

U.S. House of Representatives Committee on Small Business Testimony

by HeiTech Services, Inc., a Maryland corporation on

“The Shutdown: Economic Impact on Small Business”

Good morning and thank you for inviting me to share how the recent federal government shutdown impacted HeiTech Services, Inc. I am the CEO and founder of HeiTech Services, Inc. My name is Heidi Wolfangel Gerding and grew up in Minnesota but have since been a long term resident of Prince George’s County, Maryland. I am pleased to say that I am not only an entrepreneur but also a service disabled veteran and mother of four. I’ve encountered numerous challenges in life including,

- being the first woman from Minnesota to graduate from the US Naval Academy in the fourth graduating class of women (class of 1983),
- training minemen to build underwater mines in the Navy (a non-traditional job for women),
- managing the Department of the Navy’s HIV/AIDS program when the military first began testing the fleet for HIV and being implicated as having HIV because of that position,
- raising four children while serving in the Navy and subsequently working my way up the corporate ladder in private industry, all the while being judged for putting my priorities in the wrong place,
- starting a business with the push back from others that I wouldn’t make it and I was wasting time and money on my efforts, and
- going through a lengthy divorce after being told after 32 years that we no longer had anything in common.

These life lessons have impacted me in ways that I never dreamed would help in operating a federal contracting business. Although I no longer wear a military uniform, I can continue to serve this country through delivering services to the federal government under my company’s mission statement, ‘helping to keep Americans safe’. I can empathize with my employees as a woman, mother, and member of the family whose wages often supplied our livelihood. I oftentimes put myself in their shoes when tough decisions need to be made by the company. Finally, I am fearless and not easily shaken by obstacles placed in my path. I thrive on challenges despite the emotional toll they sometimes take on those around me.

HeiTech Services, Inc. is a woman- and service disabled veteran-owned small business headquartered in Landover, Maryland. Our three-year average revenue is \$22,110,548 which makes us small at the \$25M size standard ¹and above. We have been delivering services to the federal government for nearly 20 years. Our highest grossing year was in 2014 when we saw nearly \$45M in revenue with nearly 500 employees.

Our primary business line is processing paper and electronic forms for the federal government such as manufacturing applications for approval of medical devices, the processing of adverse event reports for

¹ Size standards are used by the Small Business Administration to determine whether the business is considered small or large based upon the NAICS code assigned to a procurement. Size standards are usually stated in numbers of employees or average annual receipts. The definition of small varies by industry.



medical devices caused by malfunctions resulting in injury, serious injury, or death, and other documents requiring FDA approval.

We also deliver mail, print and duplicate various materials, provide records management services, manage the collection, cataloging, and distribution of the results of grants issued to resolve rehabilitation and disability quality of life needs, support minority health program training and dissemination of information, conduct on site-inspections for compliance with various regulations, and other professional services.

Many of our contracts are considered mission critical; therefore, those people continue to work uninterrupted during the shutdown. Of our 20 contracts, four (4) were directly impacted by the government shutdown while all the others were indirectly impacted. All of these contracts are covered by the Service Contract Act (SCA²).

Of the four contracts that were required to shutdown, two were immediately impacted on December 24th, 2018, while the third began their shutdown on December 31st, 2018 and the fourth began on January 7th, 2019. As such, two projects were out of work for 25 days, one project was out of work for 20 days, and the last project was out of work for 15 days. Although the shutdown lasted 5 weeks, our employees were returned to a full pay status on the first day of their third week.

There are three areas to consider when looking at the total impact to a business: the financial impact to the employee, the financial impact to the business, and the emotional impacts to both the employee and my business.

FINANCIAL IMPACT TO EMPLOYEES

During the shutdown, our impacted workforce was given the option to use their leave (we would advance up to 40-hours if necessary), personal time, or leave without pay (LWOP). Normally, HeiTech Services would require employees to use vacation or personal time before approving LWOP but that policy was modified during this shutdown to allow employees to determine the best use of their time understanding future obligations. There were 36 people impacted by this shutdown; however, one (1) employee was on Family Medical Leave, one (1) was temporarily reassigned to headquarters to support adhoc projects, and one (1) worked part-time until he resigned on January 7, 2019. Thirty three (33) employees represent about 20% of our entire workforce and about 22.5% of our directly billable employees.

As of February 4, 2019, the following numbers of impacted employees have vacation and personal leave balances ranging from 0-5 days, 5-10 days, or 10 or more days.

	NUMBER OF IMPACTED VACATION BALANCES	NUMBER OF IMPACTED PERSONAL TIME BALANCE
Negative days	1	0
0 – 5 days	11	21
5.1 – 10 days	5	5

² Under the McNamara-O'Hara Service Contract Act (SCA), contractors and subcontractors performing services on prime contracts that exceed \$2,500 are required to pay service employees no less than the wage rates and fringe benefits prevailing in that area or the rates (including prospective increases).

10.1 and over	16	7
Total Impacted Employees	33	33

There are other potential financial impacts not yet gathered which are important to note. These impacts include:

- Loss of 401K contributions including company match if LWOP was taken,
- Because employees took some vacation or personal leave combined with some LWOP, their paycheck was smaller than usual; therefore, mandatory deductions could have further reduced their take home pay (e.g., incurred medical expenses leveraged against flexible spending account or mandatory garnishments issued by the court system).

In summary, the financial impact to our employees was \$30,402.81 in lost wages and \$19,297.40 in use of unplanned and unscheduled leave (vacation and/or personal). Of the 33 employees, the average salary is about \$47K a year or \$22.40/hour. The low and high ranges from \$14.88/hour to \$45.87/hour.

FINANCIAL IMPACT TO THE HEITECH SERVICES

HeiTech Services financial impact results in both direct and indirect loss. Direct loss is value of the employee’s salary. Indirect loss results from the fringe³, overhead⁴, general and administrative (G&A),⁵ and profit earned as calculated off the employee’s salary. As our employees began their third week of shutdown, HeiTech Services placed everyone back on the payroll using company resources, including leveraging funds from our line of credit and incurring interest on those borrowed funds. As such, HeiTech Services paid out \$91,725.89 from profit to cover these costs, not including any interest incurred on that money.

The total amount of indirect expenses paid during the time employees were not working totaled \$50,197.13 in fringe, \$10,615.84 in overhead, and \$33,192.46 in G&A. The total cost impact to HeiTech Services (furloughed wages, fringe, overhead, and G&A) was \$185,731.32.

In addition, there is the potential of lost revenue from these four contracts if our customers do not pay us for the time we were unable to work under our existing Firm Fixed Price (FFP) type contracts. In the month of December 2018, HeiTech Services could lose a total of \$73,267.96 and in January 2019,

³ Fringe is the proportion of benefits paid to the wages paid to an employee. The rate is calculated by adding together the annual cost of all benefits and payroll taxes paid, and dividing by the annual wages paid. Examples of benefits include: disability insurance, employer portion of medicare tax, employer portion of employer social security tax, health insurance, life insurance, unemployment insurance, and workers’ compensation.

⁴ Overhead costs are ongoing business expenses that support the business but do not generate revenue. Overhead expenses are indirect costs that are fixed, variable, or semi-variable expenses such as: shipping, legal expenses, materials, office supplies, equipment maintenance, advertising, consulting services, rent, utilities, insurance, property taxes, depreciation of assets, annual salaries of people not on projects, fees, vehicle usage, marketing people salaries, etc. Overhead rate equals the overhead costs divided by the allocation of base of direct labor dollars.

⁵ G&A is residual costs necessary to run the entire business including: labor for strategic planning and business development, professional fees, travel, business insurance, state & local taxes, conferences, meetings, etc. G&A rates are determined by the total cost input base representing the total activity of the business.

potentially \$169,348.86 for a total of \$242,616.82. Although all four contracts are FFP type, our customers have historically pushed back on compensating us for the full month if vacancies exist or the government was closed despite the fact that our performance is predicated on meeting performance goals (e.g., timeliness, accuracy, or processing volumes). We are in the process of submitting invoices for December and January for these four customers, for the full month of services, and it remains to be seen whether there will be a loss of income for those months.

The lost revenue has an impact on our 2019 budget which was predicated on a projected revenue of \$16.5M. When the loss of revenue impact is applied to our 2019 budget (\$16.25M), it will create a \$102K deficit in this year's indirect expenses that must be closely monitored to ensure we do not overrun our budgets resulting in a loss for the year.

EMOTIONAL IMPACT TO THE EMPLOYEE AND HEITECH SERVICES

There is an emotional toll taken on our entire workforce resulting from the government shutdown. I've summarized some of the opinions voiced from our employees and categorized them into three impact areas: financial, communication, and work.

Financial

Employee focused:

- 80% of our employees do not have a reserve fund established for covering expenses in the event of a government shutdown.
- About 20% of my workforce felt that they were prepared for a government shutdown but no one believed that it would last as long as it did. Although some had financially planned appropriately, they were concerned that the reserves would be expended and they would need additional financial assistance.
- About 50% of those impacted by the shutdown required additional financial support whether through borrowing from family or friends, asking for an advance, or taking out a loan.
- 94% of those not working recorded leave without pay because they needed to save time for unexpected time off to care for ill children, attend medical appointments, save time for an upcoming marriage/honeymoon, etc.
- Many employees considered taking on a 2nd job to cover their expenses
- Many of employees have children in daycare. Of those that were not working, about 30% have children in daycare. Some of them were able to pull their children from daycare without any financial penalty while others did have a financial obligation at a reduced rate to maintain their attendance.
- Some of our employees are married to federal employees who were also furloughed making the financial impact to their family that much greater.

Company Focused

- We had one employee leave our employment during the shutdown because he saw the risk too high to plan for the future. The average cost of hire for a new employee is \$1,100 per hire which includes: recruiter salaries, monster subscription, Luceo applicant flow tracking, Craig's



list postings, employee referral bonuses, background checks, and typing/excel testing. This cost does NOT include the following:

- Time to clear a new hire through the NACI clearance process which can range from 3 – 8 weeks for a federal agency decision.
- If an agency disapproves an applicant, we have lost between 3 – 8 weeks and now must begin the recruitment process all over
- The time to train an employee
- 15 employees filed for unemployment. We can confirm that at least 50% were approved to receive unemployment benefits. This impacts our unemployment experience rating which is reviewed on an annual basis to determine our rates by which we pay taxes.
- 2 employees had garnishments from their paycheck which was delayed due to loss of wages during some of this time.

Communication

- Everyone knew about the possibility of a government shutdown. Both the customer and HeiTech Services appears to have kept the employees abreast of circumstances.
- About 50% of the workforce expected the government shutdown and the other 50% felt as though Congress or the President was bluffing and that the government would not shutdown.
- Those employees who retained their jobs were concerned that if the shutdown went much longer, their agency would be forced to furlough employees and issue stop work orders.
- Some of our projects deal with foreign firms. These foreign firms were at a loss as to how and why the government would shut down and the impact to these overseas firms. It presented as an embarrassment to our employees to try to explain these strange circumstances.
- There was an expression of relief when employees learned that HeiTech put employees back on the payroll after two-weeks.

Work

- Some of projects work on submissions from the public for government approval. These submissions were still being received but placed on hold until the government reopened. This process has caused some backlog which is still being assessed as to total impact.
- Although some agencies were open for business, they depended on information from agencies that might have been closed impacting the ability to complete projects.

SUMMARY

The government shutdown had a measurable impact on my business, my employees, and I imagine on all small businesses delivering services or products to the federal government. Although some small businesses are claiming that they had little impact, I can only speculate that they don't know the full impact to their business or understand how to calculate it and/or it is too much work for them to track. For HeiTech Services,

- nearly 25% of our direct billable employees were not working,
- nearly \$92K was paid to employees that may not be recovered
- nearly \$186K may be lost in indirect cost in December 2018 and January 2019



- nearly \$250K may be lost in revenue for December 2018 and January 2019
- our 2019 budget will need to be revised lowering the projected revenue from \$16.5M to \$16.25M
- our 2019 budget will need to be revised lowering our indirect pools by nearly \$102K

For our employees, they lost over \$30K in possible wages and unexpectedly had to use another \$20K in unscheduled leave. These costs only represent the tangible components and does not account for the emotional toll taken on this government shutdown. It is an embarrassment to this country that the federal government cannot approve a budget.

This shutdown has been perceived as an abuse of power by both Congress and the President at the expense of the constituency both represent. This confrontation is being referred colloquially and inappropriately as “The Mexican Standoff”, which ironically describes what this confrontation is about ~ a wall that separates the U.S. and Mexico. Little or no regard to how these decisions are impacting your constituency seem to be considered.

I am proud to say that HeiTech Services employees never went without a paycheck during the government shutdown. Pay was either covered through their own vacation, personal time, or by HeiTech Services.

CALL TO ACTION

A call to action is needed now. Some of the actions I would ask Congress to consider are:

1. **Fund all federal agencies:** Pass budget legislation to provide annual funding appropriations for the remaining seven departments and agencies. In other words, please keep the government open and work towards a bi-partisan decision between Congress and the President.
2. **Treat government contractors and federal employees the same:** Provide equity between federal employees and government contractors. From written and verbal thanks and appreciation shown to federal workers, the same needs to be done for federal contractors, to compensating businesses who employ federal workers the dollars lost as a result of this shutdown as they have their federal workforce. As a service disabled veteran and hearing how the veterans returning from Vietnam were treated is analogous to how federal contractors are feeling, not respected or appreciated. Let’s turn today’s perception of federal contractors into a positive story as we have with returning war veterans today that are embraced and thanked for their service. We deserve the same credit being given to federal employees in the press and in remuneration of pay.
3. **Approve Extraordinary Measures to raise the debt ceiling before the next financial crisis befalls your constituency and this country:** Finally, the debt ceiling is looming closer each day. Without increasing the limit through ‘extraordinary measures’ to temporarily finance government expenditures and obligations until a resolution can be reached, another catastrophic situation will bear down on this country and again, cause major harm to your constituency (businesses and the public alike). Rather than risk defaulting on some of our obligations triggering a variety of economic problems including a financial crisis, PLEASE, PLEASE, PLEASE pass legislation to approve the use of “extraordinary measures’ to increase the debt ceiling.



It is important that this issue not be ignored because of the threat of another government shutdown on February 15th, 2019. I'm sure that Congress is completely focused on finding a compromise to fund all government agency's but the debt ceiling decision must be made by March 2, the day in which we either raise the debt ceiling or default. Take action now to prevent an economic and global panic resulting in:

- a. immediate negative impact on stocks and bonds;
- b. higher interest rates;
- c. people not being paid or the administration deciding who gets paid and who doesn't (e.g., bondholders, social security recipients, welfare recipients, companies providing equipment or services to the federal government, people and businesses waiting on IRS tax refunds, etc.);
- d. default across the world which would most certainly affect the value of a US dollar and global investors would shift money out of US assets resulting in long-lasting damage to America's reputation; and
- e. a recession.⁶

Thank you for taking time to read my testimony and considering the needs of my business, my employees, and their families. Remember that your constituents need you now more than ever. Act quickly, decisively, and in a bi-partisan manner.

Attachments

Attachments 1: General Corporate Information

Attachment 2: General Government Shutdown Impact

Attachment 3: Financial Loss Impact to Employees

Attachment 4: Financial Loss Impact to HeiTech Services

Attachment 5: Possible Impact to Revenue

⁶ Heather Long. "With the debt ceiling, President Trump is playing with fire." *The Washington Post*, August 25, 2017, Economic Policy/Analysis section.

Attachment 1: General Corporate Information		
Total Revenue in 2014, 2015, 2016, 2017, and 2018	2014	\$45,631,841
	2015	\$36,421,232
	2016	\$22,362,351
	2017	\$21,169,292
	2018	\$22,800,000
3-year Average Revenue (for size standard purposes)		\$22,110,548
5-year Average Revenue (for size standard purposes)		\$29,676,943
2019 Budgeted Revenue		\$16,500,000
Total Number of Contracts and or Subcontracts		20
Total Number of Employees		216 (Full and Part-time)
		173 (Full Time)
		160 (Directly Billable to a Contract)

Attachment 2: General Government Shutdown Impact	
Number of Contracts Directly Impacted	4
Total Number of Employees Not Working during Government Shutdown <i>(Employees worksite is at a closed federal agency)</i>	33 <i>(Note 1)</i>
Number of days DOT out [December 24 – January 25]	6 days – Dec (includes 1 holiday) 19 days – Jan (includes 2 holiday's)
Number of days EPA out [December 31 – January 25]	1 day – Dec 19 days – Jan (includes 2 holiday's)
Number of days FDA/DDM [January 7 – January 25]	15 days – Jan (includes 2 holiday's)
Number of days NOAA out [December 24 – January 25]	6 days – Dec (includes 1 holiday) 19 days – Jan (includes 2 holiday's)
<i>Note 1: There were 36 employees affected but 1 employee resigned as a result of risk to his family, 1 was on FMLA, and 1 was temporarily reassigned to headquarters to support adhoc projects.</i>	



Attachment 3: FINANCIAL LOSS IMPACT TO EMPLOYEES	
Employee Lost Wages [Leave without Pay]	\$30,402.81
Employee Unscheduled Leave Usage [Vacation or Personal]	\$19,297.40
TOTAL COST IMPACT TO EMPLOYEES	\$49,700.21
AVERAGE COST PER EMPLOYEE (33)	\$1,506.07

Attachment 4: FINANICAL COST IMPACT TO HEITECH SERVICES, INC.	
Furloughed Wages Paid to Employee by HeiTech Services	\$91,725.89
Fringe Cost to Employer	\$50,197.13
• FICA (7.65%)	\$8,493.28
• FT-FUTA Tax Expense (7.00%)	\$7,771.63
• FT-SUTA Tax Expense (8.00%)	\$8,881.86
• Health & Welfare Expense (Actual)	\$21,060.44
• Workers Compensation Expense (1.00%)	\$1,112.57
• Unrecoverable SCA H&W Benefits (Actual)	\$2,887.34
Overhead Cost	\$10,615.84
G&A Cost	\$33,192.46
TOTAL COST IMPACT TO HEITECH SERVICES	\$185,731.32



Attachment 5: POSSIBLE COST IMPACT TO REVENUE FOR DEC 2018 AND JAN 2019	
AGENCY	DEC/JAN TOTAL LOSS INCOME BASED UPON DAYS OUT OF WORK
Department of Transportation	\$11,635.80
Environmental Protection Agency	\$13,938.32
Food and Drug Administration	\$34,349.10
National Oceanic & Atmospheric Administration	\$182,693.60
TOTAL REVENUE IMPACT	\$242,616.82