Testimony of

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"Leveling the Playing Field: Fostering Opportunities for Small Business Contractors"

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Chairman LaLota, Ranking Member Cisneros, and Members of the Subcommittee, thank you for the opportunity to testify before you today. My name is Michael Ramos, and I am honored to serve as President of Raymond Global, a second-generation, family-owned architecture and engineering firm founded in 1992 by my father, Raymond Ramos, PE, RRC. What began as a small roof consulting and design practice in the greater Atlanta area has now steadily grown into a full-service architecture and engineering firm with a national presence.

For its first decade, our company focused largely on K-12 schools and municipal projects. In 2005, we began a deliberate effort to expand beyond a one-person consultancy, and since that time, Raymond has averaged nearly 20 percent year-over-year growth. By the end of 2025, we expect to employ 120 professionals with expertise in architecture, interior design, structural engineering, mechanical, electrical, and plumbing systems, civil engineering, and building envelope services.

The SBA 8(a) program and our certification as a Service-Disabled Veteran-Owned Small Business (SDVOSB) were crucial to our development, providing opportunities that helped us build a performance track record and diversify into broader markets. Although we have since graduated from these programs, Raymond continues to work extensively with the Department of Defense (DoD) and actively participates in the SBA Mentor-Protégé Program. Beyond my role at Raymond, I also serve as Chair of the GovCon Small Business Coalition, representing small and midsize contractors advocating for policies that support business growth and strengthening of the defense industrial base.

This hearing comes at an especially pivotal moment. With significant changes underway in the federal acquisition landscape, it is imperative that small businesses remain central to innovation and competitiveness. Today, I would like to highlight several pressing issues that affect firms like mine and the broader small business community.

<u>Ensuring Effective Implementation of the Cybersecurity Maturity Model Certification (CMMC)</u>

There is no doubt that cybersecurity is vital to national security. The threat from sophisticated, state-sponsored cyber actors is real, and small businesses strongly support efforts to raise cybersecurity standards across the defense supply chain. However, the implementation of CMMC 2.0 imposes costs and uncertainties that disproportionately impact small firms.

Unlike large prime contractors, which often employ dedicated compliance, IT, and legal teams, small businesses must depend on external consultants, software vendors, and managed service providers to achieve certification. These costs are significant. At Raymond, compliance with a Level 2 certification will cost approximately $500,000, including system upgrades, consultant fees, compliance documentation, third-party assessments, and the hiring of dedicated IT staff. These expenses are not one-time investments – certification must be renewed every three years. For firms operating on thin margins, the recurring nature of these costs is destabilizing.

Our experience is far from unique. At recent industry conferences, many firms expressed profound concern that they cannot afford to comply, with some considering leaving the federal market altogether. For example, a fellow business owner operating a one-person firm reported spending more than $30,000 to achieve compliance. These are not isolated incidents – they represent a structural barrier that could push small businesses out of the defense supply chain at a critical time.

Equally concerning is the lack of clarity around how Controlled Unclassified Information (CUI) will be managed. In classified settings, dedicated classification managers ensure consistency. Under CMMC, no such mechanism exists. The result has been broad and indiscriminate application of the CUI label, with the costs of compliance falling on contractors. For small businesses, this uncertainty compounds the already high burden. Without adjustments, CMMC may unintentionally exclude the very firms whose agility and innovation the Department of Defense has long depended upon.

In June, the Small Business Administration Office of Advocacy issued a letter to the Department of Justice's Anti-Competitive Regulations Task Force and the Federal Trade Commission, highlighting that small businesses nationwide view CMMC compliance as a burden, and urging DoD to reengage with the small business community to address these concerns. I commend Congressman Scott Fitzgerald for offering an amendment to the National Defense Authorization Act (NDAA) for fiscal year 2026 directing the Defense Department, SBA, and IRS to report to Congress on the resources available to small businesses to achieve CMMC compliance. I also thank the Senate Armed Services Committee for including language in their report to accompany the FY2026 NDAA noting the burdens of CMMC compliance on small businesses and directing the Defense Department to provide a comprehensive small business cybersecurity support strategy. I encourage the House to adopt the Fitzgerald amendment and press DoD to provide resources that help small businesses achieve CMMC compliance – securing the defense industrial base.

Streamlining Acquisition Processes

Small businesses are not only held back by the technical requirements itself but by the complexity of the acquisition process. Federal solicitations are often confusing, inconsistent, and resource-intensive to interpret.

The proliferation of Requests for Information (RFIs) illustrates this challenge. Contractors regularly submit RFIs seeking clarity on formatting requirements, scope of work, or evaluation criteria. This slows down the process and forces small businesses to expend resources without certainty of outcome. In some cases, solicitations are cancelled entirely, wiping out weeks of effort. The costs are not only financial, but systemic. Poorly drafted solicitations often lead to protests, which are particularly devastating for small businesses. A notable example is the AE NEXT Pool 2 procurement, which was awarded three times, protested twice, and ultimately cancelled due to

unclear evaluation criteria. For small businesses, these outcomes mean wasted resources and lost opportunities.

A major contributor to this problem is inconsistency between Sections L and M of Requests for Proposals. These sections often conflict, forcing small businesses to make difficult choices about how to structure proposals. Even highly qualified firms can be disqualified or downgraded due to these contradictions. Standardization would help immensely. Further, different offices within the same agency often issue solicitations for identical services with widely varying requirements. For firms like mine, this means drafting new proposals from scratch for each opportunity, even when the work is essentially the same. Our proposals often exceed 100 pages – an enormous investment of time and resources. Greater uniformity across solicitations could reduce barriers to entry and allow more firms to participate in the federal marketplace.

One of the stated outcomes of the recent Federal Acquisition Regulation (FAR) overhaul effort underway is simplification of the market research requirements, which is long overdue. While market research is critical to ensuring small business work is set-aside, I believe changes should be made to simplify the response requirements placed on small businesses. However, it is worth noting that in FAR Part 10 rewrite that was published earlier this summer, language requiring set-aside analysis was removed. Contracting officers are no longer explicitly instructed to use market research to determine whether an acquisition should be a small business set-aside under FAR Part 19. Additionally, requirements for agencies to conduct market research and consult with small business specialists and SBA representatives before consolidating or bundling contracts were eliminated. These changes will most definitely have a negative impact on small business contractors, and I would encourage the Committee to take a close look at the rewrite of this and other FAR parts to ensure they do not simply benefit the large federal contractors.

<u>The Mentor-Protégé Program's Impact on Competition</u>

The SBA's Mentor-Protégé Program has been transformative for firms like mine. By pairing small businesses with experienced mentors, it has enabled growth, broadened capabilities, and opened opportunities for joint ventures (JVs) to compete. Raymond has directly benefited from this program and continues to value it. However, the expansion of Mentor-Protégé Joint Ventures (MPJVs) has dramatically altered the competitive landscape. Increasingly, solicitations draw responses exclusively from MPJVs, leaving fewer opportunities for independent small business primes. In several recent procurements, only MPJVs were shortlisted.

While the benefits of the program should remain available, reforms are needed to restore balance. Potential solutions include:

- Restricting large firms to one protégé per NAICS code or group of related NAICS codes.
- Establishing dedicated pools of contracts eligible for MPJVs.

- Guaranteeing a portion of small business opportunities exclusively for small business primes or small–to–small JVs.
- Dedicating a specific number of slots on contract vehicles for MPJVs and a specific number of slots for small business primes.

Such adjustments would preserve the program's benefits while ensuring that independent small businesses can still compete effectively.

SBA's New Mergers & Acquisitions (M&A) Rule

On December 17, 2024, the SBA issued a final rule that significantly alters contracting policies, including those governing mergers, acquisitions, and joint ventures. While introduced as a HUBZone-related update, the rule included sweeping changes under "Other Small Business Programs" that directly affect M&A activity.

The final rule requires small businesses that undergo a sale after January 17, 2026, to recertify their size status within 30 days. This recertification makes them ineligible to bid on new task orders under existing contracts or contract vehicles. The impact is severe: the value of many small businesses lies in holding multi-year contracts. If these contracts cannot be executed after a sale, the company's equity declines sharply, and buyers lose confidence in acquiring small firms.

The rule also creates artificial market distortions. By establishing January of next year as a hard deadline, it pressures firms to rush transactions before that date, regardless of whether the timing makes strategic or financial sense. This undermines the stability of both sellers and buyers. Given the current Administration's emphasis on curtailing regulations issued by agencies that are not statutory or Congressional direction, we believe Congress should work with SBA to revisit this rule. Restoring the prior approach or at least providing more transition time would protect small business valuations and prevent further contraction of the federal industrial base. Without changes, many owners may see the value of their life's work diminished, while more firms could exit the federal market entirely.

Addressing Inflation and Updating Size Standards

Inflation has created a significant and often misunderstood challenge for small businesses in the construction sector, particularly those operating under NAICS code 236220 for Commercial and Institutional Building Construction. The post-pandemic economic landscape has been defined by unprecedented spikes in the costs of essential materials like lumber, steel, and concrete, alongside a tight labor market driving up wages. For a construction firm, these are not just minor overhead increases; they are direct, substantial escalations in the cost of goods sold. While a company's gross revenue may rise to reflect these pass-through costs on projects, this top-line increase is a distorted

reflection of the company's actual health and size, masking stagnant or even shrinking profit margins.

This phenomenon leads to what can be termed "phantom growth," where a business is pushed toward the SBA's size threshold not by genuine expansion, but by inflationary pressures beyond its control. Under NAICS 236220, a firm is considered small if its average annual revenue over five years remains below $45 million. A company that was comfortably operating at $35 million annually before the pandemic could easily see its revenues surge past the $45 million mark simply by bidding on the same size and number of projects, but with inflated material and labor costs baked in. Consequently, these firms risk "graduating" from small business status and losing access to vital set-aside contracts, mentorship programs, and other support systems, despite not having the increased capital, workforce, or infrastructure that typically accompanies authentic business growth.

The problem is critically compounded by the federal government's reliance on outdated economic data to set and adjust these size standards. The current benchmarks used by SBA in their methodology are largely influenced by figures from the 2017 Economic Census, a period that represents a vastly different economic reality. This five-plus-year data lag means the standards fail to account for the recent, extraordinary inflationary cycle. As a result, the financial pressures and operational scale of a $45 million firm today are fundamentally different from what they were in 2017. This mismatch leaves many construction firms in a precarious middle ground – too large by outdated metrics to qualify for small business support, yet too small in real terms to compete effectively against giant corporations in the unrestricted marketplace.

Therefore, updating the SBA's size standards to reflect current market conditions is not just an administrative adjustment: it's a critical necessity for maintaining a fair and competitive industrial base. By recalibrating the revenue thresholds using present-day cost data, the government can ensure that the distinction between "small" and "large" is based on genuine business scale, not inflationary distortions. Failure to do so risks artificially shrinking the pool of eligible small businesses – reducing competition, stifling innovation, and ultimately weakening the supply chain for federal construction projects. A timely and realistic adjustment would preserve the integrity of small business programs and support the continued viability of firms that are, by any practical measure, still small.

I am encouraged by SBA Office of Advocacy's engagement on this issue, holding a roundtable on the methodology last year and an upcoming industry session on the proposed rule. This office is key to elevating industry's voice on how SBA's policies impact small business contractor growth and success. Additionally, I would like to thank the Committee for highlighting this subject by holding a hearing in February 2024, "Under the Microscope: Reviewing the SBA's Small Business Size Standards." This led to productive industry conversations with the agency, and I encourage

the Committee to stay engaged with SBA throughout their rulemaking process to ensure their final size standards rules do not hamper business growth.

The Need for a Small-to-Large Transition Program

The federal system recognizes only two categories: small and large. There is no intermediate classification for midsize businesses. This binary structure creates what is commonly called the "contracting cliff." The data is sobering. Only 2.5 percent of small businesses that graduate beyond size standards remain federal contractors after five years. Between 2006 and 2020, just 7 percent successfully transitioned to winning unrestricted awards. This lack of a transition pathway incentivizes advanced small businesses to remain at the top of the small category, creating a bottleneck that prevents new entrants from gaining a foothold.

At the same time, the number of new businesses entering the federal market has fallen by 80 percent over the past 15 years. This contraction erodes competition, stifles innovation, and weakens the defense industrial base. A structured transition program is urgently needed. Such a program would allow advanced small businesses to gradually compete in larger procurements while still retaining some protections. This encourages healthy growth, supports innovation, and strengthens the diversity of the contractor base.

Codifying the Rule of Two

As the General Services Administration (GSA) and the Office of Management and Budget (OMB) undertake the monumental and necessary task of rewriting the FAR, it is imperative that this effort does not inadvertently strip away the vital small business protections and requirements that have been the bedrock of our federal marketplace for decades. These regulations, such as the "Rule of Two" and the various socioeconomic set-aside programs, are not mere administrative burdens; they are the intentional mechanisms that ensure a fair proportion of federal spending supports the engine of our economy – America's small businesses. Streamlining regulations should not be synonymous with eliminating safeguards. To do so would concentrate federal contract awards among a dwindling number of large firms, stifle innovation, and ultimately weaken the industrial base that our nation's security and economic health depend upon. We must ensure that a modernized FAR builds upon, rather than erodes, the foundational principles of competition, fairness, and opportunity for small businesses.

I would also like to express my strong support for H.R. 2804, the *Protecting Small Business Competitions Act of 2025*. This legislation codifies the long-standing "Rule of Two," a safeguard that ensures small business opportunities remain central to federal procurement. Protecting this rule by codifying it into law will preserve small business competitions and enable small contractors to enter, compete, and remain vital participants in the industrial base.

Although the Rule of Two has existed for decades and has been repeatedly affirmed by the courts, this legislation is both necessary and timely. In a contracting environment increasingly dominated by large governmentwide vehicles, small firms face the real risk of being crowded out. By codifying the Rule of Two, Congress would eliminate ambiguity in procurement practices, strengthen fair competition, and reaffirm the federal government's commitment to sustaining small business participation.

The benefits of this legislation are clear: it maintains fair competition by removing uncertainty in procurement rules and allowing small businesses a stronger opportunity to succeed. The need for this legislation is underscored by troubling trends. Over the past decade, the number of small businesses receiving federal contracts has fallen by 50 percent, and nearly 60 percent fewer new firms are entering the marketplace. Without corrective action, the small business industrial base will continue to erode, weakening both innovation and America's long-term competitiveness. Therefore, I urge Congress to act swiftly in passing H.R. 2804 and its Senate companion bill, S. 2656. Codifying the Rule of Two is essential to preserving the small business share of federal contracting and ensuring that small firms remain vital contributors to our national security and economic strength.

Conclusion

The strength of America's defense industrial base depends on the vitality of small businesses. Yet rising compliance costs, overly burdensome acquisition processes, structural imbalances in the Mentor-Protégé Program, and the unintended consequences of new SBA rules all pose significant risks. If left unaddressed, these challenges will weaken competition, limit innovation, and undermine national security.

Congress has the opportunity to address these issues by updating size standards, reforming acquisition practices, balancing Mentor-Protégé competition, and establishing a structured small-to-large transition program. Taken together, these steps will help ensure that small businesses continue to contribute to our national security and economic strength.

Thank you for the opportunity to share my testimony. I look forward to working with the Subcommittee to advance policies that support America's small businesses and strengthen our defense industrial base.