

Small Business Size Standards

**SBA's Jobs Act Tour
March-April 2011**

Topics



- Overview of Size Standards
- Comprehensive Review
- Approach to Review
- Questions and Answers

Basics of being a small business



- Business concern
 - Independently owned and operated
 - Not dominant
 - Meets standard for its industry
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Basics of small business size standards



- They are numerical
- A small business is one that is equal to or below the standard
- Based on economic activity as the U.S. Office of Management and Budget defines various industries (aka, NAICS)
- SBA has a few (18) exceptions for special purposes

- Average annual receipts (three fiscal years)
- Average number of employees (latest 12 calendar months)
- Assets (for financial institutions)
- Electric output or distribution (electric utilities)
- Refining capacity (as one component of the size standard)

Affiliation



Size standards include the receipts, employees, *etc.*, of a business concern's affiliates. ALWAYS. There are no exceptions.

Ability to control – exercised or not.

New and former affiliates:

- Include receipts and employees of new affiliates for the whole period of measurement.
- Exclude receipts and employees of former affiliates for the whole period of measurement.

Use of size standards



- Federal procurement
- SBA loans
 - Alternative size standards for 7(a) and 504/CDC Loan Programs
- All other Federal programs
- Nonmanufacturer rule

- 1,141 industries
- 18 “exceptions”
- 42 different size standards
 - 31 receipts based
 - 8 employee based
 - 3 others

ore trivia



ix of the 31 receipts based standards apply to most industries
Here are the most common size standards (but not all)

Size Standard	Industries
\$750,000	Agriculture (Crop and Animal Production)
\$7.0 million	Retail Trade (but not for Federal procurement) and most other services
\$14.0 million	Special Trade Construction
\$33.5 million	Heavy and Civil Construction
100 employees	Wholesale Trade (but not for Federal procurement)
500 employees	Manufacturing and mining (most)

Basic Premises to Establishing Size Standards



Size standards should vary by industry, but not by program

Help small and new businesses become competitive in their industries

Ensure that small businesses get a fair share of Federal purchases and sales

Expand access to credit for small businesses

Comprehensive Review



- Last done in 80s
- Since then, *ad hoc* adjustments – individual industries or groups of industries
- Intermittent inflation adjustments
- Began current overall review in 2007
- Issued “Small Business Size Standards Methodology” white paper
- Jobs Act of 2010 – SBA must review one-third every 18 months

Benefits of Comprehensive Review



Across the board review, including those that SBA has not reviewed in 30 years or more.

Opportunity to address special issues

Size standards will be more relevant –

- Fewer,

- Common standards for common industries, and

- Simpler

What We Review



- Industry data from Census Bureau
- Asset size from Risk Management Association
- Federal Procurement Data
- SBA loan program data
- Industry specific factors or issues
 - Unique industry factors, if any
 - Industry growth (positive or negative)
 - Industry competition

How we analyze



- We compare data for those industries that generally have the lowest size standards
- We compare data for those industries that generally have the highest size standards
- If data for an industry are significantly different from the rest of the group, then the size standard for that industry should probably be different as well.

Comparison Groups



Receipts-based size standards:

Anchor group

Industries with \$7 million size standard

Higher-level size standard group

Industries with size standards of \$23 million or higher (group average \$29 million)

Proposed Levels



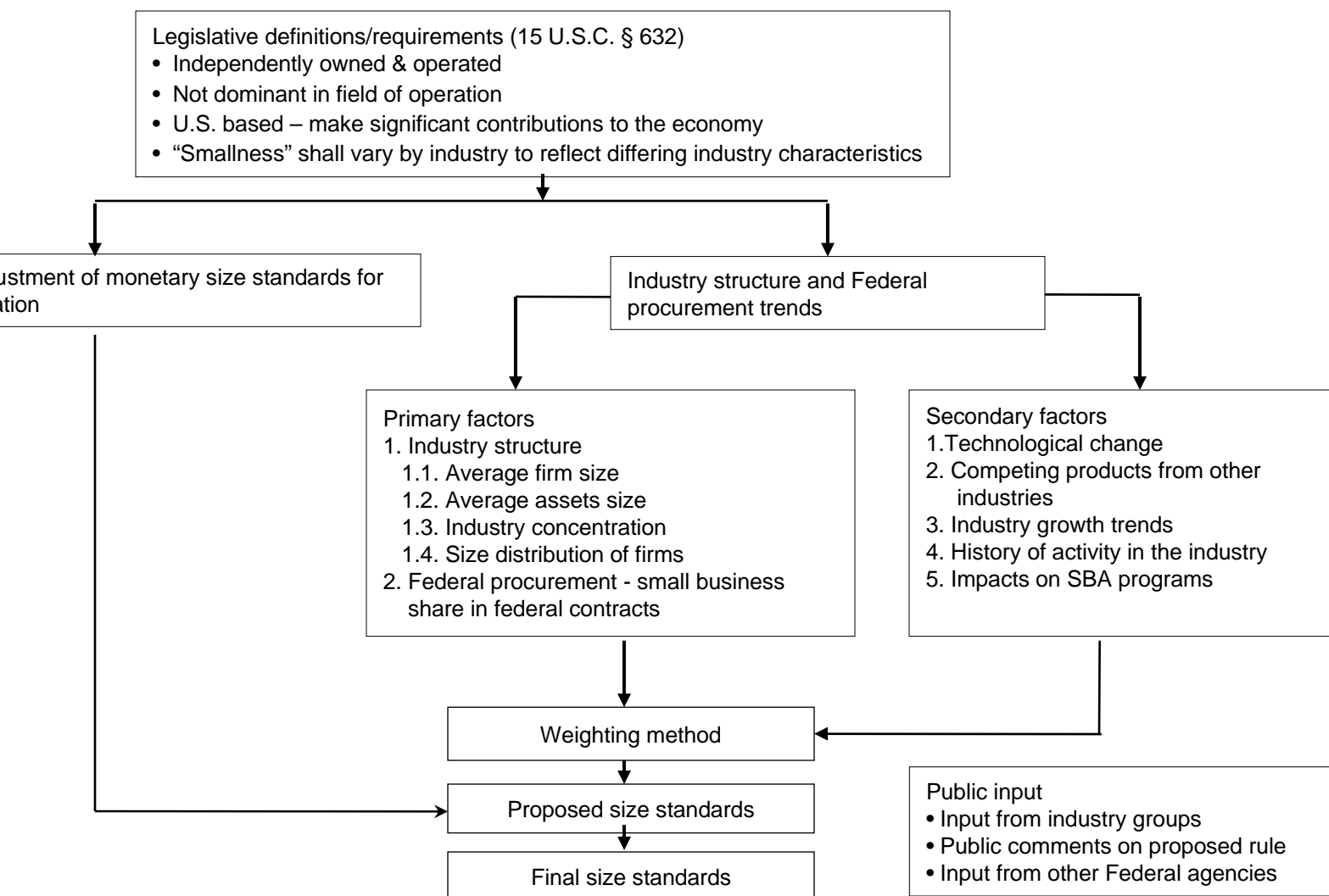
Receipts based

\$5.0	million
\$7.0	million
\$10.0	million
\$14.0	million
\$19.0	million
\$25.5	million
\$30.0	million
\$35.5	million

Employee based

50	employees
100	employees
150	employees
200	employees
250	employees
500	employees
750	employees
1,000	employees

Methodology overview



st of Sectors (Anticipated sequence)



NAICS	Name
44-45	Retail Trade
72	Accommodation and Food Services
81	Other Services
54	Professional, Scientific & Technical Services
48-49	Transportation and Warehousing
22	Utilities
56	Administrative and Support, Waste Management and Remediation Services
51	Information
53	Real Estate and Rental and Leasing
61	Educational Services
62	Health Care and Social Assistance
71	Arts, Entertainment and Recreation
23	Construction
42	Wholesale Trade
52	Finance and Insurance
55	Management of Companies and Enterprises
21	Mining, Quarrying, and Oil and Gas Extraction
11	Agriculture, Forestry, Fishing and Hunting
31-33	Manufacturing

Status of Comprehensive Review



Completed three Sectors (effective 11/05/2010)

- 44-45 – Retail – these do not apply to Federal procurement, but the changes made many more businesses eligible for SBA lending programs.

- 72 – Accommodation and Food Services

- 81 – Other Services

Proposed Rules open for comment

- 54 – Professional, Technical, and Scientific Services – proposed rule in *Federal Register* on March 16, 2011. Comment period ends May 16, 2011.

blems



- Lack of historical information on some standards
- Data not current and do not go below Industry level

Rulemaking Process



- SBA analysis of available data
- Internal SBA clearance
- Office of Management and Budget (OMB) Regulatory Review
- Proposed rule in *Federal Register*
- SBA analysis of public comments
- Repeat above and publish final rule in *Federal Register*

Challenges



- Enabling businesses that are about to exceed or have just exceeded size standards to continue participating in Federal government programs
- At the same time, do this without causing unfair competitive disadvantage to those small businesses that need Federal assistance the most
- Meeting Federal procurement needs without breaching the public perception of “what is small” and without adding complexity to size standards

Policy Questions



- How big is too big to be small?
- Should there be a single measure for all industries? All receipts? All employees? Something else?
- Should we change the basis for one or more industries? That is, receipts -> employees, or employees -> receipts.
- Should we lower any size standards?
- Should we establish separate size standards for procurement and non-procurement programs, even if it would mean more complexity?

Policy Questions – Contd.



How can SBA best simplify size standards without breaching the requirement that size definitions should vary by industry?

Should SBA adjust (lower) employee based standards for labor productivity growth the same way it adjusts (increases) receipts based size standards for inflation?

Does SBA have authority to establish tiered size standards?

If yes, how can SBA enforce/monitor small government contracting goals under tiered standards?

Conclusion



- SBA has been committed to this review for several years.
- Jobs Act of 2010 reinforced what we were planning, and had, in fact, begun.
- SBA has not yet reviewed standards based on number of employees.
- We value input even before we issue a proposed rule.

For more information



- Office of Size Standards –
<http://www.sba.gov/size>
sizestandards@sba.gov
202.205.6618
- [What's New](#) in Size Standards
- [Table of Size Standards](#) matched to NAICS codes
- Offices (6) of Government Contracting –
 - Area offices are listed at the end of the table of size standards and at the end of our Guide to Size Standards

End of the Document
Thank you

March-April 2011