

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 Program

As required by Chapters 507/508, Laws of 2010



April 2016
Treasury Bldg, Room 117
80 Calvert Street
Annapolis, Maryland 21401

Fiscal Year 2015

MARYLAND
BOARD OF PUBLIC WORKS

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April 14, 2016

The Honorable Thomas V. Mike Miller, Jr.
The Honorable Michael E. Busch
Legislative Policy Committee
Legislative Services Building, Room 200B
90 State Circle
Annapolis, Maryland 21401-1991

RE: Report on Veteran-Owned Small Business Participation for FY 2015

Dear Mr. President and Mr. Speaker:

In accordance with State Finance and Procurement Article, §14-604, Annotated Code of Maryland, the Board of Public Works is submitting the fiscal year 2015 report on veteran-owned small business participation.

Sincerely,



Gabriel Gnall
Procurement Advisor

CC: The Honorable Lawrence J. Hogan, Jr.
The Honorable Nancy K. Kopp
The Honorable Peter Franchot
Sheila McDonald, Executive Secretary
Sarah Albert, Legislative Services
Enoch Pratt Free Library

**REPORT TO THE LEGISLATIVE POLICY COMMITTEE
ON
VETERAN-OWNED SMALL BUSINESS PARTICIPATION
FISCAL YEAR 2015**

AS REQUIRED BY CHAPTERS 507/508, LAWS OF 2010

APRIL 2016

Board of Public Works of Maryland
Sheila McDonald, Executive Secretary
Gabriel Gnall, Procurement Advisor
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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 1% of the total dollar value of procurement contracts with veteran-owned small business enterprises.² To qualify for participation, a veteran-owned small business must be verified by United States Department of Veteran Affairs which maintains a directory of verified businesses.

The Board of Public Works compiles annual reports from each agency and reports statewide progress to the Legislative Policy Committee. Fiscal year 2015 is the Program's third reporting year. Key findings are:

- Most agencies found it difficult to meet the State's previous goal of 0.5%, and those agencies are now struggling to meet the new goal of 1%. Veteran-owned small business participation for fiscal year 2015 is 0.22% – less than one-fourth of the new statewide goal. However, participation for fiscal year 2015 reflects a significant increase over the 0.097% participation rate in fiscal year 2014, and the 0.016% participation rate in fiscal year 2013.
- Two agencies exceeded the State's 1% participation goal in FY 2015:
 - Office of the Comptroller 1.83%
 - Maryland Aviation Administration 1.74%
- Two agencies with more than a billion dollars each in annual contract awards – the State Highway Administration and the Department of Health and Mental Hygiene – reported less than 0.02% veteran-owned small business participation for fiscal year 2015.
- Previous reports have recommended that the Program's effectiveness may be improved if a single agency were designated to oversee the Program; marketing efforts increased, and agency training/awareness heightened. While the Department of Veterans Affairs has agreed to provide assistance with vendor outreach and has made efforts to improve agency training/awareness of the Program, this recommendation stands.

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

² Chapters 343 and 344 (Laws of 2015), effective October 1, 2015, increased the goal from 0.5% to 1%.

I. Veteran Owned Small Business Program

The Veteran-Owned Small Business Program, enacted in 2010, requires State agencies to try to expend a minimum of 1.0% of the total dollar value of agency procurement contracts to be made directly or indirectly with veteran-owned small businesses. Veteran-owned status is verified by the U.S. Department of Veterans Affairs.³

Who Qualifies as a Veteran Owned Small Business/Disabled Veteran-Owned Business?

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

- Business is owned by a veteran or service-disabled veteran as determined by the U.S. Department of Veterans Affairs or the U.S. Department of Defense.
- Veteran has unconditional direct ownership of at least 51% of the business.
- Business is classified as "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 managerial experience of extent and complexity needed to run company.⁴

More than 8,100 verified veteran-owned small businesses are listed in the U.S. Department of Veterans Affairs directory (the VetBiz Directory).⁵ More than 630 verified businesses are located in Maryland.

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.⁶ 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.

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. State Finance & Procurement Article, §14-206, Annotated Code of Maryland.

⁴ 38 C.F.R. Part 74.

⁵ U.S. Department of Veterans Affairs, Vendor Information Database (Jan.27, 2015). The federal database lists approximately 200 more firms than the database listed this time last year. <https://www.vip.vetbiz.gov>

⁶ State Finance & Procurement Article, §14-604, Annotated Code of Maryland. The Law was effective July 1, 2012.

II. VSBE Awards Reported by Agency (FY 2015)

Agency	Total \$ All Procurement Contracts Awarded	Total \$ VSBE Prime Contracts Awarded	Total \$ VSBE Subcontracts Awarded	VSBE Participation %*
Aging (MDOA)	\$1,267,519	\$0	\$0	0.00%
Agriculture (MDA)	\$3,486,904	\$0	\$0	0.00%
Assessments & Taxation (SDAT)	\$3,593,433	\$0	\$0	0.00%
Attorney General (OAG)	\$582,636	\$0	\$0	0.00%
Budget & Management (DBM)	\$901,691,233	\$0	\$1,673,143	0.19%
Commerce (formerly DBED)	\$8,475,211	\$9,516	\$0	0.11%
College Savings Plans of MD (CSPM)	\$0	\$0	\$0	0.00%
Comptroller (COMP)	\$23,171,163	\$1,397	\$422,377	1.83%
Education (MSDE)	\$163,539,545	\$36,162	\$593,416	0.38%
Environment (MDE)	\$7,737,091	\$3,071	\$0	0.04%
Governor's Office/Executive Department (EXEC)	\$3,829,322	\$0	\$0	0.00%
General Services (DGS)	\$124,728,406	\$818,159	\$382,926	0.96%
Health & Mental Hygiene (DHMH)	\$1,114,256,800	\$78,217	\$0	0.01%
Higher Education Commission (MHEC)	\$1,010,310	\$0	\$0	0.00%
Housing & Community Development (DHCD)	\$11,419,189	\$0	\$0	0.00%
Human Resources (DHR)	\$476,509,591	\$124,183	\$0	0.03%
Information Technology (DoIT)	\$62,186,818	\$516,876	\$0	0.83%
Juvenile Services (DJS)	\$32,260,191	\$0	\$0	0.00%

Labor, Licensing & Regulation (DLLR)	\$30,565,216	\$11,950	\$24,379	0.12%
Food Center authority	\$0	\$0	\$0	0.00%
MD Insurance Administration (MIA)	\$4,832,339	\$17,363	\$0	0.36%
MD Lottery (MSLA)	\$305,414,561	\$8,388	\$0	0.00%
MD State Police (MDSP)	\$20,145,927	\$140,742	\$0	0.70%
MD Uninsured Employers Fund (UEF)	\$0	\$0	\$0	0.00%
MD Veteran's Affairs (MDVA)	\$3,806,118	\$0	\$0	0.00%
MD Institute for Emergency Medical Services Systems (MIEMSS)	\$0	\$0	\$0	0.00%
Military/Emergency Management Agency (DMIL/MEMA)	\$2,487,635	\$8,248	\$0	0.33%
Natural Resources (DNR)	\$18,891,420	\$0	\$0	0.00%
People's Counsel (OPC)	\$0	\$0	\$0	0.00%
Planning (MDP)	\$1,330,921	\$0	\$0	0.00%
Public Safety and Correctional Services (DPSCS) (Division of Capital Constructions and Administration Combined)	\$335,653,757	\$20,044	\$1,376,999	0.42%
Public School Construction (IAC)	\$0	\$0	\$0	0.00%
Public Service Commission (PSC)	\$3,784,682	\$0	\$0	0.00%
State Board Contract Appeals (MSBCA)	\$0	\$0	\$0	0.00%
State Board Elections (SBE)	\$39,466,528	\$0	\$0	0.00%

State Prosecutor (OSP)	\$0	\$0	\$0	0.00%
State Retirement (SRA)	\$1,764,574	\$7,513	\$0	0.43%
Transportation (MDOT): MD Aviation Administration (MAA)	\$393,979,967	\$6,843,700	\$0	1.74%
Transportation (MDOT): MD Transportation Authority (MDTA)	\$284,114,935	\$0	\$1,077,850	0.38%
Transportation (MDOT): MD Port Administration (MPA)	\$38,061,466	\$0	\$138,447	0.36%
Transportation (MDOT): MD Transit Administration (MTA)	\$577,604,779	\$0	\$201,087	0.03%
Transportation (MDOT): Motor Vehicle Administration (MVA)	\$91,432,155	\$66,550	\$0	0.07%
Transportation (MDOT): State Highway Administration (SHA)	\$1,559,604,174	\$4,877	\$59,116	0.00%
Transportation (MDOT): Transportation Secretary's Office (TSO)	\$75,525,891	\$12,085	\$0	0.02%
Treasurer (STO)	\$4,324,057	\$0	\$0	0.00%
Workers' Compensation Commission (WCC)	\$1,053,359	\$0	\$0	0.00%
TOTALS	\$6,733,589,823	\$8,729,041	\$5,949,740	0.22%

* VSBE Participation % = (Total \$ VSBE Prime Contracts Awarded + Total \$ VSBE Subcontracts Awarded) / (Total \$ All Procurement Contracts Awarded).

III. Program Effectiveness

Although the overall participation rate for fiscal year 2015 (0.22%) is up significantly from fiscal years 2013 (0.016%) and 2014 (0.097%), 50% of agencies reported 0% veteran business participation; up from 44% of reporting agencies in fiscal year 2014. While the increased overall participation rate emphasizes that some agencies have definitely made strides in increasing their participation rate year over year, many agencies still have not fully integrated

veteran business goal-setting and outreach into their procurement operations. Agencies should be assessing opportunities for veteran business participation in each solicitation, just as they do with the MBE and Small Business Reserve Programs.

Obstacles that continue to affect agencies' ability to obtain veteran business participation include:

- Businesses providing certain categories of work – such as social services – are underrepresented in the VetBiz Directory.⁷
- Insufficient training on best practices to implement the Program.

IV. Recommendations to Improve Effectiveness

Designate a single agency to implement the Program

The previous two years' reports recommended that a single Program oversight agency be designated to be responsible for auditing compliance, developing reporting mechanisms, training in use of the VetBiz Directory, and coordinating outreach activities. While the Department of Veterans Affairs has agreed to provide assistance with vendor outreach and has made efforts to improve agency training/awareness of the Program, the recommendation is offered again this year. A lead agency can track agency procurement activity and inform agency heads during the course of a year when their participation rates are unacceptable, so those agencies can take corrective action when it matters.

Explore strategies to increase veteran-owned small business participation

- Some veteran-owned businesses are eligible to also participate in the State's other 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 29% of contracting dollars with certified MBEs.⁸ In FY 2014, Maryland awarded more than \$2.1 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 2014, the State made payments totaling more than \$441 million to Maryland-certified small businesses.⁹
- Encourage State buyers to use veteran-owned small businesses for small procurement awards that typically do not have subcontract goals.

⁷ The State faces similar challenges with few social services providers listed in the DGS directory of certified small businesses.

⁸ COMAR 21.11.03.01C(1)

⁹ *FY 2014 Small Business Reserve Program Report*, Governor's Office of Minority Affairs

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.
- The Procurement Advisor will continue to emphasize the importance of the Program at meetings of the Senior Procurement Advisors Group and the Procurement Advisory Council.

V. Conclusion

To improve the veteran-owned small business participation rate, State agencies must fully integrate veteran business goal-setting into their procurement operations as they do with the Minority Business Enterprise and Small Business Reserve Programs. Designating a lead agency that can enforce accountability and best practices will go far in bridging the gap between agency performance and the State's goal of increasing State contracting opportunities for veteran-owned small businesses.