGRAM AT THE OPTION OF THE OPERATING DEPARTMENT.

WITH REGARD TO YOUR REQUEST FOR STATISTICAL DATA PERTINENT TO THE AWARDS MADE UNDER THE 8(a) PILOT PROGRAM, INCLUDING ANY PENDING AWARDS, WE HAVE SUPPLIED THAT INFORMATION TO SUBCOMMITTEE STAFF DIRECTLY.

MR. CHAIRMAN, THIS COMPLETES MY FORMAL STATEMENT. WE WILL BE HAPPY TO RESPOND TO ANY QUESTIONS YOU OR MEMBERS OF THE SUBCOMMITTEE MAY HAVE.

DOT 8(a) PILOT PROGRAM STATUS REPORT

**MAY - 6 1985**

MODES/FIRMS	REQUIREMENT DESCRIPTION	VALUE		STATUS
		(1) ACTUAL \$	(2) PROPOSED \$	
<u>USCG</u>				
1. Six Carpenters New Haven, CT	Construction of Medical Care Center at the Otis National Guard Base, Cape Cod, MA	\$3.491 Million (1)		Contract awarded on 9/26/84 and is scheduled to be completed in 12/85.
2. Gemini Construction Corp. Clifton, NJ	Rehabilitation of 500 Man Barracks at USCG Training Center  Phase I - Demolition (\$327,000) Phase II - Construction Frame (\$432,000)	\$759,000 (1)		Phases I and II were awarded to SBA on 6/26/84. However, no work has been started due to ASPAR's (original identifi- ed firm) noncompletion of a and prior USCG project. They were scheduled to complete the prior project by 7/84. In addition, ASPAR is also experiencing severe financial difficulties, including problems in obtaining per- formance bonding. As a result of the aforementioned problems the SBA and USCG, on 4/22, identified a new firm (Gemini Construction Corp.) for this project. The project is expected to be awarded to the new firm during 6/85.
3. To be determined	Construction of Operating Station at Crisfield, MD	\$2.4 Million (2)		Project under review by OST. In addition, the firm originally identified for this procurement (G&V General Construction, Norfolk, Va.) graduated from the 8(a) Program on 10/20/84 and a new firm will be sought for the procurement, contingent on the OST final decision on need for the station.

<u>MODES/FIRMS</u>	<u>REQUIREMENT DESCRIPTION</u>	<u>VALUE</u>		<u>STATUS</u>
		<u>(1) ACTUAL \$</u>	<u>(2) PROPOSED \$</u>	
4. Batchlor Construction Co. Richmond, VA	New Operating Station at Curtis Bay, MD	\$1.877 Million	(2)	A&E redesign is currently underway by 8(a) firm, Bryant and Bryant. Estimated completion date of the A&E' redesign is 5/20. Solicitation will be complet- ed by 5/15 and contract is expected to be awarded during 7/85.
5. AMAF Industries, Inc. Columbia, MD	Design, Construct and Maintain Communication Station Control System at USCG Communication and Radio Stations	\$4.0 Million	(2) (basic contract, with option for additional work estimated at \$8.0M)	USCG met with AMAF on 3/25/85 to discuss USCG quality assurance concerns. Based on AMAF's presentation most issues were resolved. USCG made an on-site inspection of AMAF's quality control mechanisms on 3/29/85. Based on this meeting USCG believes that AMAF has the capability to perform the contract and USCG is preparing final solicitation to be sent to AMAF by 5/13/85. AMAF is then required to submit a proposal within 30 days. USCG expects to award definitized contract by 9/13/85.
6. General Railroad Equipment & Services, Inc. (GRES) East St. Louis, IL	Design & Manufacture of Telescoping Helicopter Hangars.	\$8.0 Million	(2) (Four year project)	The USCG has sent a letter contract to GRES for the design of 9 hangars. On 5/3/85 the USCG held a conference call with GRES to discuss the letter contract. All areas of the letter contract were agreed upon. USCG expects GRES to sign the letter contract by 5/8/85. The contract is expected to be definitized by 9/1/85.

<u>MODES/FIRMS</u>	<u>REQUIREMENT DESCRIPTION</u>	<u>VALUE</u>		<u>STATUS</u>
		<u>(1) ACTUAL \$</u>	<u>(2) PROPOSED \$</u>	
<u>FAA</u>				
1. Soncraft, Inc. Chicago, IL	Radio Control Equipment. (RCE)	\$865,000	(1)	Letter contract awarded on 8/29/84. The estimated date for definitizing phase I is 5/17/85. On 4/22/85 FAA issued a final notice of partial termination deleting 19 of the original 51 site surveys and site survey reports based on the fact that the results of 24 site surveys conducted by 3/13 have been fairly consistent and fewer surveys are sufficient. FAA issued a solicitation for phase II on 4/3/85 and a proposal is due from Soncraft by 5/15/85. Phase II is estimated for award in 12/85. In view of the time difference between the scheduled 10/15/85 graduation date of Soncraft from the 8(a) Program and the projected 12/85 award date for phase II, the SBA and DOT are investigating ways to permit the phase II award prior to 10/15/85.
	Phase I- Site Survey & Preliminary Design. (Est. Cost \$1.4 Million)			
	Phase II- Final Design, Production & Test of RCE Modules. (Est. Cost \$42.0 Million)			
2. Amex Systems, Inc. Hawthorne, CA	Automated Weather Observing System.	\$1.485 Million	(1)	Letter contract awarded on 10/15/84. Phase I has been definitized for \$1.485M. AMEX completed the Preliminary Design Review (PDR) the week of 4/14/85 (originally due 1/15/85). The Critical Design Review (CDR) which was due 3/26/85, is delinquent and is estimated by AMEX, at best, to be completed by 6/18/85. AMEX has requested
	Phase I- Design & Sensor Evaluation. (\$1.485 Million)			
	Phase II- Limited Production. (Est. Cost \$4.5 Million)			
	Phase III- Full Production. (Est. Cost \$5.0 Million)			

<u>MODES/FIRMS</u>	<u>REQUIREMENT DESCRIPTION</u>	<u>VALUE</u>		<u>STATUS</u>
		<u>(1) ACTUAL \$</u>	<u>(2) PROPOSED \$</u>	
2. Amex Systems, Inc. Hawthorne, CA (CONTINUED FROM PREVIOUS PAGE)				additional funding of \$924,348 to complete the work of phase I. FAA has serious doubts as to whether the phase I work can be completed within the proposed additional costs. FAA has formed a technical audit team to evaluate AMEX's progress. The team made an on-site visit from 4/29 to 5/3 and a written report of the findings is due on 5/13/85. SBA has advised FAA and AMEX that a series of contracts from various agencies were improperly awarded by SBA to AMEX because of improper size standards application. FAA is reviewing this situation.
3. System and Applied Sciences, Corp. (S&AS) Vienna, VA	VHF Direction Finder Systems. Phase I- System Design & System Determination. Phase II- Limited Production. Phase III- Production & Installation.	\$418,211 (1) (\$418,211) (Est. Cost \$8.0 Million) (Est. Cost \$32.0 Million)		FAA issued a letter contract to S&AS on 10/19/84. Phase I was definitized for \$418,211. FAA issued an RFP for phase II on 1/15/85. The phase II proposal was received from S&AS on 4/1/85. S&AS successfully completed phase I on 4/17 and their technical approach for phase II has been accepted. FAA is now evaluating the cost and technical proposals for phase II and expect that the negotiations will be completed and the phase II cost to be definitized by 7/5/85.

<u>MODES/FIRMS</u>	<u>REQUIREMENT DESCRIPTION</u>	VALUE (1) ACTUAL \$ (2) PROPOSED \$	<u>STATUS</u>
4. New Bedford Panoramex (NBP) Santa Fe Springs, CA	Instrument Landing System (ILS)/ Remote Maintenance Monitoring (RMM) Project.	\$44.5 Million (2) (1st year-\$22.5M) (2nd year-\$22M)	FAA issued an advance solicitation to NBP on 2/22/85. FAA expects to issue the formal solicitation during 5/85. A proposal will be due 15 days after receipt of the formal solicitation. The contract is estimated for award during 9/85.
<hr/> <u>OST</u>			
1. Capital Systems Arlington, VA	Tele Processing.	\$312,000 (2) (with an additional 3 year options at \$300,000 per year)	Negotiations have been completed and the contract is estimated to be awarded by 5/31/85.
<hr/> <u>RSPA</u>			
1. Lee Wan & Associates Decatur, GA	Develop Standards for Hazardous Materials Packaging.	\$750,000 (1)	Awarded on 3/14/85. Two task order proposals for a total cost of \$160,000 were requested during 4/85. Three additional task order proposals for a total of \$150,000 will be requested by 5/31/85. Technical and cost proposals are due 10 working days from receipt of each task order.

