



Advisory



Economy



Small business

Advisory Alert: Puerto Rico, trends and challenges to small business federal contracting.

August 17, 2017

According to the United States Census Bureau, over 99% (about 44,000) of the businesses in Puerto Rico are small. Under the Small Business Act, the Small Business Administration plays an important role in ensuring that small businesses gain access to federal contracting opportunities. The SBA administers several programs in Puerto Rico including the 8(a) Business Development (8(a)), Historically Underutilized Business Zone (HUBZone), Women-Owned Small Business (WOSB), and Service-Disabled Veteran-Owned Small Business (SDVOSB) programs.



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Through one or more of the four SBA socioeconomic programs or other designations, small businesses can receive federal prime contracts based on full and open competition and through set-asides and sole source awards.

A new report issued by the United States Government Accountability Office (GAO) examined trends in small business contracting and the use of SBA programs in Puerto Rico from fiscal years (FY) 2006 through 2016. In addition, GAO interviewed stakeholders such as federal agency contracting officials, industry associations in Puerto Rico, and economic development entities to obtain their views on any challenges small businesses in Puerto Rico face in obtaining federal contracting opportunities. The report also included the steps SBA and other agencies have taken to assist Puerto Rico small businesses in obtaining federal contracting opportunities. However, GAO did not assess the extent to which steps SBA and other agencies have taken address the challenges stakeholders identified nor it made recommendations in the report.

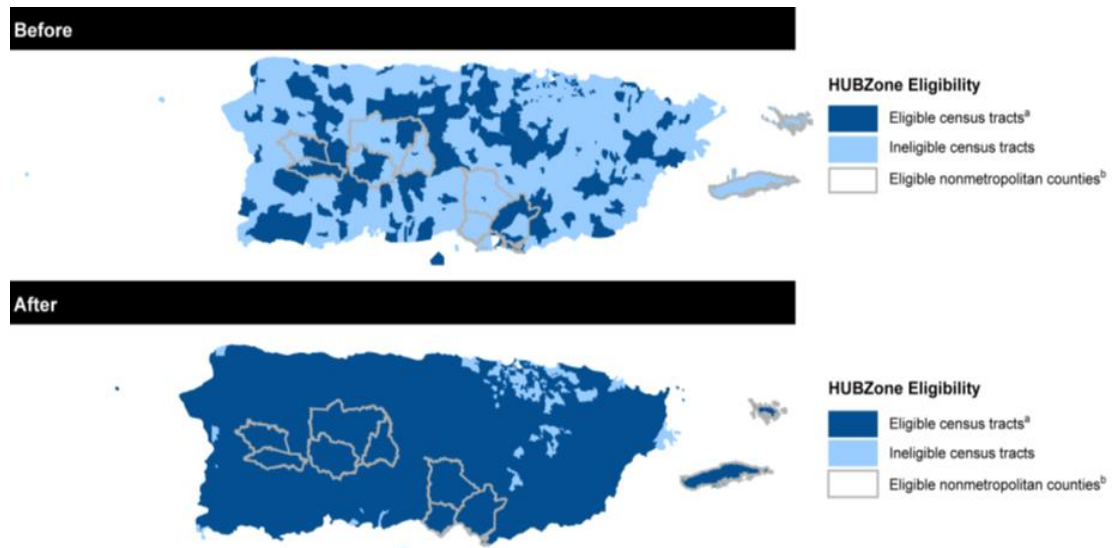
Background

In June 2016, US Congress enacted the Puerto Rico Oversight, Management, and Economic Stability Act, commonly known as PROMESA to address Puerto Rico’s debt crisis and fiscal condition. PROMESA includes a provision for GAO to evaluate the application and utilization of SBA programs in Puerto Rico (including contracting activities relating to HUBZone small business concerns) and identify any provision of federal law that may create an obstacle to the efficient implementation of such programs.

In June 2016 also, the SBA announced that it had revised the definition of “qualified census tracts” eligible to be designated as HUBZones to provide additional opportunities in federal contracting for small businesses in Puerto Rico. By removing the previous limitations, the SBA expanded the number of eligible census tracts in Puerto Rico from 260 to 776 making nearly all of Puerto Rico qualify as a HUBZone (Figure 1).

As a result of the new eligible census tracts, a total of 30 businesses submitted applications to the HUBZone program between June 2016 and March 2017; 16 of the 30 businesses had primary locations in newly designated HUBZone-qualified census tracts.

Figure 1: HUBZone areas in Puerto Rico before and after the SBA changed the definition of qualified census tracts in June 2016



Source: GAO analysis of data provided by the Small Business Administration, MapInfo (map). | GAO-17-550

According to the report, as of March 2017, Puerto Rico had 76 8(a) certified businesses, 40 HUBZone certified businesses, 256 WOSBs, and 56 SDVOBs.

Trends in federal contracting

The US Congress has set an annual government-wide goal of awarding not less than 23% of prime contract dollars to small businesses. These contract dollars are awarded to small businesses qualified in any of the SBA four programs. Under these programs, federal agencies can make sole source awards for contracts valued up to \$4 million. Federal agencies are also required to reserve contracts with values exceeding \$3,000 but less than \$150,000 for small businesses exclusively.

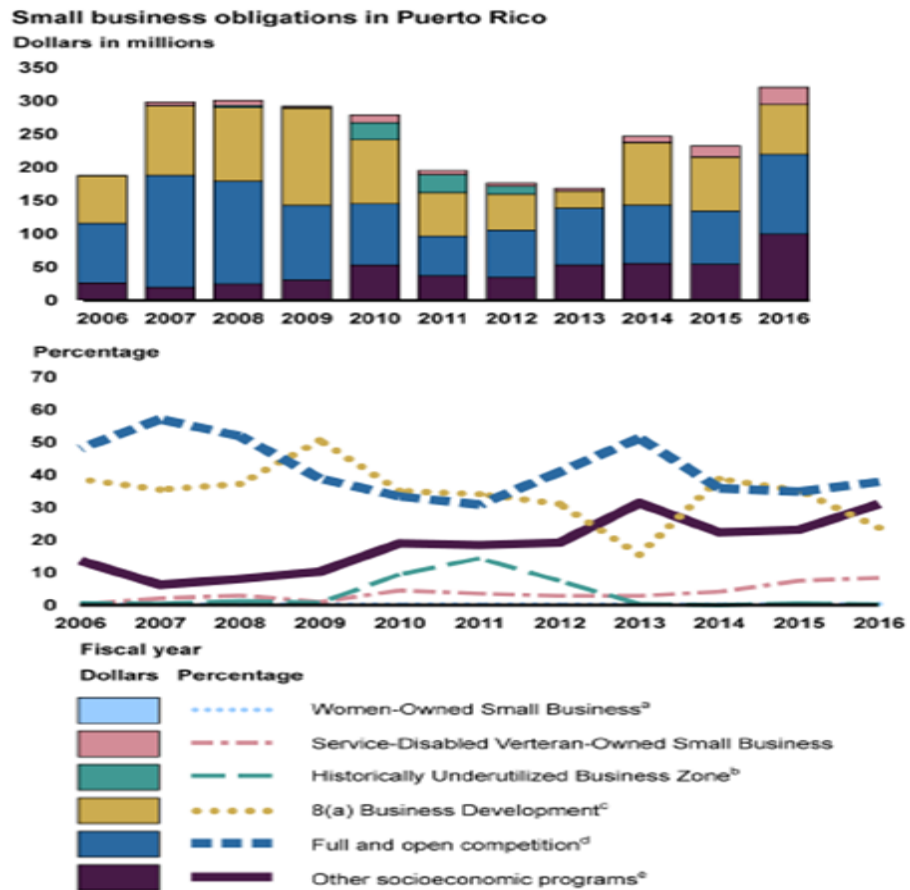
In order to identify the trends in the use of SBA programs, GAO analyzed data on prime contract obligations amounts for Puerto Rico from fiscal years 2006 through 2016. However, the data for prime contracts states that the place of performance is in Puerto Rico. This means that prime contract data for Puerto Rico may include obligations awarded to

businesses that are subsidiaries of companies headquartered outside of Puerto Rico and not necessarily local small businesses.

Below is a summary of the trends GAO identified in federal contracting obligations to small businesses in Puerto Rico:

- the total percentage of federal prime contracting awarded to small businesses located in Puerto Rico ranged from about 24% in FY2006 to about 51% in FY2015. In FY2016, small businesses in Puerto Rico received 47% (approximately \$319 million) of federal prime contracting obligations
- although some obligations were awarded to businesses located elsewhere, such as on the US mainland, over 70% went to small businesses located in Puerto Rico for 7 of the 11 fiscal years that were reviewed; in FY2016, this figure was 81%
- a higher percentage of federal prime contracting obligations were awarded through the 8(a) program than through HUBZone, WOSB, or SDVOSB programs combined. Federal agency contracting officers consider the 8(a) program’s certifications process to be rigorous and believe in the competence of 8(a) businesses (Figure 2)

Figure 2: Small business obligations for Puerto Rico-based contracts and businesses



Source: GAO analysis of data from Federal Procurement Data System-Next Generation. | GAO-17-550

- During FY2016, 67% or about \$215 million of federal prime contracting obligations were concentrated in the manufacturing sector followed by the construction sector (about \$69 million or 22%), and the professional and business service sector (about \$23 million or 7%)

- The Department of Defense (DOD), Department of Veterans Affairs (VA), and the General Services Administration (GSA) awarded the greatest percentages of federal prime contracting to small businesses in Puerto Rico. In FY2016, the DOD

Stakeholder views

In addition to the examination of trends in federal contracting, the GAO spoke with various stakeholders to obtain their views on the challenges that small businesses in Puerto Rico are currently facing with regards to obtaining federal contracting opportunities.

According to GAO, many of the challenges that stakeholders identified were similar to those expressed in the 2012 report by the same office, *Government Contracting: Federal Efforts to Assist Small Minority Owned Businesses*, which explored challenges faced by small businesses nationwide, including minority-owned businesses, in seeking federal contracting opportunities.

The challenges expressed by stakeholders in Puerto Rico included the increased use of contract bundling or consolidation, difficulty in meeting contract procurement requirements, and lack of knowledge about the federal procurement process.

The challenges were organized in 9 categories:

Challenge	Description
Increased used of contract bundling or consolidation	A trend in federal contracting toward contract consolidation or bundling has led to a decrease in the number of small businesses competing for federal contracts across the US. Smaller businesses are less likely to have the capacity or experience to compete or qualify for the large scope of work associated with consolidated contracts. For an island like Puerto Rico, small businesses are generally smaller.
Difficulty meeting procurement requirements	Procurement for federal contracts, such as performance history for construction contracts, posed challenges for small businesses in Puerto Rico mainly due to limited construction opportunities on the island. In addition, the experience of construction businesses in Puerto Rico does not match the procurement requirements, which are often standardized to mainland building standards and do not consider the unique conditions in Puerto Rico. As a result, agencies' contracting officers may not consider Puerto Rican businesses' experience as qualifying.

Challenges	Description
Lack of access to bonding, financing, and capital for construction projects	Federal construction contracts often require bonding. Small businesses in Puerto Rico are often unable to meet bonding requirements. A lack of access to capital, banks' unwillingness to extend credit to small businesses and the inability to meet financial standards required by surety companies due to Puerto Rico's economic downturn are among the disqualifying factors.
Lack of knowledge of the federal contracting process	Some small businesses in Puerto Rico may not know how to complete a proposal for federal contracting and may not have the infrastructure in place to prepare contracts accurately. In addition, many small businesses do not have a process in place to meet the proposal guidelines; others are unfamiliar with federal contracting opportunities and where to find them.
Lack of knowledge of SBA's small business contracting programs	Small businesses may not know where to obtain information about SBA's programs and how to complete the paperwork to become certified in these programs. Stakeholders expressed that businesses in Puerto Rico need more training and better education about the programs' benefits and requirements. In addition, limitations in SBA's online system used to help small businesses identify whether they are located in a HUBZone area may also pose a challenge. Due to the unique formatting of addresses in Puerto Rico, SBA's system is unable to process certain addresses.
Lack of access to agency contracting officials	Geographic barriers may be a challenge because it is difficult for businesses to market and maintain their relationships with contracting officers, who are generally located at the headquarters level on the mainland. Contracting officers from agencies that do not have a presence in Puerto Rico and award contracts to businesses that are local to these agencies rather than to businesses in Puerto Rico.

Challenge	Description
Communication barriers	The language barrier may prevent small businesses to develop relationships with the contracting agency or may be a barrier in the proposal development process. Often, documents need to be translated from Spanish, which can be onerous and costly. Small businesses often do not have the resources or the ability to perform these translations. SBA's Puerto Rico office accepts documents in Spanish if the office has a Spanish-speaking staff member. If no Spanish-speaking member is available, the documents must be translated in order for SBA to review them.
Lack of a Procurement Center Representative (PCR)	SBA PCRs work with federal agencies and small business to identify contracting opportunities for small businesses. The lack of an SBA PCR in Puerto Rico acts as a disadvantage.
Award of contracts to businesses located outside of Puerto Rico	Lack of access to contracting officers and difficulty meeting procurement requirements have led to concerns about contracts being awarded to businesses located outside of Puerto Rico for work to be performed in Puerto Rico.

Despite the challenges and concerns expressed by various stakeholders, none of the stakeholders that were interviewed identified federal laws that have created unique challenges for small businesses in Puerto Rico in obtaining federal contracting.

Nevertheless, SBA officials are taking steps to address these challenges. Efforts such as trainings on contracting programs, one-on-one appointments to help businesses navigate the federal contracting process, and outreach programs have been made. According to SBA officials in Puerto Rico, a total of 61 training events with 424 attendees were held during 2016. On April 24, 2017, SBA announced that it had approved the first Puerto Rican surety company to participate in its Surety Bond Guarantee Program. The limitations in SBA's online system are also being addressed. SBA officials stated that they are in the process of transitioning to a new mapping system that should provide more accurate information. It is estimated that the new system will be available in late 2017.

You can download the report here [HYPERLINK].

<https://juntasupervision.pr.gov/wp-content/uploads/wpdf/50/596636f6e83bd.pdf>

We are committed to keep you updated of all developments that may affect the way you do business in Puerto Rico. Please contact us for assistance in relation to this or any other matter, we will be glad to assist you.



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