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Chamber of Commerce MCC Montgomery County

Mid-Size Initiative: Pathway to Growth

The goal of the government is to foster small business and broad economic growth by providing fair access to opportunities through contracts. However, there is no path forward for successful businesses that have outgrown small status to continue their prosperity in government contracting.

Businesses larger than $38.5 million in revenues or 1,500 employees must compete with the largest businesses, with over $500 million in revenue for contract opportunities, thus putting many contracts out of reach.

MCCC is recommending three initial steps to address this problem. First, advise federal agencies on structuring contracts so they incorporate the ability of midsize companies to compete; second, allow midsize companies to use three of the past five years to determine their size status; and third, allow midsize companies to subtract research and development expenses and expenditures to determine size status.

Agency: Bring Multiple Award Contracts (MAC) requirements in line with the capabilities of midsize firms.

It is essential to sustain midsize businesses, to both reduce monopoly problems and diversify the types of businesses engaging in the federal market. However, many of the most lucrative federal opportunities have been structured in a manner that excludes many midsize businesses. This initiative will involve educating agencies on structuring MAC requirements to enable midsize firms to compete.

For example with GSA's Alliant 2, MAC requirements that were problematic for midsize firms included the exclusion of joint ventures, cost reimbursement, and a prohibition on using third party audits. On the other hand, best practices also exist for midsize firms on MACs. GSA's Oasis, the on-and-off-ramping mechanism allows midsize firms that have outgrown their small businesses status to move from the Oasis small business contract, to the Oasis unrestricted contract, without requiring a re-compete.

Regulatory: Require a five-year look-back for the purpose of SBA size determination.

A size standard, which is usually stated in number of employees or average annual receipts, represents the largest size that a business (including its subsidiaries and affiliates) may be to remain classified as a small business for SBA and federal contracting programs. Annual receipts are currently calculated by averaging the preceding three years. This proposal would change the receipt calculation by using the lowest three of the preceding five years of receipts, to determine the average.

Due to the long contract award process and the significant dollar size of task orders, small businesses can quickly outgrow their size standard without having the time and resources to invest in firm infrastructure. Preparation for full and open competition often requires significant time and resources. This change would allow these businesses a smoother transition.

Legislative: Deduct R&D expenses and expenditures from total revenue for size determination.

We propose to permit entities to subtract Independent Research and Development (R&D) expenses and expenditures from that entity's "receipts," as defined by 13 CFR 121.104, for the purpose of calculating size. This supports the government's initiative to stimulate technological and biomedical innovation and allows companies to continue to pursue and develop new products and processes, without undue penalty.

Definition: R&D expenses (as defined by the IRS) encompass the allowable costs of basic research, applied research, development, plus systems and other concept formulation studies. Costs cease to be R&D when preparing for the manufacturing or service delivery phase.

Exclusion Cap: The revenue deduction should be limited to no greater than two times the NAICS size standard. For employee-based standards, for every $50,000 spent in R&D dollars, a single employee may be removed for the calculation to determine size.