

More States Decide to 'Buy Veteran' : Firms Run by Returning Troops Benefit

Wall Street Journal

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After two deployments in Iraq, U.S. Army reservist Josh Cuddy returned to New Brighton, Penn., to open a gourmet-waffle restaurant.

Business is good, the 33-year-old veteran says, and he hopes it might get better: His state and nearby Pittsburgh are trying to boost contracts awarded to small businesses owned by veterans. If government officials need catering, Mr. Cuddy is ready to serve.

More states and local governments are setting aside money to buy goods and services from veteran-owned businesses. The movement has gathered steam as vets have returned from Iraq and Afghanistan to growing unemployment in their ranks.

Currently, 23 states offer some type of preferential treatment for businesses owned by veterans, according to the National Veteran-Owned Business Association, an advocacy group. Nine have enacted the legislation since 2009, when veterans started a lobbying push for the benefit, said Matthew Pavelek, spokesman for the group.

Some states, like Illinois, set an annual goal of 3% of all contracts for businesses owned by veterans. Others, like Pennsylvania, encourage government agencies to increase contracting with veteran-owned businesses, without establishing a target. This month, Hawaii Republicans are expected to introduce a bill that would set aside 3%, or roughly \$33 million, of the state's spending for veteran-owned businesses each year.

"Veterans more than anyone else have really sacrificed for their country," said state Rep. Aaron Ling Johanson, one of the bill's sponsors. "If there was a group to give a preference for, there are very few others that are as compelling."

Since 1999, the federal government has had a goal of awarding 3% of its contracts to veterans disabled in the line of duty. It awarded \$10.8 billion in contracts to veteran-owned small businesses in fiscal 2010. But veteran advocates say state and local-government programs can be more effective.

"We've got a lot of veterans coming back who want to see opportunity in the states where they live," said Mr. Pavelek. Cities from Las Vegas to Nashville are also passing ordinances.

The unemployment rate among veterans returning from Iraq and Afghanistan jumped to 13.1% in December, from 11.1% the previous December, according to the latest report from the Bureau of Labor Statistics. (Nationally, unemployment was 8.5% in December.) Many veterans who can't find jobs are starting their own businesses, veteran advocates said. There are an estimated three million veteran-owned businesses nationwide.

Kevin O'Connor, a 58-year-old Army veteran who owns a business primarily installing dental equipment in California state prisons, says 80% of his business is with the state. He said the state's veterans program allowed him to buy a nice home in a Los Angeles suburb and send his two children to the University of Southern California.

"I've gotten the American dream because of this program," he said. "It's not a giveaway—you have to perform. But at least it makes up for the time we lost serving our country."

Between July 2009 and July 2010, California spent \$213 million on businesses owned by disabled veterans, or around 3.7% of the state's \$5.8 billion procurement budget. The state has had a goal of spending 3% on businesses owned by disabled veterans since 1989 but started meeting it only in the past two years, after a push from a veterans' group.

Set-asides like these are typically targets for advocates of free enterprise. But because veterans' causes are politically popular, opposition to such bills often takes the form of keeping them off the calendar until they die a quiet death, veterans say.

Some advocates for minority-owned businesses oppose the inclusion of veterans in state preference programs meant for minorities, fearing that adding them to the mix could further shrink opportunities for everyone. "Supporting veteran businesses is a positive thing, but I think that's the wrong way to go about it," said Dedrick Muhammad, senior director of economic programs for the NAACP. "You'd want to grow the pie instead of fitting more categories into it. Otherwise you're not really addressing issues of racial inequality or doing much for veterans."

That worry arose in North Carolina, home to military installations at Fort Bragg and Camp Lejeune, two years ago. A bill that would have added veterans to the pool of minority-owned businesses given preferential treatment languished after lawmakers raised concerns about how it would affect minority-owned businesses.

"There were too many unanswered questions," said Floyd McKissick Jr., a Democratic state senator from North Carolina who led a subcommittee to study

the bill. "Sometimes you can take actions which are admirable but they can have unintended consequences."

Some states have resisted the legislation, citing the costs associated with ensuring that businesses are really veteran-owned to avoid fraud. A federal audit last year estimated that the Department of Veterans Affairs awards "ineligible firms" 1,400 contracts worth \$500 million a year. The agency awards around \$3 billion a year in contracts to veteran-owned businesses.

Tom Leney, the VA official in charge of the verification program, said controls have improved since the audit. He said most of the ineligible firms weren't fraudulent but simply didn't meet standards. No other federal government agency is required to verify the status of veteran-owned businesses.

"Nobody knows how much fraud and abuse there is" government-wide, said Greg Kutz, a director with the Government Accountability Office who performed a follow-up audit on the VA that called for fixes to its verification system. Mr. Kutz said the agency has improved but that more can be done.