

### Discussion of Comments on the Proposed Rule

The SBA received 16 timely comments on the proposed size standard from various business concerns. Nine commenters supported the proposed size standard and seven commenters opposed the change. The SBA also received a recommendation from its Office of Hearings and Appeals (OHA) to clarify the footnote. Below is a summary of the major issues raised by the comments received on the proposed rule and the SBA's position on those issues.

### Comments Supporting a Higher Size Standard

Four commenters remarked that increased costs, such as start up costs, wages, workers compensation, health insurance, fuels, and materials, have increased their revenues to the point where after two or three contracts their firms exceed the current size standard. One commenter pointed out that salary, wages, and taxes are the major costs and will normally comprise more than 50% of the contract expense. Two commenters acknowledged that the U.S. Department of Labor's increase in Service Contract Act wage determinations has had a direct impact on the costs of Facility Support Services contracts.

The SBA agrees that increased costs have caused small business to exceed the current size standard with only two or three contracts. Facility Support Services contracts are larger requirements that include varied tasks from Base Maintenance to engineering and technical support. Because of the nature of these requirements, more than two-thirds of total industry revenues go to large firms at or exceeding the current size standard. As presented in the preamble of the proposed rule, industry data on the distribution of revenues by firm size and other industry characteristics show that firms in the Facilities Support Services do have high costs and are much larger in size than firms in most other service industries.

All nine supportive commenters pointed out that the increase in the size standard would increase competition and participation in Federal contracts. Two commenters stated that firms growing beyond the \$6 million size standard are not ready to compete with large firms. One commenter stated that the increased size standard would allow firms a longer period for growth and maturity. One commenter stated that the increase will secure a future for small businesses in this industry, as the

current size standard limits a firm's ability to serve the Federal Government.

The SBA agrees that an increase to the size standard will make small businesses more competitive in this industry. As stated in the preamble to the proposed rule, the share of Federal contracts awarded to small businesses supports an increase to the current size standard. During 1999 to 2001, small businesses accounted for 30.5% of total industry receipts but these firms received only 12% of the dollar value of Federal contracts. This is a disproportionate share of Federal contract dollars relative to industry receipts. Contract requirements make it difficult for smaller firms to perform on Federal Facilities Support Services contracts. For example, contracting data show that two-thirds of small business awards in this industry are made through programs reserved for small businesses rather than through full and open competition. The SBA believes that the increase in size standard will allow firms in this industry to grow to a more competitive size.

Two commenters supported the SBA's proposal to give Facilities Support Services and Base Maintenance the same size standard. One of these commenters acknowledged that "the same companies are likely to compete for contracts with either designation."

The SBA agrees with these comments. As stated in the preamble to the proposed rule, the SBA believes that the activities comprising this industry and the characteristics of firms in the industry no longer require separate size standards for Base Maintenance and for all other facilities support activities. The NAICS 2002 industry description of Facilities Support Services is very similar to the SBA's description of Base Maintenance (see footnotes 12 and 13 of the current 13 CFR 121.201). The SBA believes that the firms performing Base Maintenance services also perform, or have the capability to perform, most other facilities support activities. Given the close similarity of the descriptions of Facilities Support Services and Base Maintenance, the SBA believes that a single size standard is appropriate for all activities within the Facilities Support Services industry.

The SBA received a recommendation from OHA to clarify the title of "Base Housing Maintenance," an exception to NAICS 238990, "All Other Specialty Trade Contractors," as it is often confused with "Base Maintenance," an activity under Facilities Support Services. OHA suggested that the "Base Housing Maintenance" title should be revised to more accurately reflect the

description of that category in Footnote 13.

The SBA agrees with this recommendation and has revised the title for the exception to NAICS code 238990 from "Base Housing Maintenance" to "Building and Property Specialty Trade Services." This revision is appropriate in this rule making process as it does not change the meaning of the exception or the size standard for NAICS code 238990. The new title better identifies the activities that fall under this category.

### Comments Opposing a Size Standard Increase

The SBA received four comments which stated that entry costs for this industry are low and that Facility Support Services contracts are performed in Government-provided facilities using Government-provided equipment. Five comments asserted that the increase is detrimental to emerging small businesses and that it will hinder small business growth. Four comments stated that the current size standard encourages large businesses to mentor "emerging small businesses."

The SBA does not concur with these comments, and believes that these comments do not accurately characterize the Facility Support Services industry. The SBA does recognize that a higher size standard could have an impact on the smallest businesses in this industry. However, the smallest firms are usually limited to contracts for one type of industry or to work as subcontractors. The nature of the industry and the data presented in the preamble of the proposed rule show that the Facility Support Services industry is comprised predominately of larger firms. The industry characteristics show that start-up costs are high, and that Federal contracts for Facility Support Services contain varied tasks, including engineering and other technical support tasks, administrative functions, specialty trade tasks, and high-end equipment maintenance. Often, after two or three contracts, firms in this industry find that they have outgrown the current size standard. In addition, the SBA believes this increase will expand small business subcontracting opportunities and mentoring with large businesses. All requirements over \$500,000 for Facility Support Services awarded to large businesses include incentives and goals for subcontracting with small businesses. The fact that an industry's size standard is \$6 million or \$30 million will not have a detrimental bearing on a large business's plans to subcontract to or mentor a small