

that a revision to the current size standard for testing laboratories is needed to better define small businesses in this industry.

*2. What are the potential benefits and costs of this regulatory action?*

The most significant benefit to businesses obtaining small business status as a result of this rule is eligibility for Federal small business assistance programs. Under this rule, 120 additional firms generating 9.9% of sales in this industry would obtain small business status and could be eligible for these programs. These programs include the SBA's financial assistance programs, economic injury disaster loans and Federal procurement preference programs for small businesses, 8(a) firms, small disadvantaged businesses (SDB), and small businesses located in Historically Underutilized Business Zones (HUBZones). Through the assistance of these programs, small businesses may benefit by becoming more knowledgeable, stable, and competitive businesses.

Other Federal agencies also use the SBA's size standards for their programs for a variety of regulatory and program purposes. The SBA does not have information on each of these uses sufficient to evaluate the impact of the size standard change. If an agency believes that a different size standard is appropriate for its programs, it must contact the SBA. If an agency is seeking to change size standards in a general rulemaking context, then the agency should contact the SBA's Office of Size Standards. (See 13 CFR 121.901–904. The SBA's regulations are available at <http://www.sba.gov/library/lawroom.html>.) If the agency is seeking to change size standards for the purposes of a Regulatory Flexibility Act (RFA) analysis then the SBA's Office of Advocacy should be contacted pursuant to the RFA (5 U.S.C. 603(a)), available at <http://www.sba.gov/advo/laws/regflex.html>). Section 601(3) of the RFA requires the agency to consult with the Office of Advocacy and provide an opportunity for public comment when using a different size standard for the RFA analysis.

The benefits of a size standard increase to a more appropriate level would affect three groups: (1) Businesses that benefit by gaining small business status from the proposed size standard and use small business assistance programs; (2) growing small businesses that may exceed the current size standard in the near future and who will retain small business status from the higher size standard; and (3) Federal

agencies that award contracts under procurement programs that require small business status.

Newly defined small businesses could benefit from the SBA's 7(a) Guaranteed Loan Program. The SBA estimates that approximately \$2 million in new Federal loan guarantees would be made to these newly defined small businesses. This represents approximately 9.9% of the annual average of \$19 million in loans that were guaranteed by the SBA under this financial program to testing laboratories firms during fiscal years 1998–2002. Because of the size of the loan guarantees, most loans are made to small businesses well below the size standard. Thus, increasing the size standard will likely result in only a small increase in small business guaranteed loans to testing laboratories, and the \$2 million estimated figure may overstate the actual impact.

The newly defined small businesses would also benefit from the SBA's Economic Injury Disaster Loan (EIDL) program. Since this program is contingent upon the occurrence and severity of a disaster, however, no meaningful estimate of benefits can be projected.

The SBA estimates that firms gaining small business status could potentially obtain Federal contracts worth an additional \$42 million in sales. This represents 9.9% of approximately \$424 million that the Federal Government awarded per year in this industry during fiscal years 1998–2002.

Federal agencies may benefit from the higher size standards if the newly defined and expanding small businesses compete for more set-aside procurements. The larger base of small businesses would likely increase competition and would lower the prices on set-aside procurements. A larger base of small businesses may create an incentive for Federal agencies to set aside more contracts, resulting in greater opportunities for all small businesses. Small business opportunities will be enhanced in full and open procurements as newly eligible firms gain experience in Federal contracting through set aside and other small business procurement preference programs. Large businesses with small business subcontracting goals may also benefit from a larger pool of small businesses by enabling them to better achieve their subcontracting goals at lower prices. No estimate of cost savings from these contracting decisions can be made, since data are not available to directly measure price or competitive trends on Federal contracts.

To the extent that up to 120 additional firms could become active in

Federal Government small business programs, this may entail some additional administrative costs to the Federal Government associated with additional bidders for Federal procurements, additional firms seeking assistance from the SBA's guaranteed lending programs, and additional firms eligible for enrollment in the SBA's PRO-Net database program. Among businesses in this group seeking the SBA's assistance, there will be some additional costs associated with compliance, protests, and verification of small business status. These costs are likely to generate minimal incremental costs since mechanisms are currently in place to handle these administrative requirements.

The costs to the Federal Government may be higher on some Federal contracts. With a greater number of businesses defined as small, Federal agencies may choose to set aside more contracts for competition among small businesses rather than using full and open competition. The movement from full and open to set-aside contracting is likely to result in competition among fewer bidders for a contract. Also, higher costs may result if additional full and open contracts are awarded to HUBZone and SDB businesses as a result of a price evaluation preference. The additional costs associated with fewer bidders and price evaluation preferences, however, are likely to be minor since, as a matter of policy, procurements may be set aside for small businesses or reserved for the 8(a) and HUBZone programs, only if awards are expected to be made at fair and reasonable prices.

The new final size standard may have distributional effects among large and small businesses. Although the actual outcome of the gains and losses among small and large businesses cannot be estimated with certainty, several trends are likely to emerge. First, a transfer of some Federal contracts from large businesses to small businesses will probably occur. Large businesses may have fewer Federal contract opportunities if Federal agencies decide to set aside more Federal procurements for small businesses. Also, some Federal contracts may be awarded to HUBZone and SDB businesses instead of large businesses, since those two categories of small business are eligible for price evaluation adjustment for contracts competed on a full and open basis. Similarly, currently defined small businesses may obtain fewer Federal contracts due to the increased competition from more businesses defined as small. This transfer, however, may be offset by a greater number of