

STATE OF MARYLAND

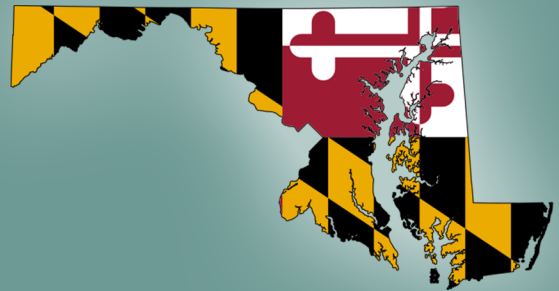
Board of Public Works

GOVERNOR • TREASURER • COMPTROLLER

Report to the Legislative Policy Committee
on the Operations and Effectiveness of the

Veteran-Owned Small Business Reserve Program

As required by Chapters 507/508, Laws of 2010



May 27, 2014
Treasury Bldg, Room 117
80 Calvert Street
Annapolis, Maryland 21401

Fiscal Year 2013

**REPORT TO THE LEGISLATIVE POLICY COMMITTEE
ON
VETERAN-OWNED SMALL BUSINESS PARTICIPATION
FISCAL YEAR 2013**

AS REQUIRED BY CHAPTERS 507/508, LAWS OF 2010

MAY 27, 2014

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EXECUTIVE SUMMARY

Maryland's Veteran-Owned Small Business Program enhances opportunities for veteran-owned small businesses and service-disabled, veteran-owned small business to participate in State procurements.¹ State agencies must structure their procurements to annually expend – directly or indirectly – at least 0.5% of the total dollar value of procurement contracts with veteran-owned small business enterprises.

To qualify for participation, the veteran-owned small businesses must be verified by United States Department of Veteran Affairs which maintains a directory of verified businesses.

The Board of Public Works is tasked with compiling annual reports from each agency and reporting to the Legislative Policy Committee. Fiscal year 2013 is the Program's first reporting year.

In the Program's inaugural year, agencies struggled to meet the State's 0.5% goal. The overall percentage across State agencies was 0.016%. Prime contract and subcontract awards in FY 2013 totaled \$876,601.

The Board of Public Works was the only agency to exceed the annual goal with a 4.2% participation rate. Six agencies achieved some level of veteran business participation.² All other agencies reported no Program activity.

Suggestions for improving the Program's effectiveness include designating an agency to oversee the Program, increasing marketing efforts, and exploring strategies to more fully develop participation.

¹ Chapters 507 and 508 (Laws of 2010); §§ 14-601—14-605, State Finance & Procurement Article, Annotated Code of Maryland.

² The Departments of Health and Mental Hygiene, Labor, Licensing and Regulation, Information Technology, and Public Safety & Correctional Services, the Maryland Aviation Administration, and the Maryland Port Administration reported veteran-owned business participation.

I. Veteran Owned Small Business Program

The Veteran-Owned Small Business Program, enacted in 2010, requires State agencies to try to achieve an overall minimum of 0.5% of the total dollar value of their procurement contracts to be made directly or indirectly with veteran-owned businesses verified by the U.S. Department of Veterans Affairs.³

Veteran Owned Small Businesses/Disabled Veteran-Owned – Who Qualifies?

The Program criteria to qualify as a veteran-owned small business or a service disabled veteran-owned business are:

- Business is owned by a veteran or service-disabled veteran as determined by the U.S. Department of Veterans Affairs or Department of Defense.
- Veteran has unconditional direct ownership of at least 51% of the business.
- Business is small under the North American Industry Classification System (NAICS) code assigned to the procurement.
- Veteran holds the highest officer position and is the highest paid employee unless there is a reasonable explanation submitted by the veteran as to how taking a lower salary than other employees helps the business.
- Veteran manages the company on both a strategic policy and a day-to-day basis.
- Veteran has the managerial experience of the extent and complexity needed to run the company.⁴

More than 7,100 verified veteran-owned small businesses are listed in the U.S. Department of Veterans Affairs directory (the VetBiz Directory).⁵ Nearly 500 are located in Maryland.

Roll Out of the Maryland Program

The Board of Public Works adopted regulations implementing Program requirements in 2012.⁶ The Board issued an Advisory to assist agencies with achieving

³The Veteran-Owned Small Business Program is independent of the long-standing Small Business Preference Program. The latter program also benefits veteran-owned businesses by establishing a price preference of up to 8% for veteran-owned and service-disabled, veteran-owned small businesses. §14-206, State Finance & Procurement Article, Annotated Code of Maryland.

⁴ 38 C.F.R. Part 74.

⁵ U.S. Department of Veterans Affairs, Vendor Information Database, May 19, 2014
<https://www.vip.vetbiz.gov>

⁶ COMAR 21.11.13

veteran small business participation.⁷ In preparation for the Program roll-out, the Maryland Department of Veterans Affairs conducted outreach in the veteran community and the Board of Public Works Procurement Advisor advised State agencies on best procurement practices to achieve the Program's goal.

Scope of Report

The Board of Public Works must annually collect compliance reports from each State procurement agency and report to the Legislative Policy Committee on the amount of contracts awarded to veteran-owned small business and on the effectiveness of the program.⁸ Agencies that are exempt from the State Procurement Law, such as the University System, are exempt from the Program and do not report their data to the Board.

⁷ BPW Advisory 2012-1, *Veteran-Owned Small Business - -Subcontracting Documentation*.

<http://bpw.maryland.gov/Pages/adv-2012-1.aspx>

⁸ §14-604, State Finance & Procurement Article, Annotated Code of Maryland. The Law was effective July 1, 2012 so FY 2013 is the first reporting year.

II. VSBE Awards by Agency (FY 2013)

Agency	Total Dollar Value of Contracts Awarded	Total Dollar Value of Contracts/ Subcontracts Awarded to VSBEs	VSBE Participation Percentage
Aging	\$2,027,692	\$0	0%
Agriculture	\$4,884,721	\$0	0%
Assessments & Taxation	\$818,169	\$0	0%
Attorney General	\$1,245,325	\$0	0%
Board of Public Works	\$178,826	\$7,498	4.2%
Budget & Management	\$319,228,963	\$0	0%
Business & Economic Development	\$23,521,679	\$0	0%
Comptroller	\$18,226,631	\$0	0%
Education	\$78,846,825	\$0	0%
Environment	\$5,338,236	\$0	0%
General Services	\$157,542,921	\$0	0%
Health & Mental Hygiene	\$939,191,957	\$14,218	0.002%
Housing & Community Development	\$14,534,724	\$0	0%
Human Resources	\$537,482,917	\$0	0%
Information Technology	\$232,196,958	\$6,226	0.003%
Lottery & Gaming Control	\$143,140,989	\$0	0%
Juvenile Services	\$66,474,601	\$0	0%
Labor, Licensing & Regulation	\$54,432,670	\$27,692	0.05%
MD Higher Education Commission	\$717,607	\$0	0%
MD Institute for Emergency Medical Services Systems (MIEMSS)	\$243,000	\$0	0%
Natural Resources	\$15,107,108	\$0	0%
Planning	\$2,009,363	\$0	0%
Public Safety & Correctional Services	\$181,130,785	\$168,873	0.09%
State Board of Elections	\$1,268,994	\$0	0%
State Retirement Agency	\$771,194	\$0	0%
Treasurer	\$1,194,058	\$0	0%
Veterans Affairs	unavailable	\$0	0%
Transportation	\$2,766,242,167	\$652,094	0.024%
<i>Maryland Aviation Administration</i>	<i>\$736,504,413</i>	<i>\$502,500</i>	<i>0.07%</i>
<i>MD Port Administration</i>	<i>\$68,360,728</i>	<i>\$149,594</i>	<i>0.22%</i>
<i>MD Transit Administration</i>	<i>\$326,145,480</i>	<i>\$0</i>	<i>0%</i>
<i>MD Transportation Authority</i>	<i>\$178,094,945</i>	<i>\$0</i>	<i>0%</i>
<i>Motor Vehicle Administration</i>	<i>\$64,239,249</i>	<i>\$0</i>	<i>0%</i>
<i>State Highway Administration</i>	<i>\$1,016,957,216</i>	<i>\$0</i>	<i>0%</i>
<i>Transportation Secretary's Office</i>	<i>\$375,940,136</i>	<i>\$0</i>	<i>0%</i>
STATEWIDE TOTAL	\$5,567,999,080	\$876,601	0.0157%

III. Program Effectiveness

The large number of agencies reporting zero veteran business participation demonstrates that, in this inaugural year, State agencies have not integrated veteran business goal-setting into their procurement operations. If the goal-setting was fully integrated into practice, agencies would be assessing opportunities for veteran business participation in each solicitation just as with the MBE and Small Business Reserve Programs goal-setting practices.

Obstacles that affected agencies' ability to obtain veteran business participation in the Program's first year include:

- Businesses providing certain categories of work – such as social services – are underrepresented in the VetBiz Directory.⁹
- The federally-maintained VetBiz Directory is the only resource for State agencies and prime contractors to locate verified, veteran-owned businesses. Becoming efficient in VetBiz Directory searches requires practice, and many agency procurement staff still struggle. Keyword searches often provide inconsistent results. Descriptions in the listings are sometimes nonspecific making it difficult to assess a business's qualifications.
- Large State contracts are typically multiyear agreements. Agencies must wait until current contracts expire before applying the veteran business goals to new procurements.
- Insufficient training on best practices to implement the Program.

IV. Recommendations to Improve Effectiveness

Designate a single agency to implement the Program

A single Program oversight agency should be designated that is responsible for auditing compliance, developing reporting mechanisms, training in use of the VetBiz Directory, and coordinating outreach activities. The Small Business Reserve Program, an analogous procurement program, struggled in its first year until the Governor's Office of Minority Affairs was formally designated as the lead agency.¹⁰

Explore strategies to increase veteran-owned small business participation

⁹ For example, only two Maryland-based businesses in the VetBiz Directory provide child and youth services [NAICS Code 624110]. (The State faces similar challenges with few social services providers listed in the DGS directory of certified small businesses.)

¹⁰ *Small Business Reserve Program - FY 2006 Annual Report*
http://dlslibrary.state.md.us/publications/EXEC/GOMA/SBRP_2006.pdf

- Veteran-owned businesses may be eligible to participate in the State’s longstanding socioeconomic procurement programs – the Minority Business Enterprise Program and the Small Business Reserve. Agencies should encourage veteran-owned businesses to seek State certification as MBEs and small businesses to maximize business opportunities for those firms. Under the MBE Program, agencies seek to spend 25% of contracting dollars with certified MBEs.¹¹ In FY 2013, Maryland awarded \$1.7 billion in prime and subcontract awards to certified MBEs. Under the Small Business Reserve Program, designated agencies must structure their procurements to ensure at least 10% of procurement dollars are expended directly with businesses certified by the State. In FY 2013, the State made payments of over \$280 million to Maryland-certified small businesses.¹²
- Encourage State buyers to use veteran-owned small businesses for small procurement awards that typically do not have subcontract goals.

Increase Marketing Efforts

- Each agency website should include information on the Program.
- Veteran businesses should be encouraged to register on *eMaryland Marketplace* so they are notified of all State and local procurement opportunities.
- Agencies should coordinate with the Maryland Department of Veterans Affairs to participate in outreach events.

V. Looking ahead

- The Procurement Advisor and the Department of Veterans Affairs continue to emphasize the importance of the Program at meetings of the Senior Procurement Advisors Group and the Procurement Advisory Council.
- The Department of General Services is collaborating with the Department of Veterans Affairs to develop marketing strategies to increase visibility of the Program.
- The Department of Information Technology opened two of its Statewide master contracts (CATS+ and Independent Assessment Services [IAS]) to veteran business goal-setting on task orders.

VI. Conclusion

¹¹ The 25% MBE goal was raised to 29% in FY 2014. COMAR 21.11.03.01C(1)

¹² *FY 2013 Small Business Reserve Program* (Board of Public Works Report to the Legislative Policy Committee).

To turn around the disappointing numbers, State agencies must fully integrate veteran business goal-setting into their procurement operations just as they do with the Minority Business Enterprise and Small Business Reserve Programs. These agencies must be given the tools to do so. A lead agency to coordinate agency training, compliance, and outreach will go a long way toward bridging the gap between agency performance and State's commendable goal of increasing State contracting opportunities for veteran-owned small businesses.